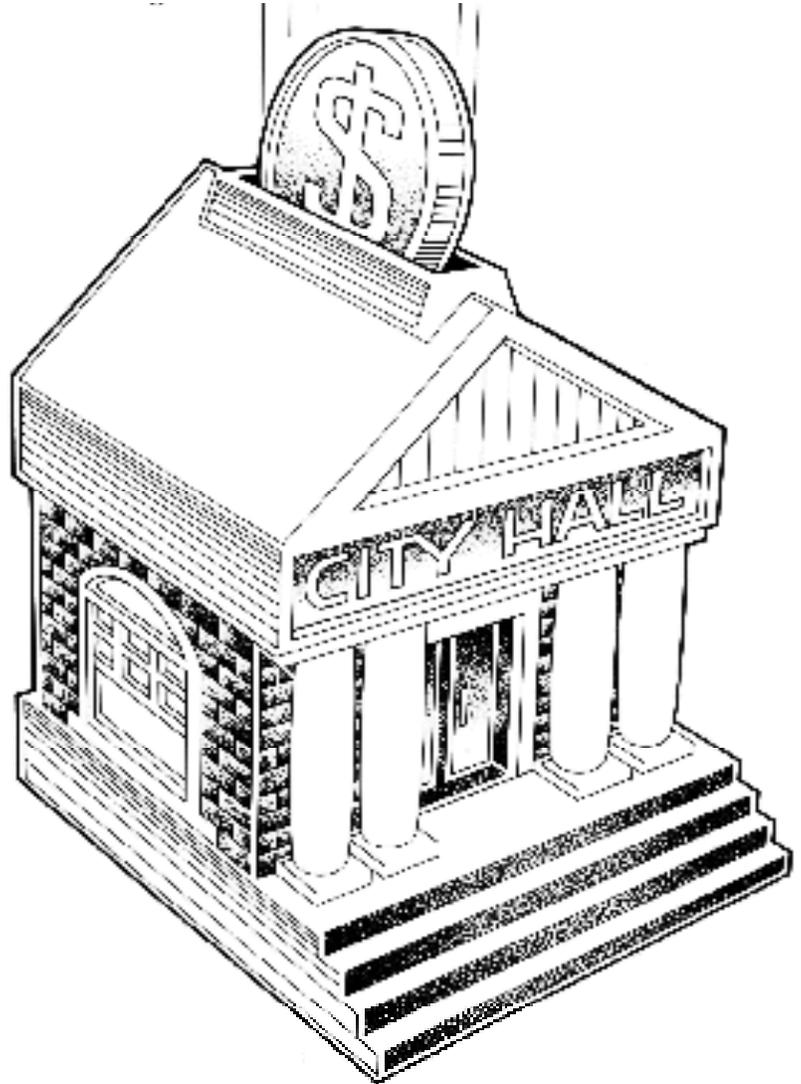


THE MUNICIPAL LIQUOR STORE

OFFICIAL PUBLICATION OF THE
MINNESOTA MUNICIPAL BEVERAGE ASSOCIATION
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Economic Benefits Provided by Municipal Liquor Stores



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ON THE COVER

Shenehon Company has a reputation for producing quality valuations beginning in 1929, when the late F.E. Shenehon founded his real estate appraisal firm in Minneapolis.

The company has expanded to include appraisals of commercial real estate throughout the United States, and has incorporated the valuation of business enterprises nationally.

Today, Shenehon Company is a leader in the valuation industry and is one of few full-service appraisal firms, handling both commercial real estate appraisals and business valuations.

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See complete report beginning on page 6.



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MMBA President's Message



CHRIS ARONLD
President

Have you ever had writers block? Well I have fallen down with a case of it.

The last three years of writing As I See It's and now my presidential letters for almost a year. It's hard to think of topics to write about that will apply to a majority of the different operations we have in our membership. This is easier said than done.

I know there are some of you who think these articles don't pertain to you, and you think you can do a better job than we do!

Well I'm offering an open invitation to anyone who wants to write an AS I SEE IT, I'm sure Paul will put it to print for you. This would be a great opportunity for you to give back to your association. Providing your insight on situations in your operation will likely help a fellow member.

Recently, I have been asking myself where 2018 went. It feels like it was just April and I was running around the annual conference doing the things in the background board members do to help our membership.

The 2018 annual conference was different for me. I was elected MMBA president by our board of directors. Well, being the president for almost a year has taught me many things about our organization.

There are many different entities and personalities in our industry. I feel my job as president is to make these different pieces of the puzzle come together for a common goal. One of my favorite quotes I found this past year is, "**Leadership is not about**

being the best. Leadership is about making everyone else better!"

We all have this responsibility as part of our jobs as individuals who run municipal liquor stores.

In most cases we don't just have one BOSS to answer to like most other businesses, we have several. Plus in the big picture, we have many more because we have to answer to all of the taxpayers of our communities as well.

With 2018 ending and a new year coming, there are many things to do. For some of us, we have new council members and or new mayors. But for some, it's business as usual with no change.

For those who have new council members or new mayors, it's time for you to have orientations with these new members of the team. Let them know the various aspects of your operation. Even if they are strongly in favor of the free market system, it is important for them to understand the community value you provide.

In the last few years, I have worked with several cities to improve their enterprise funds. In most cases I find all it takes is one person to mess the whole thing up. Or as I have been told, "All it takes is one bad apple to mess up a good apple pie."

This is a good time of the year to evaluate your staff and other individuals in your organization to make sure you don't have any bad apples. If everyone in the organization isn't working towards the same goal, you will have nothing but disorganization in your operation. I have found usually it's a simple misunderstanding or disagreement that hasn't been addressed.

It's amazing to me when a third party is brought in to help address these issues how quickly things come together and start working. When everyone works together to accomplish a common goal it is much easier to accomplish and do much more. Sometimes you can't change someone's opinion, so it's best to get them removed from your operation so the rest of you can work towards a successful outcome.

2019 will be my 20th year in our industry. How time flies when you're having fun!

I'd like to think I've seen a thing or two, but I know I can always learn more. One thing I've always been impressed with is how MMBA offers so much education to our membership and so much help as well. Sometimes people forget all we do and what we offer.

The neat thing about our association is we are very organized, have good communication with each other and we continue creating new opportunities to help other communities, besides our own, to succeed in this industry.

In the last six months there's been a few changes and in the next year I hope there are many more. These changes have been developed to help our membership even more than ever before. For those of you who attended the recent regional meetings, you are already know some of the changes. I hope at our annual conference in April we will be unveiling more changes and growing the ones we've started.

The nice thing about our conference is the education we receive. It teaches us how to run a better business, how to make more money for our operation and how to work together as a whole.

I've heard from many of our members that they have council members or mayors, who say, "You can only learn so much, why do you need to attend these every year?" My answer is *"I don't want to miss out on the new best thing that helps me make our operation more money. I have yet to go to a MMBA function and not learn something new that helped me generate more revenue."*

The crazy thing about our conference is it doesn't matter if you're a first timer or a seasoned manager that's been there since the dawn of time, you can always learn something. I try to bring one of my staff members. They are always welcomed by everyone.

A few weeks ago I was told by an individual who has attended our annual conference. "Your organization is amazing! The education they provide to their membership is one-of-a-kind. I belong to several organizations and none of them have annual conferences like yours.

You have a common goal of helping your membership generate more money and giving them the tools to make them better stewards of the operation. I learned more in one weekend attending your conference, than I have the last several years attending other conferences related to our industry."

We also have a municipal operation from Alaska who has been attending the last few years. They find it very valuable for their employees, not only store but city staff, to attend..

If there are cities willing to send their staff from as far north as Alaska, it's pretty hard not to attend if you're from Minnesota. Remember there is no such thing as a stupid question, just a dumb answer.

The dates are April 27 - April 30, 2019, at Arrowwood Resort in Alexandria. Look for additional conference information in the coming months.

Finally, anytime you need help get a hold of one of our board members or myself. If you don't think we can give you the answer, you can always call Paul because that's who we call when we can't figure it out. Somehow he is able to guide all of us in the right direction.

I hope everyone had a wonderful holiday and a happy new year. May 2019 be more successful than ever!

MMBA LEGISLATIVE DAY

February 27, 2019

MMBA Annual Conference

April 27 - 30, 2019

Why Customers Don't Return to a Business

- ✓ Not Being Acknowledged by Staff
- ✓ Rude Behavior
- ✓ Being Ignored
- ✓ Dirty Facility

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Economic Benefits Provided by Municipal Liquor Stores

By: Joshua R. Johnson, Shenhon Company

Shenhon Company has a reputation for producing quality valuations beginning in 1929, when the late F.E. Shenhon founded his real estate appraisal firm in Minneapolis. The company has expanded to include appraisals of commercial real estate throughout the United States, and has incorporated the valuation of business enterprises nationally. Today, Shenhon Company is a leader in the valuation industry and is one of few full-service appraisal firms, handling both commercial real estate appraisals and business valuations.

The 21st Amendment to the U.S. Constitution was ratified on December 5, 1933, effectively repealing the 18th Amendment, and ending nationwide prohibition on the sale of alcoholic beverages. This transferred liquor

control from federal oversight to state oversight. Many states immediately sought to privatize the retail sale of liquor, while several retained the ability to “control” the retail sale at the state level, including continuing total prohibition on the sale of alcoholic beverages in their states. Today, 17 control states retain some amount of government monopoly on the distribution and sale of some or all alcoholic beverages.

Soon after the December 1933 ratification of the 21st Amendment, Minnesota passed the Liquor Control Act, which was established to control the manufacture, distribution and sale of alcoholic beverages (the three-tier system that remains in effect to this day). At the time, Minnesota decided not to become a control state, but instead permitted the counties to determine whether

alcoholic beverages could be sold in their communities or not. This resulted in dry counties existing in Minnesota well after the end of Prohibition.

In 1957, the Minnesota Legislature passed the city option, which allowed cities to determine how liquor sales would be handled at the city level, as opposed to the county level, with the municipality controlling the retail sales channel. City leaders soon realized that budgets benefited from this source of meaningful non-tax revenues, and the commercialization of the distribution of alcoholic beverages transformed many of the municipal liquor operations into the professionally run organizations seen today.

The Liquor Control Act was re-codified by the Minnesota Legislature in 1985 into Minnesota Statute 340, which governs the laws still in effect, with 340A.601 overseeing municipal liquor operations. This resulted in certain cities in Minnesota becoming “control” cities, for which the city has a complete monopoly on the retail sale of alcoholic beverages within their city’s borders.

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Conference Agenda

MONDAY, JUNE 10

Pre-Conference Day

11am-5pm	WSET Training, Prep Sessions & Exams (Separate Registration and fee)
5:30pm-9pm	Exhibitor Cocktail Hour and Welcome Reception

TUESDAY, JUNE 11

BARC Day 1

7:30am	Networking Breakfast
8:30am	Opening Keynote
9:45am-12:30pm	Education Track Sessions
12:30pm-2pm	Networking Lunch & Exhibits
2pm-3pm	General Session
3:15pm-4:30pm	Distributor Panel Discussion
5pm-8:30pm	Exhibitor Cocktail Hour and Day 1 Reception

WEDNESDAY, JUNE 12

BARC Day 2

7:30am	Networking Breakfast
8:30am	Day 2 Keynote
10am	Retailer Panel Discussion
11am-12:30pm	Networking Lunch & Exhibits
12:30pm-2:30pm	Education Track Sessions
2:45pm	Closing Keynote
6:00pm	Top 100 Awards – Cocktail Reception & Banquet <i>(By Invitation Only)</i>

**Agenda subject to change without notice*

**Receive a 50% discount off registration
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As of 2016, the Office of the State Auditor noted that there were 195 Minnesota cities (out of 853) operating 228 municipal liquor stores. Of the 195 cities with municipal operations, only 19 cities located within the Seven-County Metro Area own and operate liquor establishments. The State Auditor noted that the metro area liquor operators accounted for only 9.7% of the municipal liquor store count but represented 34.5% of total sales and 26.5% of total profits. Metro area sales totaled \$118.8 million, or about \$6.3 million per city; profits totaled \$6.0 million, or 5.3% of sales with the average city earning \$315,000. Only one city, operated at a loss, with the majority earning profits of 2.0% to 6.0%.

There are many opinions on whether cities should be in the liquor business. Proponents of free markets do not believe governments belong operating a for profit business, while the cities themselves rely on the additional income to balance budgets. However, what really matters is whether the residents and taxpayers of the cities with municipal liquor operations see some form of economic benefit from the presence of the city owned liquor stores. Measures of success in a private liquor store are

return on equity and return of capital, both of which are conveyed via profits. City managers, as stewards of a city's financial resources, have a fiduciary responsibility to generate profits from their liquor operations. Minnesota state law requires cities that incur losses in two of the last three years to hold a public hearing on the future direction of municipal liquor operations.

Returning to the State Auditor data, with the profits generated from liquor operations, cities can choose to reinvest back into the liquor operation or provide a transfer to the city's general budget. This is equivalent to a private company making a distribution or dividend payment. Transfers totaled \$5.3 million in 2016 for the 19 metro area municipalities, or 4.4% of revenues. With these transfers, cities were able to accomplish many stated tasks, such as Anoka using its transferred liquor profits to benefit the city park system, or Edina using its transferred profits to reduce the cost of city services, or Lakeville using its transferred profits to purchase equipment for the city.

What often goes unstated, is that these profits are used to directly reduce the property tax burden for the taxpayers.

Without municipal liquor profits, cities would need to either reduce their budgets or increase their fees and property taxes. Raising property taxes is an especially contentious topic, and thus cities utilize the profits to fund portions of the budget.

Shenehon's independent research into municipal liquor operations revealed that in general, they do not operate any differently than a private liquor store. Municipal liquor stores must abide by Minnesota liquor laws, including opening and closing hours, follow the same three-tier distribution model, remit retail sales tax to the Department of Revenue, and cannot charge materially different prices than the private competition and reasonably expect to maintain their customer base.

The entrance of Total Wine into the Minnesota market has had the single largest impact on both private and public liquor stores, with prices being lowered on all fronts in an effort to remain competitive. In our research, we found that where municipal operations differ from the private competition, is they have a larger retail store footprint, feature a broader selection of products, carry significantly less debt, and are generally more profitable than the private competition. The Risk Management Association noted in its 2017-2018 Annual Statements Study that the median profit for private liquor stores of all sizes was 3.2%, compared to 5.3% for the municipal operations.

The economic benefits afforded metro area residents and taxpayers in cities with municipal liquor stores is a lower tax burden as a result of the municipal liquor stores generating profits. They also benefit from a publicly owned asset that generates an economic return on equity and provides a return of capital, putting taxpayer dollars to productive use. Residents and taxpayers alike benefit from possessing an investment that provides for parks, streets, lights, equipment, and more, all purchased with profits generated by the municipal liquor store rather than paid for by direct taxation.

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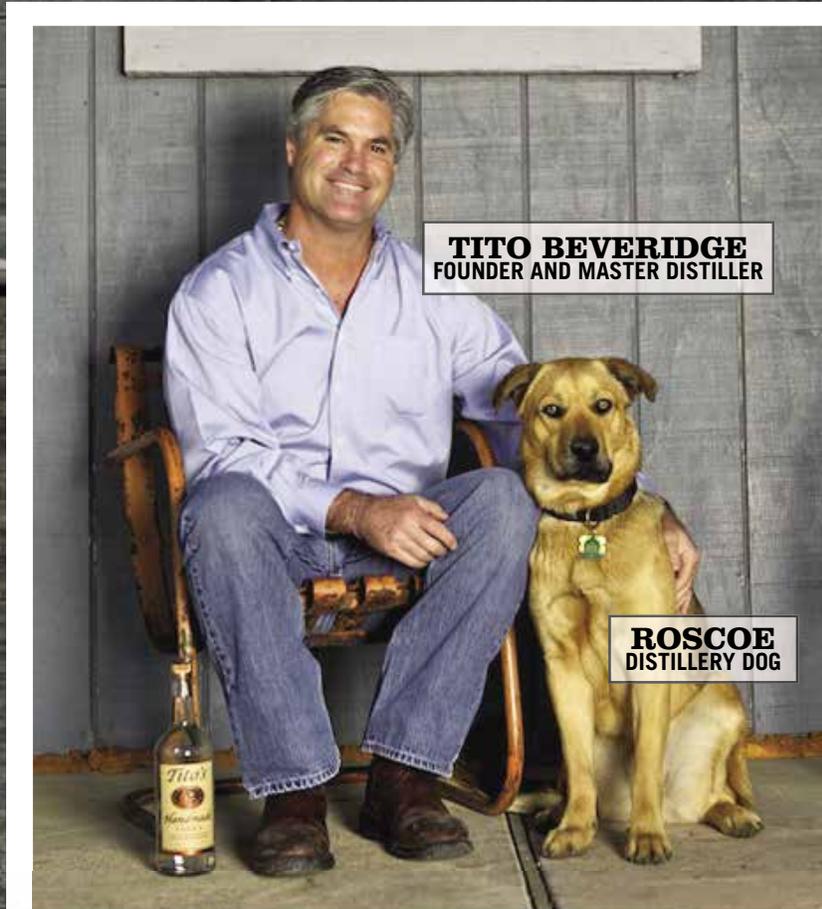
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After Losing Money, Spring Grove Municipal Liquor Operation Now Generates Profit

By Bluff County Newspaper Group

Spring Grove's own municipal liquor store, The Corner Store, recently received good ratings for 2017, which included a few high rankings in the region and state.

Though the audit reported on-sale operations are down across the state by 19.7 percent from 2016, The Corner Store is ranked in number one out of four liquor stores in the southeast region in terms of "net profit/(loss) as a percent of sales by type of establishment," according to a state audit report.

Attributed to The Corner Store's success are the customers and manager Joe Kessler and his staff.

"We're very consistent, and customers like consistent staff and hours," he said.

"People have favorites (bars), but they come in here because we're open."

Kessler's staff consists of Jackie Clauson, Caleb Happel, Sharon Horihan, Aaron Zafft, LeAnn Johnson and Nayna Johnson.

Customers enjoy getting to know the bartenders and seeing them when they come in. Hours are also adjusted for more or less busy days and weekends.

The store consistently opens from noon to 11 p.m. on Mondays through Fridays and open at 10 a.m. on Saturdays.

The bar is closed on Sundays, though the option to be open is legal in Minnesota.

Even if people don't sit on one side of the bar, they're often stopping in to buy their favorite beverage or to look for something new, such as RockFilter's latest bourbon or local wine from

Molly's Winery near La Crescent.

Another factor is people knowing where their money is going.

Profits from the liquor store go into the city's general fund and eventually get earmarked for projects and departments, such as new playground equipment at Trollskogen Park, new equipment for the fire department, an improved baseball field and more.

About \$31,000 was spent on such items, and that's exactly what a municipal liquor store is supposed to do, Kessler said.

"We have a lot more support from the council than we used to," he added.

It faced potential closing in 2009 during the recession when an audit for year ending Dec. 31, 2008, the total operating income of the liquor store was a loss of \$10,902.

That was a net loss in two of the last three consecutive years that prompted the question of continuing operations or closing it.

Luckily, the council kept it open, and now it's doing well in 2018.

It's not only the staff and customers that keep the liquor store floating, it's practical business solutions that work. The liquor store maintains competitive pricing with American Legion Post 249 and Norski's Saloon, they control the amount of inventory they have, bring in new products such as craft beer and wine and keep the off-sale fresh.

When you have inventory sitting around that's not on the shelf and not being sold, it goes against your bottom line on the accounting sheet, Kessler said.

In fact, the liquor store has done quite well for the past three years.

Profits from the liquor store total more than \$100,000, and as previously mentioned, allows the city to use their own money.

An auditor recommended the council keep at least \$100,000 in the account in event of emergencies.

The city's decision not to have the liquor store open on Sundays has proved to be positive, as some cities' sales had slowed down.

The liquor store was established in 1956. Kessler has managed the store for about three years.

He was also nominated and elected to the Minnesota Municipal Beverage Association (MMBA) Board of Directors last April.

He attributes that success to The Corner Store.

The MMBA represents municipal liquor stores in Minnesota.

They work with lobbyists on legislation, support struggling stores and give direction.

Kessler recently talked with a liquor store manager from Silver Bay and brainstormed ideas to keep their liquor store floating.

"It's nice to have that," he said.

I asked the other day what our range of sales should be, and we decided between 30 and 40 percent.

We're right at 37 percent so we're doing it right."

You Don't Need to Be a Taproom to Offer Beer Flights



Surly Furious

99 IBU ABV 6.7%

Malt provides the backbone for this beer. Four American hop varieties result in rich malt sweetness with a bright hop flavor.



Schell's OktoberFest

No IBU ABV 5.5%

Amber-colored, roasted malts on the nose. No bitterness.

Brau Brothers Moo Joos

IBU 24 ABV 5.8%

Oatmeal milk stout with dry chocolate nose and notes of dark chocolate flavor throughout.



Leinie's OktoberFest

No IBU ABV 5.1%

Light caramel malts with a light-bodied hint of sweetness.



Castle Danger Cream Ale

No/Low IBU ABV 5.5%

Deep gold in color with a soft melty aroma. Slightly sweet with a creamy texture.



Sierra Nevada Hazy Little Thing IPA

40 IBU ABV 6.7%

Mellow IPA, but with a distinctive hop character. Unfiltered, unprocessed; straight from tank to can.

Odell IPA

60 IBU ABV 7.0%

Nine hop varieties with malts command this beer. It is an American Style IPA that is light-medium bodied and not overly bitter.



Summit Extra Pale Ale (EPA)

49 IBU ABV 4.2%

Bronze in color, the caramel malts are balanced by an earthy hop-bite and earthy citrus.



Rogers Muni Tap House Beer Flights

Rogers Muni Tap House Beer Flight



1



2



3



4

Rogers Muni Tap House Beer Flight



1



2



3



4

Rogers Muni Tap House Beer Flight



1



2



3



4



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A 9 Point Customer Service Plan: Creating a Distinction Between You & Your Competition

By MMBA Conference Presenter Tom Shay

As a customer in someone else's business, have you ever been made to feel you were an interruption to the workday rather than the reason for it? Most of us have. The comments that employees make in situations like these mark the difference between a business trying to survive and a business that is thriving.

Imagine this scenario: A customer walks into a store and after spending several minutes looking at merchandise, begins to search for someone to wait on them. Of course, to the customer the amount of time looking for help will seem to be longer than the time spent looking at the merchandise.

When they did find the employees of the store, the employees were in a small group having a discussion about things other than their work. Or, the employee was talking on the telephone with someone as they made plans for getting together after work.

Most definitely, both examples of employees need a reminder of the reason for their work. They need a reminder as to who is actually writing their paycheck.

Regardless of how well your business operates, your staff does need an occasional reminder of this. Remind them that if customers choose to take their business elsewhere, your store probably won't need as many employees. Give that same response to those who resist working nights or weekends.

Stores simply have to be open when customers want to shop. Constantly remind your staff that your business is consumer driven, and that the customer is the most important person in your store. In visiting with businesses around

the country, I have found that few provide written customer service directives for their employees. It was only during a meeting of employees in my store that we realized we had never created directions for waiting on a customer. For the most important job in our store, we felt we needed more time training our team members to perform this crucial task. We created a nine-point directive for customer service. We also initiated a program that paid bonuses based on total sales goals, departmental work goals and individual item sales. Here are our nine directives:

Allow the customer to get into the store. Do not chase her down at the front door. Next, greet the customer with an open conversation. ("Hello. How are you?" or "Hi. Glad to see you.") If the customer is in a hurry or knows exactly what they wants, usually they will ask. If not, invite them to look around.

Check the store for the location of other customers, then continue with the usual work. We told our employees they should never go more than four minutes without stopping to check for customers.

If an employee is not the first person to talk with the customer, use a different approach. This can easily be done by walking by the customer and asking something like, "Finding what you need? Let me know if I can help you."

In approaching the customer, another employee could ask questions such as, "What do we need to solve our problem today?" or "What kind of item are you looking for today?" By using the words we and our, the employee shows his interest in the customer.

In helping the customer, ask questions about the intended purchase. If the customer is trying to decide what kind of computer software to buy, for example, the employee could ask, "What do you need the software to do?" (Maybe there is a problem that we first need to solve.) "What type of restraints do we want to consider?" (Maybe the customer is restrained by money concerns, limited time to learn new software or limited computer skills.)

Offer directions, shortcuts, personal experiences or words of caution. Be certain that you end this part of the conversation with words of encouragement.

After solving the problem for the customer, it is time to make the sale. In our store, we stocked add-on items in each department. The task was to get the add-on sale into the customer's hands for her to consider before she left the department.

Hand the customer a copy of your current sales circular or newspaper ad. We attached a copy to the end of the counter to make it easy for us. An employee could also mention one of the many monthly specials we ran.

The final step in making the sale came after the customer said "thank you" to the team member for the attention our team member had given her. We made a special point of thanking our customer. Our employees were reminded that we had many competitors and the customer had chosen our store to shop in. Their shopping in our store helped to pay our salaries and allowed us to earn bonuses.

I'll Be Right Back

At the recent MMBA Meeting there were request for cards customers can put next to / under their cocktails while they go outside to smoke. Below are some examples.

**Be Right Back
Stepped Out
to Smoke**

*Be Right
Back*

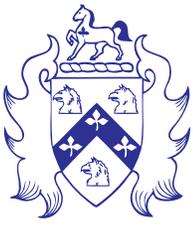
*I'll
be
right
back*

Please don't take my chair

*Cocktails
Went to Smoke*

**BE RIGHT
BACK**

*We'll Be Right
Back*



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