

# An Analysis of Minnesota Municipal Liquor Store Operations in 1997

## Overview

Minnesota's municipally owned and operated liquor stores reported an increase in net income for the fourth straight year. Municipal liquor stores reported an increase of 3.5 percent in net income for 1997, which was less than the 15.2 percent increase posted in 1996. Cities transferred \$10.1 million in liquor store profits to other municipal accounts in 1997. This represents a decrease of 6.8 percent from the \$10.8 million transferred in 1996. While the majority of municipal liquor stores were profitable in 1997, 26 cities reported a net loss in their municipal liquor operations. Twenty-three cities reported a net loss in 1996.

*Minnesota municipal liquor stores transferred profits of \$10.1 million to other municipal accounts in 1997. This is the second straight year municipal liquor transfers have decreased.*

During 1997, Minnesota's municipally owned liquor stores reported:

- C gross sales of \$181.2 million, which was an increase of \$6.8 million over 1996 gross sales;
- C a net income of \$14.9 million, which was \$502,822 more than the total net income reported in 1996.

## Background on Minnesota's Municipal Liquor Stores

Minnesota law authorizes cities with fewer than 10,000 people to own and operate on-sale and off-sale liquor establishments.<sup>1</sup> During 1997, 246 Minnesota cities operated municipal liquor stores, with 152 cities operating both on-sale and off-sale liquor establishments and 94 cities restricting their municipally-owned establishments to off-sale liquor stores. While the majority of municipally owned liquor stores are located in small cities in Greater Minnesota, 21 cities within the Twin Cities metropolitan area own and operate liquor establishments.

Originally, Minnesota municipalities were authorized to own and operate liquor establishments as a means of controlling the sale of alcohol. Municipally-owned liquor stores also provided, and continue to provide, an added convenience for residents of small communities that might be unable to attract a privately-run establishment. However, as fiscal pressures on Minnesota municipalities have grown, the primary purpose for many of the current municipal liquor establishments has shifted to providing additional revenues to support public services.

The number of cities operating municipal liquor stores has steadily declined for many years. In 1996, six cities discontinued their liquor operations; in 1997, three more cities discontinued their liquor operations.

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<sup>1</sup> Once a city with a population under 10,000 people has established a municipal liquor store, it may continue to operate the store regardless of its subsequent population growth.

The three cities that opted to discontinue their municipal liquor stores in 1997 were: Bellingham, Holloway, and Lake Crystal. In addition, one city closed the on-sale liquor portion of their operation during 1997. Two of the three cities that discontinued their liquor operations in 1997 reported operating losses in 1996.

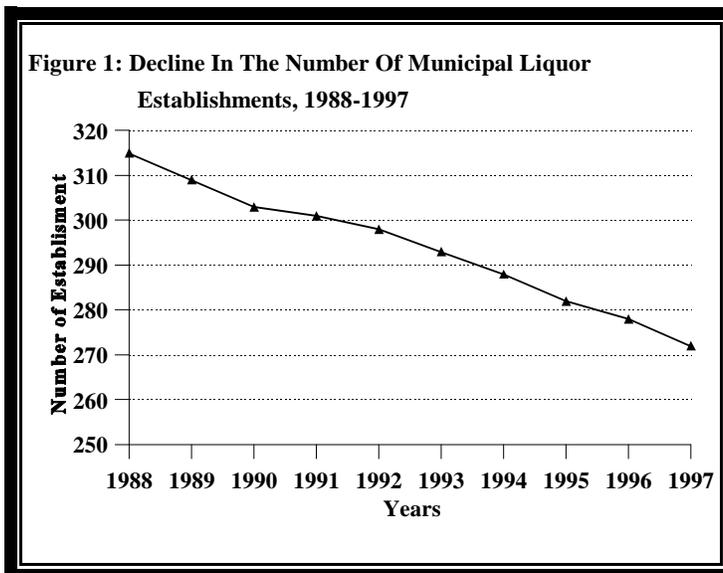
Figure 1 shows the decline in the number of municipal liquor stores.

### The Profitability of Minnesota's Municipal Liquor Stores

During 1997, Minnesota's municipal liquor establishments reported a fourth consecutive year of record sales totaling \$181.2 million. Total sales recorded in 1997 were up \$6.8 million or 3.9% over sales reported in 1996. The stores reported a net income of \$14.9 million in 1997, which was up 3.5 percent from net income reported in 1996. Total municipal liquor sales ranged from \$87 in Lake Crystal<sup>2</sup> to \$8.0 million in Richfield. Net income and losses for municipal liquor stores ranged from a loss of \$107,825 in Pine River to a profit of \$720,658 in Edina.

Municipal liquor operations located within the Twin Cities metropolitan area are considerably larger and more profitable than their Greater Minnesota counterparts. Although only 21 of the 246 Minnesota cities (8.5 percent) that own and operate municipal liquor stores are located in the Twin Cities metropolitan area, they represent 37.1 percent of the total sales and 30.4 percent of the net income of municipal liquor operations.

Sales by metropolitan area establishments averaged \$1.6 million in 1997, compared to average sales of \$497,653 for Greater Minnesota municipal liquor stores.<sup>3</sup> The average income of metropolitan stores was \$105,256 in 1997, compared to an average of \$45,203 for municipal liquor establishments in Greater Minnesota. All metropolitan cities except one reported profitable municipal liquor operations in 1997. Net income and losses among metropolitan liquor operations ranged from a loss of \$13,044 in Shorewood to a profit of \$720,658 in Edina. Net income and losses among Greater Minnesota cities ranged from a loss of \$107,825 in Pine River to a profit of \$390,248 in Elk River. The municipal liquor establishments operated by 26 Minnesota cities reported net losses for 1997, compared to 23 cities in 1996. Twenty-five of the cities with losses are located in Greater Minnesota. The City of Shorewood (located in the Twin Cities metropolitan area) operates three establishments, of which one store reported a net loss of \$54,732. The Greater Minnesota cities reporting net losses each operated one store.



2 The City of Lake Crystal discontinued its liquor store in December 1997.

3 The 21 cities in the metropolitan area that have municipal liquor operations operated a total of 43 establishments selling liquor on-sale and/or off-sale. The 225 Greater Minnesota cities with municipal liquor stores operated a total of 229 establishments. Average sales and net income reflect calculations based on the number of stores rather than the number of cities.

Table 1 lists the cities and the amount of loss reported in 1997.

**Table 1 - Municipal Liquor Store Operations With Net Losses**

<b>Name of City</b>	<b>Net Loss</b>	<b>Name of City</b>	<b>Net Loss</b>
<b>Pine River</b>	<b>(\$107,825)</b>	<b>Belview</b>	<b>(\$3,164)</b>
<b>Oronoco</b>	<b>(16,587)</b>	<b>Butterfield</b>	<b>(2,555)</b>
<b>Cleveland</b>	<b>(15,138)</b>	<b>Elizabeth</b>	<b>(2,290)</b>
<b>Shorewood (Metro Location)</b>	<b>(13,044)</b>	<b>Lafayette</b>	<b>(2,233)</b>
<b>Elgin</b>	<b>(11,081)</b>	<b>Ogema</b>	<b>(2,081)</b>
<b>Okabena</b>	<b>(10,601)</b>	<b>Kiester</b>	<b>(2,034)</b>
<b>Lake Benton</b>	<b>(10,223)</b>	<b>Avoca</b>	<b>(1,715)</b>
<b>Leroy</b>	<b>(10,195)</b>	<b>Morton</b>	<b>(1,520)</b>
<b>Lewisville</b>	<b>(6,998)</b>	<b>Boyd</b>	<b>(1,339)</b>
<b>Dalton</b>	<b>(6,470)</b>	<b>Conger</b>	<b>(1,109)</b>
<b>Trimont</b>	<b>(5,372)</b>	<b>Clements</b>	<b>(902)</b>
<b>Hanley Falls</b>	<b>(4,953)</b>	<b>Hadley</b>	<b>(700)</b>
<b>Winton</b>	<b>(3,227)</b>	<b>Round Lake</b>	<b>(460)</b>

### **Liquor Store Profits Help Support Essential City Services**

During 1997, Minnesota's municipal liquor stores transferred \$10.1 million of their profits to support essential city services. This represents a decrease of 6.8 percent from the total amount of transfers made in 1996. Liquor store profits that were not transferred to other municipal funds were used to bolster the fund balances of the liquor stores and purchase additional inventory. Cities that operate profitable municipal liquor stores are often able to transfer profits to other city funds. This can help cities hold down their property tax assessments for essential public services.

### **Municipal Liquor Operations Warrant Careful Scrutiny**

City officials who are responsible for the operation of municipal liquor establishments must make certain that the operations are managed appropriately and continue to have a positive financial impact on the city. Minnesota law requires cities to hold a public hearing on the future of its liquor store(s) if the liquor operation has failed to make a profit in at least two of the past three years. Based on this statute, the following cities should have held a public hearing on their municipal liquor operations:

- |              |           |           |             |         |            |         |
|--------------|-----------|-----------|-------------|---------|------------|---------|
| Avoca        | Boyd      | Cleveland | Currie      | Delavan | Elgin      | Hadley  |
| Hanley Falls | Kiester   | Lafayette | Lake Benton | Leroy   | Lewisville | Okabena |
| Proctor      | Shorewood | Trimont   |             |         |            |         |

In 1996, 20 cities were required to hold a public hearing on whether or not to continue to operate their

municipal liquor stores. In 1997, the municipal liquor stores in 10 of those cities reported a profit; 9 cities continued to operate at a loss; and one liquor store closed (ended operations in 1996).

Beyond the statutory responsibility of city officials to ensure that the liquor stores are making a profit, city officials also have a responsibility to ensure the liquor stores are managed efficiently and effectively. An analysis of the financial data for off-sale municipal liquor stores with similar levels of gross sales reveal large variances in total operating expenses. Table 2 highlights the variances in operating expenses for stores with similar levels of total sales.<sup>4</sup>

**Table 2 - Off-Sale Liquor Store Total Sales and Total Operating Expenses**

<b>Off-Sale Municipal Liquor Stores With Total Sales Between</b>	<b>Number of Cities</b>	<b>Range In Total Operating Expenses</b>
\$ 65,798 and \$ 150,000	6	\$ 18,849 to \$ 39,731
\$ 150,001 and \$ 200,000	3	\$ 39,929 to \$ 45,612
\$ 200,001 and \$ 250,000	4	\$ 44,795 to \$ 62,879
\$ 250,001 and \$ 350,000	9	\$ 36,086 to \$ 64,909
\$ 350,001 and \$ 450,000	3	\$ 56,682 to \$ 82,803
\$ 450,001 and \$ 650,000	15	\$ 80,801 to \$ 131,392
\$ 650,001 and \$ 950,000	13	\$ 91,740 to \$ 153,622
\$ 950,001 and \$ 1,350,000	10	\$ 144,620 to \$ 206,159
\$1,350,001 and \$ 2,000,000	11	\$ 158,722 to \$ 404,174
\$2,000,001 and \$ 3,000,000	12	\$ 218,619 to \$ 455,643
\$3,000,001 and \$ 8,006,966	8	\$ 459,852 to \$ 1,233,544

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4 A similar analysis for cities that operate both on-sale and off-sale liquor establishments is not possible. The operating expenses of on-sale establishments are generally considerably higher than the operating expenses of off-sale establishments. It would be inappropriate to draw comparisons between the total operating expenses of on-sale and off-sale establishments in different cities. Such comparisons would be flawed due to the potential for contrasting the operating expenses of a city with a small on-sale operation and a large off-sale operation with the operating expenses of a city with a large on-sale operation and a small off-sale operation.

## **Utilization of Data**

This report provides city officials with comparative data to help fulfill their responsibility to provide for the effective management of municipal liquor store operations. City officials should use this report to compare their liquor store finances to the finances of municipal liquor stores with comparable levels of gross sales. Table 5, beginning on page 17, lists financial data for Minnesota's municipal liquor stores arranged by total gross sales of the stores. This table facilitates financial comparisons between liquor stores of similar sizes. Using the data in this manner, city officials can determine whether their gross profits (total sales minus the wholesale cost of sales) and operating expenses are appropriate. Cities with relatively low gross profits should consider whether the gross profits reflect their intended mark-up policies. If gross profits are well below the intended mark-up of inventory, theft or excessive breakage of inventory may be responsible. Likewise, if operating expenses are relatively high compared to similarly sized stores, city officials should look at stores with low operating expenses for ideas as to how they might operate more efficiently.

**Table 3**  
**Summary of 1997 Liquor Store Operations**

**On-Sale and Off-Sale Stores**

	1996	1997	Percent of Sales	
	Amount	Amount	1996	1997
Number of Cities	158	152		
Sales	\$56,442,420	\$55,375,221	100.0%	100.0%
Cost of Sales	34,158,840	33,395,385	60.5%	60.3%
Gross Profit	22,283,580	21,979,836	39.5%	39.7%
Operating Expenses	19,954,187	19,514,974	35.4%	35.2%
Income from Operations	2,329,393	2,464,862	4.1%	4.5%
Nonoperating Revenues	1,597,229	1,529,411	2.8%	2.8%
Nonoperating Expenses	258,716	157,645	0.5%	0.3%
Net Income Before Transfers	3,667,906	3,836,628	6.5%	6.9%
Transfers to Other City Funds	3,546,181	2,712,946	---	---

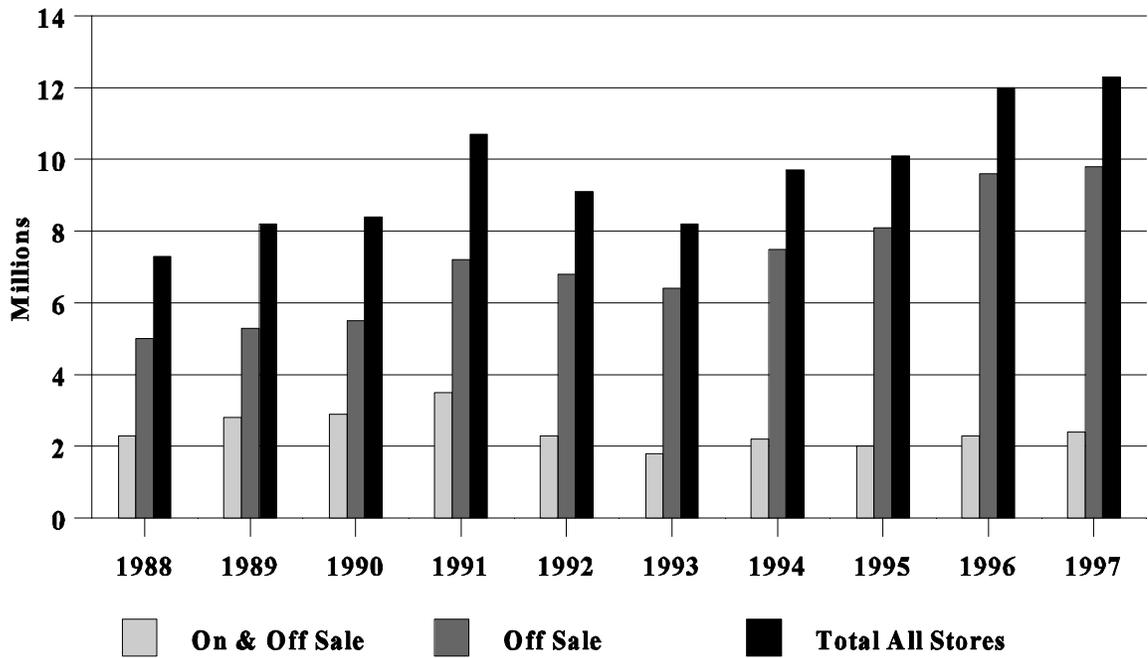
**Off-Sale Only Stores**

	1996	1997		
	Amount	Amount	1996	1997
Number of Cities	94	94		
Sales	\$117,961,934	\$125,819,740	100.0%	100.0%
Cost of Sales	89,940,870	96,146,983	76.2%	76.4%
Gross Profit	28,021,064	29,672,757	23.8%	23.6%
Operating Expenses	18,371,609	19,883,095	15.6%	15.8%
Income from Operations	9,649,455	9,789,662	8.2%	7.8%
Nonoperating Revenues	1,307,791	1,629,327	1.1%	1.3%
Nonoperating Expenses	250,434	378,077	0.2%	0.3%
Net Income Before Transfers	10,706,812	11,040,912	9.1%	8.8%
Transfers to Other City Funds	7,301,962	7,396,832	---	---

**Total City Liquor Stores**

	1996	1997		
	Amount	Amount	1996	1997
Number of Cities	252	246		
Sales	\$174,404,354	\$181,194,961	100.0%	100.0%
Cost of Sales	124,099,710	129,542,368	71.2%	71.5%
Gross Profit	50,304,644	51,652,593	28.8%	28.5%
Operating Expenses	38,325,796	39,398,069	22.0%	21.7%
Income from Operations	11,978,848	12,254,524	6.9%	6.8%
Nonoperating Revenues	2,905,020	3,158,738	1.7%	1.7%
Nonoperating Expenses	509,150	535,722	0.3%	0.3%
Net Income Before Transfers	14,374,718	14,877,540	8.2%	8.2%
Transfers to Other City Funds	10,848,143	10,109,778	---	---

**Figure 2: Liquor Stores Operating Income**



**Figure 3: Liquor Stores Net Income**

