

An Analysis of Minnesota Municipal Liquor Store Operations in 2000

Overview

Municipal liquor stores reported an increase of 7.1 percent in net income for 2000. This was the seventh straight year that Minnesota's municipally owned and operated liquor stores reported an increase in net income. Cities transferred \$15.0 million in liquor store profits to other municipal accounts in 2000. This represents an increase of 14.5 percent over the \$13.1 million transferred in 1999.

Minnesota municipal liquor stores transferred profits of \$15.0 million to other municipal accounts in 2000. This represents an increase of 14.5 percent over 1999.

While the majority of municipal liquor stores were profitable in 2000, 20 cities reported a net loss in their municipal liquor operations. Eighteen cities reported a net loss in 1999.

During 2000, Minnesota's municipally owned liquor stores reported:

- ! gross sales of \$223.1 million, which was an increase of \$14.5 million over 1999 gross sales;
- ! a net income of \$19.5 million, which was \$1.3 million more than the total net income reported in 1999.

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.¹ During 2000, 234 Minnesota cities operated municipal liquor stores, with 139 cities operating both on-sale and off-sale liquor establishments and 95 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, the primary purpose of many of the current municipal liquor establishments is to provide additional revenues to supplement traditional tax and fee revenues.

Due in part to the lack of profitability and therefore the inability to provide this additional revenue source, the number of cities operating municipal liquor stores has steadily declined. Figure 1 on the following page shows the decline in the number of municipal liquor stores.

¹ 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 Profitability of Minnesota’s Municipal Liquor Stores

During 2000, Minnesota’s municipal liquor establishments reported a seventh consecutive year of record sales totaling \$223.1 million. Total sales generated in 2000 rose \$14.5 million or 7.0% over sales reported in 1999. The stores reported a net income of \$19.5 million in 2000, which was up 7.1 percent over net income reported in 1999. Total municipal liquor sales ranged from \$78,708 in Round Lake to \$9.1 million in Richfield. Net income and losses for municipal liquor stores ranged from a loss of \$128,711 in Ada to a profit of \$961,133 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 234 Minnesota cities (9.0 percent) that own and operate municipal liquor stores are located in the Twin Cities metropolitan area, they represent 38.8 percent of the total sales and 33.5 percent of the net income of municipal liquor operations.

Sales by metropolitan area establishments averaged \$1.9 million in 2000, compared to average sales of \$628,735 for Greater Minnesota municipal liquor stores.² The average net income of metropolitan stores was \$141,913 in 2000, compared to an average of \$59,808 for municipal liquor establishments in Greater Minnesota. Net income and losses among metropolitan liquor operations ranged from a loss of \$11,882 in Watertown to a profit of \$961,133 in Edina. Net income and losses among Greater Minnesota cities

2 The 21 cities in the metropolitan area that have municipal liquor operations operated a total of 46 establishments selling liquor on-sale and/or off-sale. The 213 Greater Minnesota cities with municipal liquor stores operated a total of 217 establishments. Average sales and net income reflect calculations based on the number of stores rather than the number of cities.

ranged from a loss of \$128,711 in Ada to a profit of \$503,523 in Detroit Lakes. The municipal liquor establishments operated by 20 Minnesota cities reported net losses for 2000, compared to 18 cities in 1999. Nineteen of the 20 cities with net losses were located in Greater Minnesota.

Table 1
Municipal Liquor Store Operations With Net Losses

Name of City	Net Loss	Name of City	Net Loss
Ada	(\$128,711)	Vesta	(\$3,785)
Glenwood	(68,631)	Butterfield	(3,139)
Lismore	(20,967)	Bigfork	(3,011)
Hawley	(18,059)	Round Lake	(2,328)
Barnum	(17,577)	Clements	(1,227)
Cleveland	(17,486)	St. Leo	(1,054)
Watertown	(11,882)	Trimont	(890)
Goodridge	(8,222)	Bertha	(735)
Mabel	(7,633)	Avoca	(386)
Currie	(7,385)	Okabena	(200)

Liquor Store Profits Help Support City Services

During 2000, Minnesota’s municipal liquor stores transferred \$15.0 million of their profits to support city services. This represents an increase of 14.5 percent over the total amount of transfers made in 1999. 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.

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 fourteen cities should have held a public hearing on their municipal liquor operations:

- | | | | | | | |
|-------------|------------|----------|------------|---------|-----------|--------------|
| Ada | Audubon | Clements | Cleveland | Currie | Flensburg | Lafayette |
| Lake Benton | Lewisville | Okabena | Round Lake | St. Leo | Trimont | West Concord |

In 1999, 19 cities were required to hold a public hearing on whether or not to continue to operate their municipal liquor stores. In 2000, the municipal liquor stores in 10 of those cities reported a profit; 1 city broke even; 6 cities continued to operate at a loss; and two liquor stores closed.

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 that 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, reveals large variances in total operating expenses. Table 2 highlights the variances in operating expenses for stores with similar levels of total sales.³

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

Off-Sale Municipal Liquor Stores With Total Sales Between	Number of Cities	Range In Total Operating Expenses
\$ 78,708 and \$ 150,000	4	\$ 20,465 to \$ 32,087
\$ 150,001 and \$ 250,000	7	\$ 34,199 to \$ 67,052
\$ 250,001 and \$ 350,000	9	\$ 39,753 to \$ 86,154
\$ 350,001 and \$ 450,000	3	\$ 60,984 to \$ 94,529
\$ 450,001 and \$ 650,000	7	\$ 60,537 to \$ 123,758
\$ 650,001 and \$1,000,000	19	\$100,118 to \$ 285,824
\$1,000,001 and \$2,000,000	21	\$138,694 to \$ 401,120
\$2,000,001 and \$3,000,000	12	\$254,833 to \$ 531,622
\$3,000,001 and \$9,079,059	13	\$373,009 to \$1,423,143

³ 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 2000 Liquor Store Operations

On-Sale and Off-Sale Stores

	1999		2000		Variance	Percent Change
	1999	2000	1999	2000		
Number of Cities	142	139				
	Amount	Amount	Percent of Sales			
	1999	2000	1999	2000		
Sales	\$60,153,710	\$62,764,001	100.0%	100.0%	2,610,291	4.34%
Cost of Sales	36,994,500	38,734,922	61.5%	61.7%	1,740,422	4.70%
Gross Profit	23,159,210	24,029,079	38.5%	38.3%	869,869	3.76%
Operating Expenses	19,695,825	20,811,485	32.7%	33.2%	1,115,660	5.66%
Income from Operations	3,463,385	3,217,594	5.8%	5.1%	(245,791)	-7.10%
Nonoperating Revenues	1,431,529	1,472,328	2.4%	2.3%	40,799	2.85%
Nonoperating Expenses	198,121	219,624	0.3%	0.3%	21,503	10.85%
Net Income Before Transfers	4,696,793	4,470,298	7.8%	7.1%	(226,495)	-4.82%
Transfers to Other City Funds	3,279,585	2,684,412	---	---	(595,173)	-18.15%

Off-Sale Only Stores

	1999		2000		Variance	Percent Change
	1999	2000	1999	2000		
Number of Cities	95	95				
	Amount	Amount	Percent of Sales			
	1999	2000	1999	2000		
Sales	\$148,426,262	\$160,319,197	100.0%	100.0%	11,892,935	8.01%
Cost of Sales	112,724,208	121,625,916	75.9%	75.9%	8,901,708	7.90%
Gross Profit	35,702,054	38,693,281	24.1%	24.1%	2,991,227	8.38%
Operating Expenses	22,903,793	24,942,594	15.4%	15.6%	2,038,801	8.90%
Income from Operations	12,798,261	13,750,687	8.6%	8.6%	952,426	7.44%
Nonoperating Revenues	1,369,659	2,037,385	0.9%	1.3%	667,726	48.75%
Nonoperating Expenses	653,030	751,967	0.4%	0.5%	98,937	15.15%
Net Income Before Transfers	13,514,890	15,036,105	9.1%	9.4%	1,521,215	11.26%
Transfers to Other City Funds	9,836,052	12,335,244	---	---	2,499,192	25.41%

Total City Liquor Stores

	1999		2000		Variance	Percent Change
	1999	2000	1999	2000		
Number of Cities	237	234				
	Amount	Amount	Percent of Sales			
	1999	2000	1999	2000		
Sales	\$208,579,972	\$223,083,198	100.0%	100.0%	14,503,226	6.95%
Cost of Sales	149,718,708	160,360,838	71.8%	71.9%	10,642,130	7.11%
Gross Profit	58,861,264	62,722,360	28.2%	28.1%	3,861,096	6.56%
Operating Expenses	42,599,618	45,754,079	20.4%	20.5%	3,154,461	7.40%
Income from Operations	16,261,646	16,968,281	7.8%	7.6%	706,635	4.35%
Nonoperating Revenues	2,801,188	3,509,713	1.3%	1.6%	708,525	25.29%
Nonoperating Expenses	851,151	971,591	0.4%	0.4%	120,440	14.15%
Net Income Before Transfers	18,211,683	19,506,403	8.7%	8.7%	1,294,720	7.11%
Transfers to Other City Funds	13,115,637	15,019,656	---	---	1,904,019	14.52%

Figure 2: Liquor Stores Operating Income

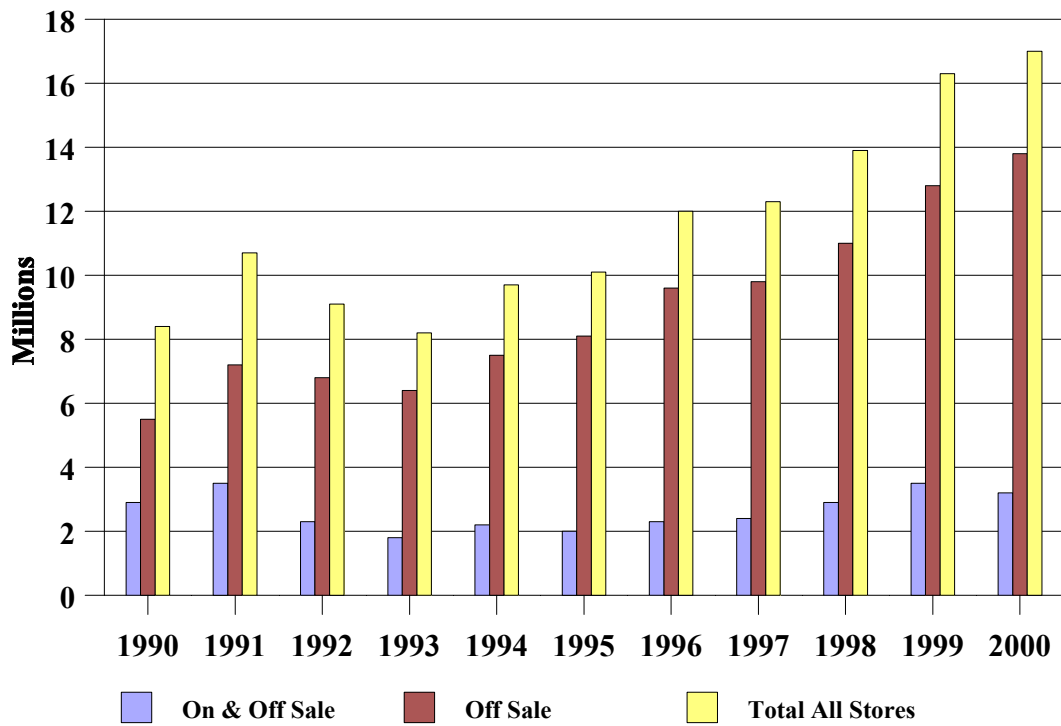


Figure 3: Liquor Stores Net Income

