

WINE WITH DINNER

THE EFFECTS OF GROCERY STORE WINE SALES ON MUNICIPAL LIQUOR OPERATIONS

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EXECUTIVE SUMMARY

Background

HF 1205 would change existing state law to allow wine sales at grocery stores, although it would not include the sale of strong beer, liquor, and fortified wine (wine that contains 15.5% or more alcohol per volume). Currently, 33 states allow the sale of wine in supermarkets.

The Minnesota Grocers Association (MGA) is backing the current bill, citing consumer convenience as the primary reason for its support. Groups opposing the bill cite reasons such as increased youth access to alcohol, loss of local control of alcohol regulation, loss of revenue from wine sales, increased alcohol availability and consumption, particularly to minors, and decreased public safety.

Municipal Liquor Operations

According to the Minnesota Office of the State Auditor (1997), municipalities were originally authorized to own and operate liquor stores as a means of controlling alcohol. However, another benefit of municipal liquor operations is that they also provide convenience for residents of small communities that might be unable to attract a privately-run store. In addition, municipal liquor stores often provide supplementary revenues for public services.

Alcohol Control Policies

Although all municipal liquor stores must adhere to state law, many cities issue stricter policies for the regulation and control of the sale of alcoholic beverages. For example, municipal liquor stores do not employ anyone under the age of 21, although state law dictates a minimum age of 18 to serve alcohol.

In support of HF 1205, Minnesota grocers propose a "10-point Code of Conduct" that extends beyond state law in regulating the responsible sale of alcohol. A closer examination of this Code, however, indicates that grocery stores will essentially follow state law, and that proposed policies extending beyond state law are not overly stringent.

Availability of Alcohol

Permitting wine sales in metropolitan area grocery stores would increase the availability of alcohol as there would be more licenses issued, an increase in the number of physical locations selling alcohol, and an increase in social availability (i.e., obtaining alcohol from friends, parents, and so forth) of alcohol due to the decrease in control over the sale of alcoholic beverages.

According to Gruenewald and coworkers (cited in Gruenewald & Millar & Treno, 1993), alcohol sales are lower when there are fewer liquor outlets in ratio to people. The availability of alcohol can be modified by state-level public policy, such as regulating minimum drinking ages, alcoholic beverage prices, the numbers and types of outlets that are licensed to sell alcohol, advertising restrictions, and hours and days of sale (Gruenewald & Millar & Treno, 1993).

A ten year study (1983-1993) of alcohol sales in New Zealand grocery stores (Wagenaar & Langley, 1995) indicated a 17% increase in wine sales due to the introduction of wine into grocery stores in 1990. Sales of distilled spirits, beer, and fortified wine did not increase, however. Wagenaar and Langley (1995) concluded that increased sales and consumption can be associated with the expansion in retail availability of wine.

State Wine Sales

According to the Minnesota Department of Revenue (cited in Hanners, 2001), 7.9 million gallons of wine were sold in Minnesota during 2000, and Minnesotans spend approximately \$270 million on wine each year (Lloyd, 2001).

"During 1997, Minnesota's municipal liquor establishments reported a fourth consecutive year of record sales totaling \$181.2 million. Total sales in 1997 were up \$6.8 million, or 3.9 percent, from net income reported in 1996" (Minnesota Office of the State Auditor, 1997, p.2). According to Kaspzszak (cited in Hanners, 2001), the 21 cities comprising the municipal liquor operations in the Twin Cities metropolitan area made a combined total of nearly \$5.6 million in profit in 1998.

Impact on Local Government

According to Grausam (personal interview, Director of Edina Liquor Operations, March 15, 2001), there is quite a bit of money in the sale of regular wines such as Gallo, Glen Ellen, and Kendall Jackson. Although there is certainly a profit in the higher end wines, to stay in business liquor stores need the regular wine sales. Unfortunately for liquor stores, if HF 1205 passes, grocery stores will more than likely concentrate on the regular wine business.

Grocery stores, Hanners (2001) maintains, are eager to include wine sales in their inventory due to its high profit margin, which top 20 percent for wine. Typical grocery store margins for goods they currently sell are 2 percent or less.

Impact on State Government

According to the U.S. Bureau of the Census 1995 (cited in Kenkal & Manny, 1996), alcohol taxes account for less than one percent of total revenues collected.

Increasing the availability, and thus the consumption, of alcoholic beverages in the state of Minnesota would not seem to generate a lot of additional income for the state, especially when the added costs of health, increased crime, increased motor vehicle accidents, and increased access for minors is taken into consideration. Studies by Jewell and Brown (1995) suggest that policies directed at "restricting the number of alcohol vendors may also be an effective policy tool in the reduction of drinking and driving. This tool could possibly be utilized as a relatively low resource cost since alcohol regulatory agencies already exist in all states" (p. 764). It would make fiscal sense for the state to limit the number of alcohol vendors.

Public Safety

Research shows a relationship between the availability of alcohol within local communities and the incidence and prevalence of alcohol-related problems, particularly violence and driving while intoxicated (Gruenewald & Millar & Roeper, 1996).

Convenience

The argument of the Minnesota Grocers Association is that the sale of wine in grocery stores is one of convenience for consumers. "Convenience is a word I hear in the argument for wine in grocery stores," (Lakeville) Police Chief Dave Martens said (cited in Lloyd, 2001). "This is one situation in which I don't think things need to be more convenient, especially with the working relationship between the police and the municipal liquor retailers in this community."

Because the sale of wine would be limited to grocery stores of over 10,000 square feet, many communities without large grocery stores would not be included, and thus the convenience

factor is somewhat of a moot point. In addition, those customers who prefer to shop at Mercados, Asian Markets and "mom and pop" stores would not benefit from this proposal (Orndorf, 2001).

Current Status

On March 29, 2001, the Minnesota Grocers Association dropped HF 1205, stating that they were a few votes short in the House Commerce Committee, and preferring to wait until the next legislative session rather than risking an on-the-record defeat (deFiebre, 2001b). According to Representative Barbara Sykora (R-Excelsior), "this bill is not going to go away...like good wine, Wine with Dinner will only get better with age" (<http://www.winewithdinner.com>).

Municipal liquor operations are planning to utilize the knowledge gained in this year's fight against the passage of HF 1205 to unite with retail liquor establishments and personally communicate with legislatures rather than rely solely on lobbyists to handle the battle for them. Visnovec (personal interview, Director of Lakeville Liquor Operations, April 12, 2001) feels that relying exclusively on the Minnesota Municipal Beverage Association and the Minnesota Licensed Beverage Association's lobbying efforts may not be sufficient because HF 1205 represents a relatively important issue. Therefore, Visnovec believes that it is important for municipal and retail liquor operations to become more involved next year by contacting state representatives and informing them how the passage of HF 1205 would affect business as well as community safety.

BACKGROUND

On February 27, 2001, legislation was introduced at the 82nd Minnesota Legislative Session (2001-2002) proposing the authorization of off-sale wine licenses for grocery stores. The House bill number is HF 1205, and is sponsored by Representative Barbara Sykora (R-Excelsior). The corresponding Senate bill number is SF 1107, and is sponsored by Senator Linda Scheid (DFL-Brooklyn Park). (For the purpose of this paper, the two bills proposing wine sales in grocery stores will be referred to as HF 1205.)

HF 1205 would change existing state law to allow wine sales at grocery stores, although it would not include the sale of strong beer, liquor, and fortified wine (wine that contains 15.5% or more alcohol per volume). Currently, 33 states allow the sale of wine in supermarkets.

Bills supporting the sale of wine in supermarkets have been floated in 1974 and 1987 (Farrell & Kaspszak, 2001), but have not passed in Minnesota due to a lack of support from residents.

The Minnesota Grocers Association (MGA) is backing the current bill, citing consumer convenience as the primary reason for its support. Founded in 1897, the MGA provides a full-time lobbyist, monitors the activities of state agencies, and runs a grassroots program called MGA Legislative NetWORKS.

One of the primary groups organizing the fight against the bill's passage is called SMART, an acronym denoting: Supporting Minnesota's Alcohol Retailing Tradition. SMART consists of members of the Minnesota Municipal Beverage Association (MMBA) and the Minnesota Licensed Beverage Association (MLBA), who work with state and local officials promoting responsible alcohol consumption, limiting youth access to alcohol, and protecting Minnesotans against the effects of alcohol abuse. The bill is also opposed by a variety of government, private enterprise, and nonprofit organizations (<http://www.minnesotasmart.com>), including (but not limited to):

- * Mothers Against Drunk Driving
- * Community Prevention Coalition
- * Minnesota Police Chiefs Association
- * League of Minnesota Cities
- * Minneapolis StarTribune Editorial Board
- * Saint Paul Police
- * Don Carlson, Coborn's Grocery Store Manager
- * Minnesota Join Together
- * Minnesota Public Health Association
- * Action on Alcohol and Teens
- * Minnesota Sheriffs' Association
- * Sid Applebaum, founder and past President of Rainbow Foods
- * Minnesota Wine and Spirits Wholesalers

Groups opposing the bill cite reasons such as increased youth access to alcohol, loss of local control of alcohol regulation, economic hardship, increased alcohol availability and consumption, and decreased public safety.

On March 23, 2001, the House Commerce, Jobs and Economic Development Liquor Subcommittee passed the bill 5-2, and was the first legislative panel to give the legislation a hearing (Brunswick, 2001). The bill will proceed to the House Commerce Committee.

The scope of this paper includes a history of municipal liquor operations, an analysis of the approaches used by local governments to kill the passage of HF 1205, and the impact the passage of this bill would have on both state and local governments. Methodology included a literature review comprised of journal articles, internet references, testimonies, and personal interviews.

MUNICIPAL LIQUOR OPERATIONS

General History

In February of 1933, federal law prohibiting the sale of alcohol was repealed, and the 21st amendment was ratified in December of the same year. Minnesota also passed the Liquor Control Act in December, 1933 in order to regulate the manufacture, distribution, retail sale, and consumption of alcoholic beverages (Minnesota Department of Safety). The Liquor Control Department was established to enforce the Liquor Control Act.

According to the Minnesota Department of Safety, the state passed the City Option in 1957, giving cities the authority to decide whether to allow liquor within city limits (Minnesota Statute 340A.601). In 1976, the Liquor Control Department merged into the Department of Public Safety. The Liquor Control Act, MN Statute 340, was recodified by the Minnesota Legislature in 1985, creating the laws enforced today by The Division of Alcohol and Gambling Enforcement, a division of the Department of Public Safety (Department of Public Safety).

Municipalities were originally authorized to own and operate liquor stores as a means of controlling alcohol (Minnesota Office of the State Auditor, 1997). Another benefit of municipal liquor operations is that they can provide convenience for residents of small communities that might be unable to attract a privately-run store. In addition, municipal liquor stores often provide supplementary revenues, which are then allocated for municipal public services, thus reducing property taxes in many cities.

In 1997, 246 Minnesota cities operated municipal liquor stores: 152 cities operated both on-sale and off-sale establishments; 94 cities only operated off-sale liquor stores; and 21 cities operated municipal liquor stores within the Twin Cities metropolitan area (Minnesota Office of the State Auditor, 1997). "Municipal liquor operations located within the Twin Cities metropolitan area are considerable larger and more profitable than their Greater Minnesota counterparts...representing 37.1% of the total sales, and 30.4% of the net income of municipal liquor operations" in the state (Minnesota Office of the State Auditor, p.2).

Local Examples

Residents of the City of Edina voted for the establishment of municipal liquor stores in 1954 (S. Grausam, Director of Edina Liquor Operations, personal interview, March 15, 2001.)

According to Visnovec (personal communication, Director of Lakeville Liquor Operations, March 19, 2001), the City of Lakeville has had municipal liquor stores since 1934. In the 1980's, once the city exceeded 10,000 in population, the issue was again put to vote, with residents voting 3-1 to retain municipal ownership and control over alcohol.

Minnesota Municipal Beverage Association

The Minnesota Municipal Beverage Association (MMBA) was founded in 1934, and is an association of municipally owned and operated on and off-sale liquor facilities in the state. According to the MMBA (<http://www.mmba.com>), approximately \$180 million in sales are generated by Minnesota's municipal liquor operations, with approximately \$11 million in net-profits directed towards city funds.

IMPACTS OF THE PASSAGE OF HF 1205: REGULATION AND CONTROL

Municipal Liquor Operation Control Measures

Municipal liquor operations primarily fear the loss of control over liquor sales in their community as a result of the passage of HF 1205. The City of Lakeville is clearly more committed to control of liquor sales than to profits as evidenced by its mission statement:

The Lakeville Municipal Liquor Stores exist to control the sale and consumption of alcoholic beverages. While our municipal operations generally produce a profit, they are authorized only as an effective means of control. No matter how profitable, our municipal operations are justified only if we encourage moderation and consistently observe and enforce all regulations contained in liquor laws, including those related to hours of operations, sales to minors, intoxicated person, gambling on the premises, and sale for the purpose of resale.

Although all municipal liquor stores adhere to state law, many cities issue stricter policies for the regulation and control of the sale of alcoholic beverages. Some of these measures include (and they vary between stores):

- * open for operation only during state-mandated liquor sale hours;
- * no one under the age of 21 may enter the store for any reason unless accompanied by a parent or legal guardian;
- * high customer-employee ratio;
- * doors to storerooms are locked;
- * no employees under the age of 21;
- * monitor parking lot for minors;
- * employees leave store in a group to prevent employee theft; and
- * security cameras and mirrors are located throughout the store.

State Liquor Control Measures

The State of Minnesota is similarly involved in placing additional regulation on alcohol. During 2001, four bills in the 82nd Legislative session attempt to place stricter controls on alcohol: (1) HF 351, establishing a felony level offense for driving impaired; (2) HF 51, lowering from .10 to .08 the per se alcohol concentration level for drivers; (3) HF 1801, imposing a "nickel-a-drink" tax on alcoholic beverages, providing for a deposit of revenues for chemical dependency aftercare; (4) HF 58, keg registration (<http://www.house.leg.state.mn.us/perl/billnum.pl>).

In addition, the Minnesota Legislature passed two bills in 2000 that punish adults providing alcohol to minors. "The civil cause of action, or the ZAP bill (M.S. 340A.90)...gives injured parties the right to sue the adult provider to recover damages...Kevin's Law, or the Brockway bill (M.S. 340A.701), increases criminal penalties...to a felony in certain cases where an adult provides alcohol to minors" (Winters, 2001).

State Senator Anthony Kinkel issued a Minnesota State Senate Press Release on January 24, 2001 stating his opposition to HF 1205. "Grocers would do their best to prevent liquor from being sold to underage customers...but grocery stores are open to customers of all ages...liquor stores have better protection." Kinkel also noted that it seemed hypocritical to pass laws that will increase alcohol consumption while at the same time passing .08 laws (HF 51). "The wine-in-grocery-store proposal is one more example of an idea driven by special interests, not the public interest," concluded Kinkel.

Grocer "10-Point Code of Conduct"

Minnesota grocers agree with its opponents that alcohol sales should be monitored, and thus created and support a zero-tolerance policy on underage sales (Minnesota Grocers Association), proposing a "10-Point Code of Conduct" that extends beyond state law in regulating the responsible sale of alcohol. However, a close look at the "10-Point Code of Conduct" demonstrates that the code does not actually extend too far beyond state law. The ten points are:

1. "Comply with all laws
2. Post age restrictions
3. Guarantee all employees who sell wine are at least 18
4. Card everyone under 30
5. Conduct annual training
6. Require employee training before wine is sold
7. Welcome law enforcement
8. Conduct additional compliance checks
9. Post information and warnings
10. Enforce strict consequences" (www.winewithdinner.com)

Municipal and retail liquor operations also adhere to conduct code numbers 1-4, 6, and 7; in part because many of those codes already exist in the form of Minnesota state law. Conduct code number three, for example, guaranteeing that all employees who sell wine at grocery stores are at least 18 years of age, is derived from Minnesota Statute 340.412 subd. 10, which states that no one under 18 can serve alcohol in the state of Minnesota (www.revisor.leg.state.mn.us/stats/340). When reading conduct code number seven, welcoming law enforcement, it is important to consider the fact that there are currently approximately 11,000 retail establishments in Minnesota, and only three agents to conduct compliance inspections (Hanners, 2001). Conducting annual training, conduct code number five, is usually provided by all companies, no matter the field. Conduct code number eight, additional compliance checks - the compliance checks will be conducted internally. Most liquor establishments post information and warnings (conduct code number nine) advising pregnant women not to drink, and everyone not to drive while intoxicated. And, last, conduct code number ten states that grocery stores pledge to adopt a written store policy, in addition to being subject to strict state and local penalties for failure to deny wine sales to persons under the age of 21 that:

- * outlines the company's disciplinary sections;
- * includes a summary of relevant state and local laws;
- * states that those selling wine must attend yearly training;
- * requires employee's and supervisors responsible for selling wine to sign and date the company policy; and
- * subjects employees who violate state law to the store's disciplinary policies in addition to any state or local penalties (Minnesota Grocers Association)

A closer examination of the "10-Point Code of Conduct" indicates that grocery stores plan to follow state law, and that their policies extending beyond state law are not overly stringent.

Control Issues

An issue of concern to municipalities and the League of Minnesota Cities is the discretionary language of HF 1205, which states that if grocers meet certain criteria, they are entitled to an off-sale liquor license, thus removing a lot of local control from the cities. In addition, the League is concerned because the licensing criteria are not stringent, and include: (1) supermarkets establishing and implementing training sessions on the practice of selling off-sale wine; (2) supermarkets establishing and implementing a theft prevention program; and (3) supermarkets posting notices stating that they will not sell alcoholic beverages to those persons

under the age of 21, and that they will ask for proof of age. Stearns (personal interview, Lobbyist, League of Minnesota Cities, April 12, 2001) noted that these criteria are not strict and are often beneficial to supermarkets. Stearns' understanding is that, if the bill had continued to the full House Commerce Committee, there would have been several amendments, including one to reinstate local control over off-sale licenses.

According to an audio testimonial, Sid Applebaum has spent 60 years in the grocery store business, first as President of Applebaums, and then as founder and President of Rainbow Foods (1982-1996). Whenever Applebaum has been approached by the Minnesota Grocers Association over the past thirty years to support the sale of wine in supermarkets, Applebaum has been against it - primarily due to the easy access to alcohol wine sales would give an underage person. Based on his years of experience, Applebaum does not believe that supermarket managers are capable of policing wine sales, especially in larger stores with eight to ten check-out lanes. In addition, because check-out personnel can begin work at the age of 16, Applebaum feels that there would be too much peer pressure for minors to sometimes sell wine to underage friends when management was not around. Applebaum also raised the issue of the lack of state personnel to handle compliance checks for all of the additional outlets involved if HF 1205 were passed. Applebaum concluded with the statement that, in all his years in the grocery business, he has never had a customer approach him and ask why his store does not sell wine.

In a testimonial on the Smart website, Brooklyn Center Police Chief Joel Downer expressed concern on the security of wine displays after hours approved for sale, pointing out that 3.2 beer is not secured (<http://www.minnesotasmart.com>).

According to Farrell and Kaspszak (2001), 3.2 beer outlets are the leading violators of compliance checks. In addition, "last year, two of the major grocery companies promoting this legislation were fined \$272,000 for 328 violations of child labor laws" (Farrell & Kaspszak, 2001).

IMPACT OF THE PASSAGE OF HF 1205: ALCOHOL AVAILABILITY AND CONSUMPTION

Increased Alcohol Availability

"Increasing the availability of alcohol means: (1) increasing the number of physical locations where alcohol is present; (2) increasing the number of licenses for selling alcohol; (3) or increasing the social availability of alcohol (e.g., parents, friends, and so on)," Britt (2001) as cited on the Minnesota Smart website.

Permitting wine sales in metropolitan area grocery stores would increase the availability of alcohol as there would be more licenses issued, an increase in the number of physical locations selling alcohol, and an increase in social availability (i.e., obtaining alcohol from friends, parents, and so forth) of alcohol due to the decrease in control over the sale of alcoholic beverages.

Terry Maglich, President of MGM Liquors, is opposed to the passage of HF 1205. According to an audio testimonial (www.minnesotasmart.com/testimonials), Maglich recognizes that in the liquor industry, as a closely regulated, low margin industry, there are numerous laws and rules. Maglich feels that integrating an intoxicating beverage into an establishment that is open and accessible 24 hours per day would erode the closely regulated nature of the business. Further, wine displays may be scattered around the store, with grocers marketing it next to cheese or bread, thereby decreasing the possibility of monitoring theft. In addition, Maglich states that it is unfair that a liquor store is closed for a period of time when it fails a compliance check, but that a grocery store would only be willing to close their wine section(s).

A study conducted from 1968-1991 by Wagenaar and Holder (1995) showed significant increases in wine sales after privatization of the wine industry in five states: Alabama (42% increase), Maine (137% increase), Montana (75% increase), New Hampshire (15% increase), and Idaho (150% increase). Wagenaar and Holder (1995) concluded that state liquor operations have provided effective controls of the consumption of alcohol.

Increase Alcohol Consumption

According to Gruenewald and Millar and Treno (1993), studies that have met "accepted standards of methodological rigor" (p.42) suggest that increases in the availability of alcohol are related to increases in alcohol consumption and "correlated with a broad spectrum of alcohol-related problems, such as cirrhosis mortality and traffic fatalities" (p.42).

The availability of alcohol can be modified by state-level public policy, such as regulating minimum drinking ages, alcoholic beverage prices, the numbers and types of outlets that are licensed to sell alcohol, advertising restrictions, and hours and days of sale (Gruenewald & Millar & Treno, 1993).

"Current research suggests that different degrees in physical availability are directly related to differences in rates of alcohol consumption and related problems, supporting the view that the control of physical availability could benefit communities (Gruenewald & Millar & Treno, 1993). A study in Los Angeles of 72 cities showed that alcohol-related problems are geographically connected to the availability of alcohol (Scribner & MacKinnon & Dwyer, 1994). According to Gruenewald and coworkers (cited in Gruenewald & Millar & Treno, 1993), alcohol sales are lower when there are fewer liquor outlets in ratio to people.

Consumers with lower incomes, according to Treno et al. (cited in Gruenewald & Millar & Treno, 1993), have less flexibility in their choice of both drinking locations and drinking quality, and are less likely to drink at on-premise (e.g., bars, restaurants, or sporting events) than are wealthier consumers. In addition, consumers who drink more frequently, regardless of income, are more likely to purchase alcohol at off-premise locations (e.g., liquor stores and supermarkets).

A ten year study (1983-1993) of alcohol sales in New Zealand grocery stores (Wagenaar & Langley, 1995) indicated a 17% increase in wine sales due to the introduction of wine into grocery stores in 1990. Sales of distilled spirits, beer, and fortified wine did not increase, however, only table wine. Wagenaar and Langley (1995) concluded that increased sales and consumption can be associated with the expansion in retail availability in wine.

Smith (1988) cited a study by Hammond (1975) where the "first year after grocery stores in Virginia, Washington, Idaho, and Maine were licensed to sell wine, consumption of wine increased 120%, 130%, 174%, and 305% respectively" (p. 650).

According to Kuhlman (personal interview, Operations Manager, Alcoholic Beverages Division, State of Iowa, April 30, 2001), however, the State of Iowa has not seen an increase in liquor consumption in either adults or teens since the closing of its 220 state operated liquor stores, although no studies were cited to support this assertion.

IMPACTS OF THE PASSAGE OF HF 1205: ECONOMICS

General Background

In 1999, superpremium wines (those costing more than \$7) made up 23% of unit volume of 52% of dollar sales (data from Gomberg-Fredrikson Associates, cited in Summerour, 2001). By 2010, the total market of legal age consumers will increase to approximately 212 million, especially in the 21-27 year olds, the industry's largest potential customer base, and maturing baby boomers, according to data from Miller Brewing Co. (cited in Summerour, 2001). "The over 40 age group is really the prime demographic for buying superpremium wine. Analysts are projecting continued double-digit growth in the superpremium category for the next ten years," stated Donna Duncanson, vice president of marketing, Stimson Lane Vineyard and Estates, cited in Summerour, 2001, p. 43).

In addition, desirous of a piece of an ever-increasing market, grocery stores, Hanners (2001) maintains, are eager to include wine sales in their inventory due to its high profit margins, which top 20% for wine. Typical grocery store margins are 2% or less.

According to the Minnesota Department of Revenue (cited in Hanners, 2001), 7.9 million gallons of wine were sold in Minnesota during 2000, and Minnesotans spend approximately \$270 million on wine each year (Lloyd, 2001).

"During 1997, Minnesota's municipal liquor establishments reported a fourth consecutive year of record sales totaling \$181.2 million. Total sales in 1997 were up \$6.8 million, or 3.9% from net income reported in 1996" (Minnesota Office of the State Auditor, 1997. p. 2). According to Kaspzack (cited in Hanners, 2001), the 21 cities comprising the municipal liquor operations in the Twin Cities metropolitan area made a combined total of nearly \$5.6 million in profit in 1998.

Economic Impact

Impact on Local Government. According to Grausam (personal interview, Director of Edina Liquor Operations, March 15, 2001), the City of Edina conducted an audit approximately eight years previously that indicated that the City makes considerably more money from its municipal liquor operation than it would in tax revenue from retail liquor stores.

During the years 1998-2000, the City of Edina's three municipal liquor stores had the highest net return in the state, illustrated in Table 1.

Table 1. City of Edina Liquor Sales, 1998-2000

<u>Year</u>	<u>Gross Sales</u>	<u>Gross Wine Sales</u>	<u>Net Income</u>
1998	7,986,608	3,081,900	767,297
1999	8,421,134	3,329,112	945,546
2000	8,893,591	3,652,250	1,139,000

From Steve Grausam, Director of Liquor Operations, City of Edina

The City of Edina had an increase of 18% in net income between 1999 and 2000, which translates into an additional \$100,000 for the city's coffers. Due to the success of its three municipal liquor stores, the City of Edina is able to keep property taxes down by 4%. That is, without the income from the liquor stores flowing into the city's general fund, residential property taxes would be approximately 4% higher in order to help pay for amenities such as the Edina Art Center, city parks, and road maintenance.

According to Visnovec (personal interview, Director of Lakeville Liquor Operations, March 19, 2001), the City of Lakeville currently operates three municipal liquor stores, and had 8.6 million dollars in gross sales in 2000, 1.6 million dollars was wine sales. Lakeville has the state's third largest municipal liquor operation in terms of net income. During the past ten years, the City of Lakeville has provided approximately four and one half million dollars to the city to pay for things such as two police station expansions, a fire station, land acquisition for Heritage Library, and a second sheet of ice at Ames Ice Arena (B. Visnovec, personal interview, March 19, 2001); Lloyd, 2001).

Without funds from the municipal liquor stores, those issues would have gone to referendum and, if approved by the public, the City of Lakeville would have had to take out loans, pay interest rates, and generally spend more time completing the projects. In addition, Visnovec calculates that a resident would have to purchase at least ten cases of wine (240 bottles) per year to even out the property tax increase that would occur if the city's municipal liquor stores did not exist.

For the City of Eden Prairie, the projected sales for 2000 were approximately \$7 million (Johnson, 2000), and since 1998 more than \$1 million from liquor sales has been transferred into the City's Capitol Improvement Plan to fund the police department, parks and recreation, and public works projects. According to Don Uram, Director of Community Development and Financial Services (cited in Johnson,2000), 40% of liquor sales in the City of Eden Prairie are from wine. "If the city experienced a 20% reduction in wine sales, which is a conservative estimate (if grocery stores are permitted to sell wine), two of the three stores would become unprofitable...(and) city officials would have to ask if the stores should remain in business" (Johnson, 2000).

According to Grausam (personnel interview, Director of Edina Liquor Operations, March 15, 2001), there is quite a bit of money in the sale of regular wines such as Gallo, Glen Ellen, and Kendall Jackson. "Although there is certainly a profit in the higher end wines, to stay in business liquor stores need the regular wine sales. Unfortunately for liquor stores, if HF 1205 passes, grocery stores will more than likely concentrate on the regular wine business" (personal interview, Director of Edina Liquor Operations, March 15, 2001).

Local governments would collect licensing fees from those grocery stores that apply for an off-sale wine license, and those fees would range from \$100 to \$1,000 per license (depending on the size and class of the city). However, the "fee may not exceed the amount reasonably necessary to recover the issuing city's costs of issuing and inspecting and other directly related costs of enforcement, including youth access compliance checks" (Minnesota Statutes H.F. 1205, 2.20-3.33). In other words, cities would not make a profit on off-sale wine licenses issued to grocery stores.

Paul Kaspszak (cited in Hanners, 2001), Executive Director of the Minnesota Municipal Beverage Association, states that it is "naive to think that...(grocery store liquor sales) will stay wine-only and...(grocery store liquor sales) will stay in the metro area. What's the difference between people here and the doctors in Rochester, or the people up in Duluth? And what's the difference between wine with dinner and beer with a burger? Once the door is open, it's open."

According to both Grausam (personal interview, Director of Edina Liquor Operations, March 15, 2001) and Visnovec (personal interview, Director of Lakeville Liquor Operations, March 19, 2001), beer sales in grocery stores would most likely put many municipal and retail liquor stores out of business.

Impact on state government.

In 1994, state and some local governments (nationwide) collected a total of \$3.7 billion from excise taxes on alcoholic beverages, in addition to \$4.7 billion from general sales taxes (Kenkal & Manny, 1996). To put things into perspective, however, according to the U.S. Bureau of the Census 1995 (cited in Kenkal & Manny, 1996), alcohol taxes account for less than one percent of total revenues collected, while revenues from tobacco taxes were \$6.2 billion and from State lotteries \$10 billion in 1994; almost double and triple, respectively, the revenues collected from alcohol during the same year. Increasing the availability, and thus the consumption, of alcoholic beverages in the state of Minnesota would not seem to generate a significant amount of additional income for the state, especially when the added costs of health, increased crime, increased motor vehicle accidents, and increased access for minors are considered.

HF 1205 significantly increases the number of off-sale alcohol vendors permitted to sell a controlled substance, and this increase puts "a large economic and personnel burden on regulatory bodies" (MMBA, 2001). As previously mentioned, there are approximately 11,000 retail liquor establishments in Minnesota and only three agents available to conduct compliance inspection (Hanners, 2001). Marlene Kjelsberg, supervisor of the Department of Public Safety's Division of Alcohol and Gambling Enforcement said that "her three agents are overloaded as it is" (Hanners, 2001).

According to Kuhlman (personal interview, Operations Manager, Alcoholic Beverages Division, State of Iowa, April 30, 2001), however, the State of Iowa actually made more money after closing its 220 licensed liquor stores. When the State operated its liquor stores, it utilized a 75% retail mark-up; now, however, Iowa wholesales hard liquor to private liquor stores, utilizing a 50% wholesale mark-up to retain its profit margin.

IMPACTS OF THE PASSAGE OF HF 1205: COMMUNITY

Background

According to Kaspzak (personal interview, Executive Director of the MMBA, March 19, 2001), cities first decided to enter the liquor business after realizing that the best way to control alcohol was to own and operate liquor establishments. Many cities, however, discovered that their liquor stores also provided much needed revenue, especially in light of decreasing state aid, and, as a result, lowered property taxes for its residents. Because control of alcohol is the primary reason for their existence, municipal liquor stores do not necessarily market themselves, says Kaspzak. The stores that do advertise do so as a way to attract attention to their existence rather than as a tool to promote increased consumption of alcohol.

Research has consistently established a link between alcohol advertising and higher rates of drinking among youth in the United State and abroad, suggest Adlaf and Kohn, 1989; Atkin et al., 1983, 1984, 1988; Connonlly et al., 1994; Grube and Wallack, 1994; Grube et al., 1996 (cited in Snyder & Milici & Mitchell & Proctor, 1997).

"Since 1994, many cities have proposed or enacted restrictions against advertising alcohol products via billboards, store windows and public transportation. The reasons given for enacting bans include: (1) protection of children against a medium to which parents cannot personally control access; (2) prior evidence that urban minority populations are targeted through selective placement of alcohol and tobacco ads; (3) and instances of noncompliance with a 1990 voluntary industry ban on billboard advertising within 500 feet of schools and churches" (Snyder, et al, 1997, p. 898).

While some municipal liquor stores do advertise their price lists, and some retail liquor stores actively advertise, there is not the same exposure to minors from alcohol advertising as exists at a grocery store where there are no age restrictions for entry into the store, and where liquor displays are similar in appearance, and as appealing, as snack displays.

While at the same time limiting advertising and thus exposure to the wares of municipal liquor stores, cities, by owning and operating municipal liquor stores, can control the number of liquor stores within city limits. For example, the cities of Eden Prairie, Edina, and Lakeville each operate three liquor stores, while the City of Bloomington has approximately 40 privately owned liquor stores within its city limits.

Edina

As a community, the City of Edina is extremely active regarding fighting youth access to alcohol, and profits from the municipal liquor operation pay half the salary of the Community Health Coordinator who, as part of her job description, teaches anti-alcohol practices to children. In addition, the City of Edina has never failed a compliance check (S. Grausam, personal interview, Director of Edina Liquor Operations, March 15, 2001).

Lakeville

The City of Lakeville also pays for part of its Community Health Coordinator's salary, and has donated \$305,000 to DARE. According to Visnovec (personal interview, Director of Lakeville Liquor Operations, March 19, 2001), the City of Lakeville's municipal liquor stores routinely donate ice and other promotional items to local events, but do so anonymously so that children do not in any way associate sports or picnics with alcohol. The City of Lakeville has also never failed a compliance check. As a community, approximately 47,000 people benefit from the City's municipal liquor operation. "Now that's free enterprise," states Visnovec (personal interview, Director of Lakeville Liquor Operations, March 19, 2001).

Minneapolis

In an audio testimonial (www.minnesotasmart.com/testimonials), Donald DJ Jackson, Community Developer for Alliance Departments, raised the issue of "people battling alcohol abuse being exposed to daily temptation." Alliance Apartments houses formerly homeless people and recovering alcoholics and drug addicts, and Jackson is concerned that providing easy access to alcohol - in terms of selling wine in supermarkets - would be greatly detrimental to inner cities. In addition, Jackson is concerned that underage children would steal wine due to the easy availability. During an interview on Dimension (March 29, 2001, WCCO), Jackson pointed out that wine is both potent and cheap, and so it is easy for panhandlers to raise enough money to buy a bottle or two of wine to share.

IMPACTS OF THE PASSAGE OF HF 1205: PUBLIC SAFETY

Research shows a relationship between the availability of alcohol within local communities and the incidence and prevalence of alcohol-related problems, particularly violence and driving while intoxicated (Gruenewald & Millar & Roeper, 1996).

"Drinking and driving is the leading cause of motor vehicle accidents in the United States...in addition, estimates suggest that alcohol-related motor vehicle accidents result in as many as 300,000 disabling injuries and \$963 million in damaged property each year" (Jewell & Brown, 1995, p. 759).

Jewell and Brown (1995) conclude that an effective policy tool in reducing drinking and driving is to restrict alcohol availability, such as permitting fewer licensed alcohol vendors. "This policy tool could possibly be utilized at a relatively low resource cost since alcohol regulatory agencies already exist in all states" (p. 764).

A 1993 study by Cook and Moore (cited in Kenkel & Manning, 1996) showed a "strong positive relationship between alcohol consumption and the rates of rape, assault, and robbery" (p.232). According to the U.S. Department of Justice (cited in Winters, 2001) alcohol is a "factor in nearly 40% of violent crime, and is more closely associated with crimes of violence than any other drug" (p. 1).

The City of Lakeville provides an example of a municipal liquor operation extending itself to secure the public's safety. According to an audio testimonial, Brenda Visnovec (<http://www.minneostasmart.com/testimonials>), Director of Liquor Store Operations for the City of Lakeville, directs all Lakeville municipal liquor stores to complete Incident Reports whenever a customer attempts to purchase alcohol with false identification, attempts to purchase alcohol while in an intoxicated state, and/or purchases a large quantity of liquor. These Incident Reports are then circulated to the other Lakeville liquor stores as well as to the Lakeville Police Department. "It is simply another way of communicating and staying on top of things," stated Visnovec.

IMPACTS OF THE PASSAGE OF THE HF 1205: CONVENIENCE

The argument of the Minnesota Grocers Association is that the sale of wine in grocery stores is one of convenience for consumers. However, because the sale of wine would be limited to grocery stores of over 10,000 square feet, many communities without large grocery stores would not be included, and thus the convenience factor is somewhat of a moot point. In addition, those customers who prefer to shop at Mercados, Asian Markets and "mom and pop" stores would not benefit from this proposal (Orndorf, 2001).

In most cities, liquor stores are located next door or within one block of grocery stores. "That's convenient enough," stated Plymouth City Council Member Judy Johnson (cited in Brunswick, 2001). Eden Prairie Council Member Nancy Tyra-Lukens commented that she used to live in a state that permitted grocery store wine sales and that, as a parent, she appreciates Minnesota's restrictions on alcohol sales (Johnson, 2000).

"Convenience is a word I hear in the argument for wine in grocery stores," (Lakeville) Police Chief Dave Martens said (cited in Lloyd, 2001). "This is one situation in which I don't think things need to be more convenient, especially with the working relationship between the police and the municipal liquor retailers in this community,"

Other opponents of HF 1205 include Mother's Against Drunk Driving's Youth in Action Program, commenting that permitting wine in grocery stores would give minors more locations and more opportunities to obtain alcohol (Gougher, 2001), making wine sales in grocery stores more convenient for the wrong group of people.

As of April 13, 2001, according to Grausam (personal interview, April 13, 2001), the Cub Foods in Edina does not have a license to sell 3.2 beer. The managers do not want the additional responsibility of monitoring liquor theft and sale to minors. It remains to be seen whether Cub Foods Corporate will force the issue. In addition, some grocery stores in Austin, Albert Lee, and Mankato, Minnesota, began to sell wine coolers, but then pulled them from their stores due to too many sales made by minors to minors (S. Grausam, personal interview, April 13, 2001).

Wine aficionados may not appreciate the convenience of purchasing wine in grocery stores, either. Dr. James Whitliff, a sommelier (wine expert) and member of the American Wine Society (cited in Percival, 1999, p. 5), advises newcomers to wine to establish a rapport with the proprietor of a good wine shop because "the staff at the wine shop can help you avoid some expensive mistakes, and the price is usually about the same as at the grocery (store)." Whitliff points out that "the problem with the grocery store wine section is that they usually stand wine upright. The corks can dry out and you don't know how long the wine has been there, standing up. In addition, wine does not like constant light; wine shops tend to take care of their wine" (cited in Percival, 1999 p. 5).

APPROACHES USED BY LOCAL GOVERNMENTS TO DEFEAT HF 1205

Lobbying

In addition to yearly dues, municipalities donated funds to the Minnesota Municipal Beverage Association (MMBA). The MMBA joined their lobbying efforts with the Minnesota Licensed Beverage Association (MLBA), an organization that represents the private sector (i.e., bars, restaurants and retail liquor stores). For example, the cities of Eden Prairie, Edina, and Lakeville each donated \$10,000 to the MMBA, and the City of Elk River donated \$5,000. According to Grausam (personal interview, Director of Edina Liquor Operations, March 15, 2000), contribution "came out of the liquor fund, which is the cost of doing business, and did not come from taxpayers."

The League of Minnesota Cities also lobbied against the passage of HF 1205. According to its website, the League of Minnesota Cities is an association that "promotes excellence in governance, management, and services to Minnesota citizens by working with and for city officials" (<http://www.lmnc.org>). The League of Minnesota Cities develops their legislative policy by utilizing four policy committees, consisting of elected and appointed city officials, who meet throughout July, August and September of each year to discuss ideas and decide what will be in the policy package for the coming year. During the policy committee meetings in the summer of 2000, the League of Minnesota Cities informed the Service Delivery Committee of the rumor that grocery stores were going to introduce a bill to permit the sale of wine in supermarkets. The Service Delivery Committee decided that the League of Minnesota Cities would oppose the bill on the grounds of increased youth access and public safety; any expansion of off-sale venues where youth could obtain alcohol products (personal interview, A. Stearns, Lobbyist, League of Minnesota Cities, April 12, 2001). The official policy of the League of Minnesota Cities is titled: Youth Access to Alcohol and Tobacco, and states: "The League opposes any proposal that could result in increased risks of youth access to alcohol and tobacco products and expanded off-sale venues for the sake of such products" (<http://www.minnesotasmart.com>).

According to Stearns (personal interview, Lobbyist, League of Minnesota Cities April 12, 2001), the bill is still alive and will probably be picked up next session. The Service Delivery

Committee will discuss HF 1205 during its sessions during the summer of 2001, and will decide at that time whether to adhere to their current position or whether to modify their approach.

Resolutions

According to Supporting Minnesota's Alcohol Retailing Tradition (SMART), as of March 15, 2001, 76 cities and one county passed resolutions stating their opposition to HF 1205.

Website

As previously mentioned SMART (Supporting Minnesota's Alcohol Retailing Tradition) consists of members of the Minnesota Municipal Beverage Association (MMBA) and the Minnesota Licensed Beverage Association (MLBA), who work with state and local officials promoting responsible alcohol consumption, limiting youth access to alcohol, and protecting Minnesotans against the effects of alcohol abuse. The success of SMART is apparent as Minnesota is ranked 43rd in the United States for alcohol problems, and seven of the top eight states who are coping with the most alcohol problems allow the sale of alcohol in grocery stores (SMART). The SMART website, <http://minnesotasmart.com>, provides a wealth of information on HF 1205 and its impact on Minnesota.

CURRENT STATUS OF HF 1205

On March 29, 2001, the Minnesota Grocers Association dropped HF 1205, stating that they were a few votes short in the House Commerce Committee, and preferring to wait until the next legislative session rather than risking an on-the-record defeat (deFiebre, 2001b). According to Representative Barbara Sykora (R-Excelsior), "this bill is not going to go away...like good wine, Wine with Dinner will only get better with age" (<http://www.winewithdinner.com>).

Municipal liquor operations are planning to utilize the knowledge gained in this year's fight against the passage of HF 1205 to unite with retail liquor establishments and personally communicate with legislatures rather than rely solely on lobbyists to handle the battle for them. Visnovec (personal interview, Director of Lakeville Liquor Operations, April 12, 2001) feels that relying exclusively on the Minnesota Municipal Beverage Association and the Minnesota Licensed Beverage Association's lobbying efforts may not be sufficient because HF 1205 represents a relatively important issue. Visnovec therefore believes that it is important for municipal and retail liquor operations to become more involved next year by contacting state representatives and informing them how the passage of HF 1205 would affect business as well as community safety.

CRITICAL ANALYSIS

The Minnesota Grocers Association (MGA) mounted an impressive public relations campaign by utilizing in-store displays of mail-in cards, a website, and a toll-free phone number. The mail-in cards were visible, accessible, simple, and effective.

In contrast, aside from the SMART website advertised in municipal liquor stores and several newspaper editorials, those opposed to HF 1205 were not nearly as effective at gaining consumer support. In fact, I do not believe consumer support for HF 1205 would have increased as it did throughout the legislative session had it not been for MGA's impressive public relations.

In preparation for next year's battle, municipal liquor operations should begin now to educate consumers and gain support for their position. Several suggestions I have would include:

* include information on city websites regarding municipal liquor operations and how they benefit residential property taxes;

- * provide flyers at municipal (and private) liquor establishments detailing HF 1205 and how its passage would affect consumers, the community, youth access to alcohol, and public safety;
- * encourage municipal liquor store managers to contact private liquor stores and plan together how to best contact their state representatives (B. Visnovec, personal interview, Director of Lakeville Liquor Operations, April 12, 2001); and
- * cities should consider holding community forums to educate residents about the economic and public safety aspects of allowing wine sales in grocery stores, and inform residents how to contact their state representatives.

Municipal liquor operations and the MMBA could perhaps work out several compromises with the Minnesota Grocers Association. For example, municipal liquor operations and MMBA do not oppose grocery stores that have adjacent, albeit separate, liquor stores, such as Byerly's, Costco, or Sam's Club. Because these operations are set up with separate entrances, exits, storerooms, and loading docks, managers and employees are able to exert greater control, which is of primary importance to municipalities.

The MMBA (2001) points out that current off-sale liquor retailers are statutorily limited to the types of items they can sell in their stores. For example, liquor stores are not allowed under current law to sell beer nuts, potato chips, or milk. To sell beer nuts, a liquor store would have to obtain a grocery license. Grocery stores, however, are not limited in what they can sell; adding wine to their inventory would create a significant profit center and would not allow current retailers to compete. "While grocery stores want to break the liquor stores' monopoly on wine, they're not willing to give up their monopoly on food sales" (Hanners, 2001).

Failure to reach a compromise will result in another heated battle between grocery stores and municipal and retail liquor store operations during the 83rd (2001-2002) legislative session.

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