DRAFT REPORT SUBJECT TO REVISION AND EDITING

Impact of the Highly Regulated Wholesale and Retail Alcoholic Beverage Markets in Minnesota

Prepared for

Minnesota Grocers Association

By

American Economics Group, Inc.

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Executive Summary

A. *FINDINGS*

MINNESOTA CONSUMERS PAY MORE FOR ALCOHOL THAN THEY WOULD IN ANOTHER STATE.

- They would pay 17.5% less, if they lived in Wisconsin.
- A typical 750ml bottle of wine off-sale costings $10.45 in Minnesota compares to $8.57 in Wisconsin.
- A typical 1.75 liter of whiskey costing $37.80 in Minnesota compares to $30.99 in Wisconsin.
- On-sale consumers also pay significantly more than in Wisconsin, with both higher wholesale and retail markups.

THE PRIMARY CAUSE OF INCREASED PRICES TO CONSUMERS IS THE HIGH AMOUNT OF STATE ECONOMIC REGULATION OVER THE ALCOHOL INDUSTRY, SPECIFICALLY:

- The near monopoly status granted to a limited number of wholesalers (affects both off-sale and on-sale).
- The restrictions on the number and types of retail outlets, particularly benefiting municipal liquor store operations (affects primarily off-sale).
- Higher excise and sales taxes on alcoholic beverages that add to the consumers' excess burden.

MOST OF THE PRICE DIFFERENTIAL BETWEEN MINNESOTA AND WISCONSIN IS DIRECTLY CAUSED BY HIGHER WHOLESALE AND RETAIL PRICE MARKUP.

- The <u>excess</u> wholesale and retail markups add $4.34 to a typical 1.75 liter bottle of whiskey and $1.42 to a 750ml bottle of wine.
- Most of the excess markup goes to private alcohol wholesalers and retailers.

RESIDENTS OF GREATER MINNESOTA PAY A HIGHER DIFFERENTIAL THAN RESIDENTS IN THE TWIN CITIES.

- The price differential is 7% to 12% for off-sale alcohol between the Twin Cities area and rural areas of the state.

- Although some of the difference is the result of natural market inefficiencies, significant factors are also the gross operating margins and operating expense ratios in municipal liquor stores.

B. CONCLUSIONS

MINNESOTANS PAY A "MONOPOLY TAX" OF $444.3 MILLION EACH YEAR – THE VALUE OF THE EXCESS MARKUP AND THE RESULTING HIGHER SALES TAX PAYMENTS.

- $253.7 million paid by off-sale customers
- $190.6 paid by on-sale customers

THERE IS NO DEMONSTRABLE ECONOMIC JUSTIFICATION FOR WHOLESALERS AND RETAILERS TO RECEIVE HIGHER PROFITS IN MINNESOTA THAN THEY WOULD IN ANOTHER STATE.

C. POLICY IMPLICATIONS

LEGISLATORS SHOULD ASK WHETHER HIGHER PRICES FOR ALCOHOL IN MINNESOTA RESULT IN OTHER SOCIAL BENEFITS. THERE IS NO ECONOMIC JUSTIFICATION FOR HIGHER PRICES.

- Are DUI rates lower in Minnesota than in Wisconsin or other states with different regulatory structures?
- Are youth alcohol violations lower?
- Are retail sales violations lower?

IF HIGHER ALCOHOL PRICES ARE JUSTIFIED, LEGISLATORS SHOULD ASK WHETHER WHOLESALERS AND RETAILERS SHOULD REAP 75% OF THE BENEFITS FROM THE PRICE DIFFERENTIAL.

- How do monopoly profits create positive social benefits?
- Perhaps government should receive all of the higher costs of alcohol sales that result in positive social benefits -- although municipal liquor operations may be less economically efficient, municipal ownership of all wholesale and retail liquor operations at least would allow the "monopoly tax" proceeds to be used for the public good rather than private profits.

I. Introduction

The Minnesota Grocers Association asked American Economics Group (AEG) to examine the wholesale and retail distribution of spirits, wine and beer in Minnesota to determine if the state's economic regulation of alcohol imposed higher costs on Minnesota households.

We found those Minnesotans who drink are paying on average 17.5% too much for their beverages. We also found that prices varied greatly across the state, with households outside the Twin Cities paying an average of seven percent more for alcoholic beverages than other Minnesota households. Thus, many residents of Minnesota's rural areas are paying over 20% more for their alcohol than they would in a competitive environment.

The monopoly tax created by these differentials that are the creature of the state's regulations total $444.3 million, with $253.7 million related to off-sales. This is the extra cash Minnesota households paid for their spirits, wine and beer in 2004. Only a portion of this money finds its way to state and local government. Much of the rests adds to the monopoly profits of a few wholesale distributors who, absent serious competition for their products, simply mark up their prices to put more revenue in their own pockets.

The state's existing wholesale distribution system creates a near-monopoly that increases costs to consumers via restrictive market practices, non-competitive pricing and limited selection of products. Even if retailing were made competitive in Minnesota, the stranglehold by the few wholesalers on the supply of alcoholic beverages would continue to generate monopoly profits for them by forcing higher costs on the retailers. Thus, consumer would continue to pay a monopoly "tax."

Restrictions on licensing confers monopoly profits on the few wholesale distributors allowed to operate.

In Minnesota, there are only a few entities licensed to distribute spirits at wholesale and collect the state's excise tax on spirits and wine. This uncompetitive restriction of distributors, unlike most states, is worsened by the added limitation on the number and type of retail outlets. There are far fewer stores per capita than other states, and many outlets are government operated without local competition.

The state's retail establishment is dominated by the existence of municipal liquor stores in 230 cities statewide. Instead of the free and open competition that exists as the American way for most businesses, Minnesota joins the most restricting states at all levels of operations. In addition, the state imposes excise and sales taxes higher than most other states and the neighboring state of Wisconsin, a model of competition. Only the Twin Cities area has any significant competition and somewhat lower (but still high) pricing vis-à-vis all other economic regions of Minnesota.

Three elements of distribution and taxation create Minnesota's significantly higher beverage prices. They are:

The near-monopoly status (and monopoly profits) granted to a handful of wholesalers,

The restriction in the number and types of retail outlets, and

The relatively high excise and sales taxes on alcoholic beverages.

In combination, these three elements impose what is called a "monopoly tax" on consumers in the form of higher prices for spirits, wine and beer. It is equal to excess whole and retail markups plus the 9% sales tax applied to such excess.

This report describes price comparisons between Minnesota and Wisconsin and additional comparisons between the Twin Cities economic region, which allows some completion, and the rest of state.

II. Minnesota Wholesalers and Retailers Reap Non-Competitive Profits

While Wisconsin regulates the sale of alcoholic beverages, its laws and regulations are far less restrictive than in Minnesota and it imposes lower taxes on all three major beverages, spirits, wine and beer. Wisconsin has 1,941 retail liquor outlets and 1,877 wine outlets compared to the 981 in Minnesota that sell spirits, wine and beer for off-sale consumption.

The difference is more striking on a per capita basis, because Wisconsin has nearly double the number at 51.7 liquor stores per 100,000 population and 50.0 for wine. This compares with only 28.7 outlets per 100,000 in Minnesota. Wisconsin allows both greater competition, resulting in more outlets, and also allows wine sales in food stores.[1]

Taxes on alcohol are also lower in Wisconsin. Minnesota's neighbor taxes strong beer at 6 cents per gallon compared to 15 cents in Minnesota, wine at 25 cents per gallon compared to 30 cents and spirits at $5.03 per gallon compared to $3.25 in Wisconsin.

Figure II-1 demonstrates the combined impact on wine prices of Minnesota's monopolistic wholesale distribution system, its limited retail competition and its higher taxes.

Figure II-1

Typical Off-Sale Wine Price: Minnesota v. Wisconsin

750 ml Bottle Table Wine

	Minnesota	Wisconsin	Difference	Percent difference
Producer Price	$4.95	$4.95	$0.00	0.0%
Federal Excise Tax	$0.24	$0.24	$0.00	0.0%
Cost to Wholesaler	$5.19	$5.19	$0.00	0.0%
State Excise Tax	$0.06	$0.05	$0.01	20.0%
Wholesaler Total Cost	**$5.25**	**$5.24**	**$0.01**	**0.2%**
Wholesaler Mark-up	$2.09	$1.31	$0.78	59.9%
Total Cost to Retailer	**$7.34**	**$6.55**	**$0.79**	**12.1%**
Retailer Mark-up	$2.25	$1.62	$0.63	39.2%
Retail price	**$9.59**	**$8.16**	**$1.43**	**17.5%**
Sales Tax	$0.86	$0.41	$0.46	111.5%
Full Price to Customer	**$10.45**	**$8.57**	**$1.88**	**22.0%**

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[1] See AEG study, op. cit., for a discussion on the beneficial economic impacts of expanding wine sales to food stores and also the limited effect it will have on the profitability of existing liquor stores.

The table compares the price of a typical bottle of wine in Minnesota and Wisconsin. The household purchasing the 750ml bottle at retail pays $10.45 in Minnesota, but only $8.57 in Wisconsin, including all taxes. The table itemizes each component of price. In both states, the producer's price (including transportation) is increased by the federal tax of 24 cents to $5.19, representing the equal cost to a wholesaler in both states. After that the pricing diverges dramatically.

First, Minnesota adds a 6 cent excise tax while Wisconsin adds 5 cents. Next, the monopolistic wholesaler in Minnesota marks up the bottle by $2.09 compared to the $1.31 markup in Wisconsin, a 59.9% greater markup, the difference going right to profit. The total cost to the retailer is $7.34 in Minnesota compared to $6.55 in Wisconsin.

The Minnesota retailer (often a government run municipal liquor store) marks the bottle up another $2.25, while the competitive store in Wisconsin marks it up only $1.62. Thus, the Minnesota household pays $10.45 per bottle, which is the retailer's price of $9.59 plus Minnesota's 9% sales tax. The household in Wisconsin pays only $8.16 plus a 41 cent sales tax totaling $8.57. The consumer in Minnesota bears an added cost of $1.88 or 22% more, entirely created by the state's economic regulation.

Figure II-2

Contribution to Higher Prices in Minnesota
750 ml Bottle Table Wine

	Amount Minnesota is Higher	Percent Share of Higher Minnesota Price
State Excise Tax	$0.01	0.5%
Wholesaler Total Cost		
Wholesaler Mark-up	$0.78	41.6%
Total Cost to Retailer		
Retailer Mark-up	$0.63	33.7%
Retail price		
Sales Tax	$0.46	24.2%
Higher Minnesota Price to Customer	**$1.88**	**100.0%**

Figure II-2 focuses on each component or the price difference between Minnesota and Wisconsin, the model for a more competitive distribution system. The $1.88 difference in price between the two states consists of four elements: The amount of higher excise tax, one cent per bottle, represents one-half of one percent of the difference. The 78 cents higher wholesaler markup is 41.6% of the difference. The 63 cent higher retailer markup is 33.7% of the difference, and the 46 cent higher sales tax is 24.2% of the difference.

The entire $1.88 higher Minnesota price is caused by the state's regulation and higher taxes. However, the entire amount does not benefit the state by flowing into its coffers

Figure II-4

Contribution to Higher Prices in Minnesota 1.75 liter Bottle of Whiskey		
	Amount Minnesota is Higher	**Percent Share of Higher Minnesota Price**
State Excise Tax	$0.82	12.1%
Wholesaler Total Cost		
Wholesaler Mark-up	$2.05	30.1%
Total Cost to Retailer		
Retailer Mark-up	$2.29	33.7%
Retail price		
Sales Tax	$1.65	24.2%
Higher Minnesota Price to Customer	**$6.81**	**100.0%**

In competitive areas surrounding the Twin cities, Minnesota's municipal liquor stores operate with far lower expenses than in areas with less competition. In areas of low competition around the state, the expense ratio averages 31.4% while in areas of high competition it averages 19.9%, as seen in figure II-5. In more rural areas store size is smaller and inherently less efficient; this explains part of the difference in expenses as a percent of sales (the operating expense ratio). However, part of the higher expenses is caused by lack of competition, leaving stores to operate with little pressure on costs and without respect to efficiently sizing their operations.[2]

Figure II-5

Minnesota Municipal Liquor Stores 2003		
	Gross Operating margin	**Operating Expense Ratio**
Low Competition Areas	34.6%	31.4%
High Competition Areas	24.7%	19.9%

The bottom panel compares average markups on alcoholic beverage products for stores in areas of low competition versus the more competitive Twin Cities area. There is an average 10% added markup where competition is low.

[2] While AEG has not conducted an employment analysis of Minnesota's municipal liquor stores, we have found in other studies that government business entities may hire more employees than similarly sized competitive businesses.

III. Minnesota Households Pay $254 Million Extra Alcoholic Beverage Costs in Off-Sale Purchases

The combination of monopoly wholesale distribution, retail stores operating without significant competition and higher Minnesota excise and sales taxes add extra cost to households that purchase alcoholic beverages. Dubbed the "monopoly tax," its extra costs include excess wholesaler and retailer markups plus the 9% sales tax on that excess. The monopoly tax added $253.7 million to the nearly $1.5 billion Minnesota households spent on off-sale spirits, wine and beer during 2004. The combined on-sale and off-sale monopoly tax was $444.3 million in 2004.

Figure III-1 summarizes the breakdown among each major category of beverage: off-sale spirits cost $68.4 million more than if Wisconsin-style competition were allowed. Wine cost consumers an additional $59.1 million, and Minnesota's beer drinkers paid $126.3 million more than they should have paid.

Figure III-1

Extra Cost to Off-Sale Purchaser
from Minnesota's Monopoly Tax* on Alcohol

	Extra Cost in 2004	Percent of Total
Spirits	$68,353,356	26.9%
Wine	$59,112,652	23.3%
Beer	$126,271,527	49.8%
Total Extra Cost	**$253,737,535**	100.0%

*Equal to the excess wholesale & retail markups and the 9% sales tax on the excess.

Figure III-2

Cause of Extra Cost to Off-Sale Purchaser
from Minnesota's Monopoly Tax* on Alcohol

	Extra Cost in 2004	Percent of Total
Restrivctive Wholesale Distribution	$120,487,993	47.5%
Non-Competitive Retail Distribution	$112,298,736	44.3%
Sales Tax on Excess Markups	$20,950,806	8.3%
Total Extra Cost	**$253,737,535**	100.0%

*Equal to the excess wholesale & retail markups and the 9% sales tax on the excess.

Figure III-2 shows who gains from household's extra cost. Approximately 47.5%, equal to $120.5 million, of the total $253.7 million in unnecessary cost to the consumer was caused by the monopoly power that restrictive licensing gave to a small number of wholesale distributors. The non-competitive retail environment accounted for 44.3% of the total added cost, about $112.3 million. Finally, the 9% sales tax applied to the excess markups added $20.9 million more, about 8.3% of the extra cost Minnesota households paid for off-sale purchases of alcohol in 2004.

Although not shown separately in the tables, the on-sale consumer also pays a significant monopoly tax. The same wholesalers sell to on-sale establishments as well as off-sale, and the on-sale retailers add additional markups to account for their higher level of service to customers. However, the greater competition among restaurants and bars than among off-sale stores reduces the opportunity for significant excess retail markup. Consequently, a greater proportion of the excess is at the wholesale level.

IV. Appendix on Methodology

Profit margins relative to size

Multiple regression is a technique often employed to analyze the influence each of a list of factors exerts on another. For example, a regression equation might express how per capita alcohol sales change from state to state depending upon the population characteristics of each state, income, average alcohol prices and taxes[3].

The first sets of regressions are based on data from the Minnesota tax audit,[4] which contains information for 230 municipalities and major economic regions of Minnesota, whose population ranges from 33 to 59,325. (The area with only 33 people is not typical, so for this analysis we considered areas with population of 200 at the low end and 50,000 at the high end. However, the results do hold for any population figures within the overall range.

We would expect to find that prices and costs are lower in more densely populated areas for two reasons: costs would be lower because of economies of scale, and prices would be lower because of greater competition. That is indeed what the results show in the regression equations based on 226 observations.

While size reduces prices and costs, it does so in a non-linear fashion. The most logical theoretical relationship would be that changes are proportional to the percentage increase, rather than the absolute increase, in size, so the logarithm of population was used as an independent variable in the equation. Empirically, this specification also proved superior to a number of alternative specifications.

The other independent variable is per capita sales – the ratio of sales to population. Because this ratio fluctuates within a fairly narrow range, issues of heteroscedasticity do not arise, and it was not necessary or logical to take the logarithm of this variable. Its inclusion signifies that prices and costs are expected to be lower in areas where per capita sales are higher, as well as where population is higher.

The following equation was estimated for gross profit margins:

$$\text{(1) Gross Margin} = 72.77 \; - \underset{(2.5)}{0.00175}\ \text{Sales/Pop} \; - \underset{(12.1)}{5.170}\ \log(\text{Pop})$$

Both variables are statistically significant at the 1% level, as indicated by the t-ratios, shown below each coefficient.

Because the results are in a mixed log-linear relationship, it may be difficult to understand the relevant results without further discussion. Hence, we use the value of

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[3] The AEG study, op. cit., describes regression and its limitation where crossborder sales are prevalent.

[4] Analysis of Municipal Liquor Store Operations for the Year Ended December 31, 2003, Office of The State Auditor State of Minnesota.

the elasticities, the percentage change in the dependent variable associated with a given percentage change in an independent variable, at the mean value of the variables. We also use the percentage change in gross margin that would be expected between areas of different size.

Consider a case where the population in a given area is twice the mean value, in which case its logarithm would be 3.8945. The log of population would increased by 0.3010. Based on the above regression, the gross margin would fall by 1.55 points (e.g., from 36.55 to 35.00), assuming per capita sales and expenses also remained the same.

Using similar calculations, if per capita sales were to double, margins would decline by 1.33 points. This regression reflects only the markup between the cost of sales and the retail price.

Price comparisons between Minnesota and Wisconsin:

The results, above, focus on the price differentials by region within Minnesota, but they do not address the issue of how prices might vary between Minnesota and a state that is less restrictive and allows competition to flourish.

For this part of the study, data were collected on popular brands of wine and spirits for various locations in Minnesota and in Wisconsin. Locations in Minnesota were assigned a code of 1, 2, or 3, depending on the degree of competitiveness reflected by profit margins. Regressions were then calculated as a function of the location in Minnesota or Wisconsin, competitiveness rating, beverage type and bottle size, using dummy variables where appropriate.

Regression Results for Minnesota and Wisconsin Comparisons

SPIRITS (1.75 liter)	**MN code coefficient**	**Avg Price**	**% Higher in Rural**	**WI code coefficient**	**% lower in WI**
Seagram 7	0.94	19.28	4.9	3.64	18.9
Gordon's Gin	1.18	16.96	7.0	5.31	31.3
Smirnoff	1.34	18.32	7.3	0.62	3.4
Absolut	2.48	31.97	7.8	3.33	10.4
Bacardi Gold	0.96	20.31	4.7	1.88	9.3
WINE (750 ml)					
Sutter Home	0.31	7.09	4.4	2.55	36.0
Beringer	1.28	10.46	12.2	1.61	15.4
Mondavi	0.86	9.81	8.8	2.65	27.0
Clos du Bois	0.64	11.67	5.5	0.72	6.2
Average			**6.9**		**17.5**

The results show that wine and spirits prices in Minnesota are an average of 6.8% higher in rural than in competitive urban areas. Furthermore, and more to the point, average prices are 17.5% higher in Minnesota on average than in Wisconsin.

The 6.8% higher price increase in rural versus urban areas in Minnesota is somewhat below the 12.4% figure calculated using the first set of regressions and below the weighted average differential of about 10%. It is likely that the 6.8% figure represents a lower boundary for the price differential between urban and rural areas; the actual varying by beverage and brand.

The 17.5% price differential with Wisconsin provides a clearer example of the degree to which Minnesota regulations are likely to result in higher prices to consumers.

***Charles W.* de Seve, Ph.D.** is founder and President of American Economics Group, Inc. (a subsidiary of SourceCorp, a NASDAQ listed company). He consults with government, industry, and the legal profession in economic and statistical analysis, forensic economics, labor economics, and computer modeling and simulation. He received his Ph.D. in economics from the State University of New York at Albany.

Before entering the private sector, Dr. de Seve was Director of Tax and Fiscal Studies for The New York State Assembly and subsequently Deputy Director of the New York State Economic Development Board. For the Assembly, he prepared studies and advised the Speaker on all tax and fiscal matters before the legislature. In his latter capacity, he advised the governor on policies to retain and grow businesses and jobs in New York.

He is a past board member of the National Association of Forensic Economics, an active member of the American Economics Association, the National Tax Association, and regional economics associations. Dr. de Seve has to his credit numerous articles and reports on economic matters, including works on hotel occupancy and travel-related taxes, the conversion of mutual life insurance companies to stock companies, and the impact of interstate business competition. Several of his scholarly pieces have appeared in The National Tax Journal. For the American Hotel and Lodging Educational Foundation, he has done extensive analysis on the economic impact of room taxes.

Dr. de Seve has taught economics at Rensselaer Polytechnic Institute, Russell Sage College, the State University of New York at Albany, and for Cornell University. Scholastic honors include the Herbert Lehman Fellowship for Doctoral Studies, the Signum Laudis honor society, and magna cum laude award of the baccalaureate from the State University of New York at Albany.

Resume of

Charles W. de Seve

EDUCATION

Ph.D., economics, State University of New York at Albany (also M.A. and B.A.)

GENERAL EXPERIENCE

Dr. de Seve is the founder and director of American Economics Group, Inc. He consults to government, industry, and the legal profession in economic and statistical analysis, legal economics, labor economics, and computer modeling and simulation. His experience includes various positions on the boards, committees, and commissions that direct New York State's operations and programs such as director of the fiscal staff, New York State Assembly. Dr. de Seve has also taught economics at Rensselaer Polytechnic Institute, Russell Sage College, the State University of New York at Albany, and Cornell University.

1986-present — *President, American Economics Group, Inc., Washington, D.C.*

1977-1986 — *President, de Seve Economics Associates, Inc., Washington, D.C.* Directed large staff of economists, programmers, and statisticians, with offices in New York and Washington, D.C. The diverse work included major projects for Fortune 500 companies, the U.S. Treasury, state governments, major law firms, and many other businesses.

1976-1977 — *Deputy Director, New York State Economic Development Board, Albany, New York.* Supervised operations of the staff of economists, budget analysts, econometricians, statisticians, lawyers, operations research specialists, demographers, and computer programmers. Focused on improving the competitiveness of New York as a location for business by recommending policy changes in state taxation and regulation. Also served as liaison among business and financial leaders and government officials.

1971-1976 — *Director of Tax and Fiscal Policy Studies (appointed director, 1974), New York State Assembly Ways and Means Committee, Albany, New York.* Directed research of 11 professionals, including economists, statisticians, computer programmers, financial analysts, and lawyers in taxation and economic policy; insurance; economic forecasting; state aid to localities; and computer analysis systems.

1970-1971 — *Chief of Income Maintenance Unit, New York State Social Development Planning Commission, Albany, New York.* Designed welfare projection techniques, provided technical assistance in sampling and research design to other units, and supervised investigations of income maintenance and welfare programs.

EXAMPLES OF SPECIFIC EXPERIENCE

Economic Research and Legislative Analysis

- Performed comparative analysis of life insurance company taxation, its equity, and impact for the Life Insurance Council of New York. This included federal law impact analysis of New York companies and tax burden measurements and comparisons.

- Analyzed taxes and fees imposed on the trucking industry. Designed adjustments to motor fuel tax and motor vehicle licensing fees.

- Devised and programmed a computerized forecasting system that anticipates the cash flow from state taxes and identifies unusual conditions.

- Simulated the impact of various changes in tax policy for the Governor's Commission on Equity and Excellence in Education, New York. Measured the tax burden by income class for all taxes used to support education and evaluated school aid proposals.

- Constructed a 50-state cigarette consumption forecasting model for the Tobacco Tax Council.

- Analyzed the agricultural industry and how taxes and real property assessments affect it.

- Designed a state tax simulation model to evaluate tax competition among the states, which involved analyzing the tax systems in each state.

- Studied pari-mutuel racing operations, competition, and economic effects for state government and for racing operators. Designed pari-mutuel tax legislation now in effect, including commissions, distributions, types of wagering, and expenditure control.

- Designed and supervised an extensive project to find ways of freeing life insurers from interstate retaliatory taxation, which resulted in new insurance tax law for New York State.

- Conducted significant statistical and economic research into property tax legislation, including the design of a real valuation property tax circuit breaker, special assessment legislation for railroads, and evaluations of property tax and assessment practices.

Legal Economics, Negotiations, and Testimony

- Served as expert witness for Penn Central on alternative railroad financing mechanisms in the notable Penn Central Corporation valuation case.

- Analyzed taxes on trucking and presented testimony on their impact in Arkansas, New Jersey, Kentucky, and New York.

- Prepared testimony and appeared in controversial New York water and sewer case involving complex statistical analysis of water use, metering, and rate setting.

- Appeared as economic and statistical expert witness in litigation and arbitration on such matters as valuations, impaired earning capacity, discrimination, wrongful termination, insurance, wage structures, ability-to-pay measurement, pricing contracts, taxation, and government finance.

- Prepared an economic impact statement and use attainability analysis on the tanning industry in New York State, which the U.S. Environmental Protection Agency acted on in a case involving stream use reclassification.

- Negotiated complex tax and economic legislation with the executive branch, the legislature, and industry in New York State.

COMPUTER SKILLS

Computer programming proficiency in several languages.
Developed and programmed complex computer systems including:

- Personal income tax simulation model that calculates the distribution of tax burden among households and the revenue change to government for proposed changes in the tax laws of the 50 states.

- "Economic/Hedonic Damages System," published Spring 1990 by Anderson Publishing Company (Cincinnati, Ohio). The system calculates economic damages from impaired earnings capacity and loss of the pleasure of life following personal injury or death by accident.

- System for evaluating insurance costs in the automobile industry based on insured's personal and geographic attributes.

MISCELLANEOUS

Scholastic honors:	Herbert Lehman Fellowship for Doctoral Studies Magna cum laude award of baccalaureate
Member of:	American Economic Association Eastern Economic Association Western Economic Association International National Association of Forensic Economists National Tax Association/Tax Institute of America National Association of Economic Arbitrators (Charter Member)

Numerous publications on economics and fiscal areas.
Extensive speaking engagements on economics-related topics.

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S.F. No. 664 - Brew Pub Use of Non-Minnesota Produced Wort

Author: Senator Sandra L. Pappas

Prepared by: Matthew S. Grosser, Senate Research (651/296-1890) MG

Date: March 4, 2005

Current law prohibits brew pubs from using wort produced outside Minnesota. The bill would permit brew pubs whose total off-sales in any 12-month period amount to less than ten percent of their total on premise malt beverage production or 100 barrels, whichever is less, to use wort produced outside Minnesota. The bill also contains a provision for brew pubs licensed less than 12 months.

Note: wort is the filtered liquid malt mash used in the production of beer.

MG:cs

Senators Pappas, Scheid and Kleis introduced--

S.F. No. 664: Referred to the Committee on Commerce.

A bill for an act

relating to alcoholic beverages; allowing a brewer who manufactures beer on the premises where the brewer also holds an on-sale intoxicating liquor license to use wort produced outside Minnesota under certain circumstances; amending Minnesota Statutes 2004, section 340A.301, subdivision 6.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MINNESOTA:

Section 1. Minnesota Statutes 2004, section 340A.301, subdivision 6, is amended to read:

Subd. 6. [FEES.] The annual fees for licenses under this section are as follows:

(a) Manufacturers (except as provided in clauses (b) and (c))	$15,000
Duplicates	$ 3,000
(b) Manufacturers of wines of not more than 25 percent alcohol by volume	$ 500
(c) Brewers other than those described in clauses (d) and (i)	$ 2,500
(d) Brewers who also hold one or more retail on-sale licenses and who manufacture fewer than 3,500 barrels of malt liquor in a year, at any one licensed premises, using only wort produced in Minnesota <u>except as otherwise provided in this clause</u>, the entire	

production of which is solely for consumption on tap on the licensed premises or for off-sale from that licensed premises. A brewer licensed under this clause; (1) must obtain a separate license for each licensed premises where the brewer brews malt liquor~~.--A-brewer licensed-under-this-clause~~; (2) may not be licensed as an importer under this chapter; and (3) may use wort produced outside Minnesota if (i) its total sales at off-sale under section 340A.301, subdivision 7, paragraph (b), in any 12-month period do not exceed ten percent of the total production of beer on the premises or 100 barrels, whichever is less, or (ii) in the case of a brewer who has been licensed under this clause for fewer than 12 months, if the commissioner reasonably determines that the brewer will not sell amounts at off-sale in excess of the amounts specified in item (i) during the first 12 months of licensing $ 500

(e) Wholesalers (except as provided in clauses (f), (g), and (h)) $15,000

Duplicates $ 3,000

(f) Wholesalers of wines of not more than 25 percent alcohol by volume $ 2,000

(g) Wholesalers of intoxicating malt liquor $ 600

Duplicates $ 25

(h) Wholesalers of 3.2 percent malt liquor $ 10

(i) Brewers who manufacture fewer than 2,000 barrels of malt liquor in a year $ 150

If a business licensed under this section is destroyed, or damaged to the extent that it cannot be carried on, or if it ceases because of the death or illness of the licensee, the commissioner may refund the license fee for the balance of the license period to the licensee or to the licensee's estate.

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Senate
State of Minnesota

S.F. No. 528 - Uniform Off-Sale Hours

Author: Senator Mark Ourada

Prepared by: Christopher B. Stang, Senate Counsel (651/296-0539) CBS

Date: March 4, 2005

Section 1 allows on-sales of 3.2 malt liquor at 10:00 a.m. on Sundays.

Section 2 allows on-sale of intoxicating liquor at 10:00 a.m. on Sundays without requiring that a municipality hold a public hearing and pass an ordinance.

Section 3 provides for a uniform time statewide of 10:00 p.m. for off-sale of intoxicating liquor on Monday through Saturday.

CBS:cs

Senators Ourada, Metzen, Pappas and Gaither introduced--

S.F. No. 528: Referred to the Committee on Commerce.

A bill for an act

relating to liquor; providing for uniform off-sale hours statewide; regulating Sunday on-sales; amending Minnesota Statutes 2004, section 340A.504, subdivisions 1, 3, 4.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MINNESOTA:

Section 1. Minnesota Statutes 2004, section 340A.504, subdivision 1, is amended to read:

Subdivision 1. [3.2 PERCENT MALT LIQUOR.] No sale of 3.2 percent malt liquor may be made between 2:00 a.m. and 8:00 a.m. on the days of Monday through Saturday, nor between 2:00 a.m. and ~~12:00 noon~~ 10:00 a.m. on Sunday~~, provided that an establishment located on land owned by the Metropolitan Sports Commission, or the sports arena for which one or more licenses have been issued under section 340A.404, subdivision 2, paragraph (c), may sell 3.2 percent malt liquor between 10:00 a.m. and 12:00 noon on a Sunday on which a sports or other event is scheduled to begin at that location on or before 1:00 p.m. of that day~~.

Sec. 2. Minnesota Statutes 2004, section 340A.504, subdivision 3, is amended to read:

Subd. 3. [INTOXICATING LIQUOR; SUNDAY SALES; ON-SALE.] (a) A restaurant, club, bowling center, or hotel with a seating capacity for at least 30 persons and which holds an on-sale intoxicating liquor license may sell intoxicating liquor for consumption on the premises in conjunction with the sale of food between the hours of ~~12:00-noon~~ 10:00 a.m. on Sundays and 2:00 a.m. on Mondays.

(b) ~~The-governing-body-of-a-municipality-may-after-one public-hearing-by-ordinance-permit-a-restaurant,-hotel,-bowling center,-or-club-to-sell-alcoholic-beverages-for-consumption-on the-premises-in-conjunction-with-the-sale-of-food-between-the hours-of-10:00-a.m.-on-Sundays-and-2:00-a.m.-on-Mondays, provided-that-the-licensee-is-in-conformance-with-the-Minnesota Clean-Air-Act.~~

~~(c)~~ An establishment serving intoxicating liquor on Sundays must obtain a Sunday license. The license must be issued by the governing body of the municipality for a period of one year, and the fee for the license may not exceed $200.

~~(d)~~ (c) A city may issue a Sunday intoxicating liquor license only if authorized to do so by the voters of the city voting on the question at a general or special election. A county may issue a Sunday intoxicating liquor license in a town only if authorized to do so by the voters of the town as provided in paragraph ~~(e)~~ (d). A county may issue a Sunday intoxicating liquor license in unorganized territory only if authorized to do so by the voters of the election precinct that contains the licensed premises, voting on the question at a general or special election.

~~(e)~~ (d) An election conducted in a town on the question of the issuance by the county of Sunday sales licenses to establishments located in the town must be held on the day of the annual election of town officers.

~~(f)~~ (e) Voter approval is not required for licenses issued by the Metropolitan Airports Commission or common carrier licenses issued by the commissioner. Common carriers serving intoxicating liquor on Sunday must obtain a Sunday license from the commissioner at an annual fee of $50, plus $20 for each duplicate.

Sec. 3. Minnesota Statutes 2004, section 340A.504, subdivision 4, is amended to read:

Subd. 4. [INTOXICATING LIQUOR; OFF-SALE.] No sale of intoxicating liquor may be made by an off-sale licensee:

(1) on Sundays;

(2) before 8:00 a.m. or after 10:00 p.m. on Monday through Saturday;

(3) ~~after-10:00-p.m.,-on-Monday-through-Saturday-at-an establishment-located-in-a-city-other-than-a-city-of-the-first class-or-within-a-city-located-within-15-miles-of-a-city-of-the first-class-in-the-same-county,~~

~~(4)-after-8:00-p.m.,-on-Monday-through-Thursday-and-after 10:00-p.m.,-on-Friday-and-Saturday-at-an-establishment-located-in a-city-of-the-first-class-or-within-a-city-located-within-15 miles-of-a-city-of-the-first-class-in-the-same-county,-provided that-an-establishment-may-sell-intoxicating-liquor-until-10:00 p.m.,-on-December-31-and-July-3,-and-on-the-day-preceding Thanksgiving-day,-unless-otherwise-prohibited-under-clause-(1),~~

~~(5)~~ on Thanksgiving Day;

~~(6)~~ (4) on Christmas Day, December 25; or

~~(7)~~ (5) after 8:00 p.m. on Christmas Eve, December 24.

Senator ..... moves to amend S.F. No. 528 as follows:

Page 1, after line 6, insert:

"Section 1. Minnesota Statutes 2004, section 340A.418, is amended to read:

340A.418 [WINE TASTINGS.]

Subdivision 1. [DEFINITION.] For purposes of this section, a "wine tasting" is an event ~~of not more than four hours' duration~~ at which persons pay a fee or donation to participate, and are allowed to consume wine by the glass without paying a separate charge for each glass.

Subd. 2. [TASTINGS AUTHORIZED.] (a) A charitable, religious, or other nonprofit organization may conduct a wine tasting <u>of not more than four hours duration</u> on premises the organization owns or leases or has use donated to it, or on the licensed premises of a holder of an on-sale intoxicating liquor license that is not a temporary license, if the organization holds a temporary on-sale intoxicating liquor license under section 340A.404, subdivision 10, and complies with this section. An organization holding a temporary license may be assisted in conducting the wine tasting by another nonprofit organization.

(b) An organization that conducts a wine tasting under this section may use the net proceeds from the wine tasting only for:

(1) the organization's primary nonprofit purpose; or

(2) donation to another nonprofit organization assisting in the wine tasting, if the other nonprofit organization uses the donation only for that organization's primary nonprofit purpose.

(c) No wine at a wine tasting under this section may be sold, or orders taken, for off-premises consumption.

(d) Notwithstanding any other law, an organization may purchase or otherwise obtain wine for a wine tasting conducted under this section from a wholesaler licensed to sell wine, and the wholesaler may sell or give wine to an organization for a wine tasting conducted under this section and may provide personnel to assist in the wine tasting. A wholesaler who sells or gives wine to an organization for a wine tasting under this section must deliver the wine directly to the location where the wine tasting is conducted.

(e) This section does not prohibit or restrict a wine tasting that is:

(1) located on on-sale premises where no charitable organization is participating; or

(2) located on on-sale premises where the proceeds are for a designated charity but where the tasting is primarily for educational purposes.

(f) The four-hour limitation specified in paragraph (a) shall not apply to a wine tasting at a convention of fine wine and gourmet food exhibitors, provided the convention has at least 100 exhibitors and takes place over not more than three days."

Renumber the sections in sequence and correct the internal references

Amend the title accordingly

Senator Wergin introduced--

S.F. No. 553: Referred to the Committee on Commerce.

A bill for an act

relating to intoxicating liquor; authorizing the Mille Lacs County Board to issue an off-sale intoxicating liquor license to an exclusive liquor store in Eastside Township.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MINNESOTA:

Section 1. [OFF-SALE INTOXICATING LIQUOR LICENSE; MILLE LACS COUNTY.]

Notwithstanding Minnesota Statutes, section 340A.405, subdivision 2, paragraph (c), the Mille Lacs County Board may issue an off-sale intoxicating liquor license to an exclusive liquor store located in Eastside Township. All other provisions of Minnesota Statutes, chapter 340A, not inconsistent with this section, apply to the license authorized under this section.

[EFFECTIVE DATE.] This section is effective the day following final enactment.

Senator Hottinger introduced—

S. F. No. 862 Referred to the Committee on Commerce

A bill for an act

relating to intoxicating liquor; authorizing Mankato to issue an on-sale intoxicating liquor license for the Midwest Wireless Civic Center.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MINNESOTA:

Section 1. [MANKATO; ON-SALE INTOXICATING LIQUOR LICENSE.]

The city of Mankato may issue an on-sale intoxicating liquor license to the premises known as the Midwest Wireless Civic Center. The license authorizes sales on all days of the week to persons attending events at the center. All provisions of Minnesota Statutes, chapter 340A, not inconsistent with this section, apply to the license authorized under this section.

[EFFECTIVE DATE.] This section is effective the day following final enactment.

Senator Hann introduced--

S.F. No. 1072: Referred to the Committee on Commerce.

A bill for an act

relating to liquor; authorizing the city of Eden Prairie to issue an on-sale intoxicating liquor license to a caterer for use in connection with city-owned premises.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MINNESOTA:

Section 1. [CITY OF EDEN PRAIRIE; ON-SALE LICENSE.]

<u>Notwithstanding any law, local ordinance, or charter provision, the city of Eden Prairie may issue an on-sale intoxicating liquor license to any entity holding an operating food service contract with the city for the operation of the cafeteria, for use by the entity at the premises owned by the city of Eden Prairie, at 8080 Mitchell Road in Eden Prairie. The license authorizes sales on all days of the week to persons attending special events in the cafeteria. The licensee may not dispense intoxicating liquor to any person attending or participating in an amateur athletic event held on the premises unless such dispensing is authorized by resolution of the city council. The license authorized by this subdivision may be issued for space that is not compact and contiguous, provided that all such space is within the City Center building and is included in the description of the licensed premises on the approved license application.</u>

[EFFECTIVE DATE.] <u>This section is effective the day following final enactment.</u>

Senators Robling and Day introduced--

S.F. No. 1199: Referred to the Committee on Commerce.

A bill for an act

relating to liquor; providing that the on-sale license for Elko Speedway authorizes sales for all events on all days of the week; amending Laws 2003, chapter 126, section 28.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MINNESOTA:

Section 1. Laws 2003, chapter 126, section 28, is amended to read:

Sec. 28. [ELKO SPEEDWAY; ON-SALE LICENSE.]

Notwithstanding Minnesota Statutes, section 340A.404, subdivision 1, the city of Elko may issue an on-sale intoxicating liquor license to the Elko Speedway in addition to the number authorized by law. The license may authorize sales ~~only~~ both to persons attending ~~racing~~ any and all events, and sales in a restaurant/bar/banquet facility, at the speedway. The license authorizes sales on all days of the week. All provisions of Minnesota Statutes, chapter 340A, not inconsistent with this provision, apply to the license authorized under this section. The license may be issued for a space that is not compact and contiguous, provided that the licensed premises may include only the space within the fenced ~~grandstand~~ area as described in the approved license application.

[EFFECTIVE DATE.] This section is effective upon approval by the Elko city council and compliance with Minnesota Statutes, section 645.021.

CITY OF ELKO
SCOTT COUNTY, MINNESOTA

RESOLUTION NO. 05-06

Motion By Melgaard Seconded By Weinland

SUPPORTING AN AMENDMENT TO SPECIAL LEGISLATION CONCERNING THE SALE OF ALCOHOL AT THE ELKO SPEEDWAY

BE IT RESOLVED that the City Council of the City of Elko supports the effort of Elko Speedway to obtain and amendment to the special legislation through the Minnesota Legislature to allow and authorize the City of Elko to issue an on sale intoxicating liquor license to Elko Speedway for the following:

1. Sale of alcohol on all days of the week;
2. Allowing the sale of alcohol for non-race events, including sale of alcohol in a banquet facility; and
3. Allowing the sale of alcohol outside of the grandstand area, but within the fenced in area of Elko Speedway.

PASSED, ADOPTED AND APPROVED this 25th day of January, 2005.

Kent Hartzler, Mayor

ATTEST:

Patricia Nutt, City Clerk

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CITY OF ELKO
SCOTT COUNTY, MINNESOTA

RESOLUTION NO. 05-07

Motion By Knipp Seconded By Weitzel

RESOLUTION AMENDING ELKO CITY COUNCIL RESOLUTION SUPPORTING AN AMENDMENT TO SPECIAL LEGISLATION CONCERNING THE SALE OF ALCOHOL AT THE ELKO SPEEDWAY

WHEREAS, at its regular city council meeting on January 25, 2005, the Elko City Council adopted Resolution No. 05-06 supporting an amendment to special legislation concerning the sale of alcohol at the Elko Speedway;

WHEREAS, Elko Speedway desires to expand its proposed legislation to allow for the sale of alcohol at a bar/restaurant/banquet facility that it may operate in the future and not merely for a future banquet facility;

WHEREAS, the City of Elko desires to amend Resolution No. 05-06 to add support for alcohol sales at a bar/restaurant that may be located at Elko Speedway in the future.

NOW THEREFORE, be it resolved by the City Council of the City of Elko, Minnesota that paragraph 2 of Resolution 05-06 is amended to read as follows:

2. Allowing the sale of alcohol for non-race events, including sale of alcohol in a bar/restaurant/banquet facility;

PASSED, ADOPTED AND APPROVED this 9th day of February, 2005.

Kent Hartzler, Mayor

ATTEST:

Patricia Nutt, City Clerk

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