

# State Tax Impacts of Allowing the Sale of Alcoholic Beverages Until 2 a.m.

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January 2005

MINNESOTA • REVENUE

This report was prepared by the Minnesota Department of Revenue.

The Department would like to acknowledge the assistance of Explore Minnesota Tourism and the Department of Employment and Economic Development in the preparation of this report.

If you have questions about this report, call the  
Minnesota Department of Revenue at (651) 296-3425.

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# MINNESOTA • REVENUE

January 15, 2005

To: The Governor of the State of Minnesota  
The Members of the Legislature of the State of Minnesota

This report examines the state tax revenue implications of allowing licensed on-site establishments to sell liquor between the hours of 1 a.m. and 2 a.m. in Minnesota. The report was mandated under Minnesota Laws 2003, 1<sup>st</sup> Special Session, Chapter 19, Article 2, Section 76, and was prepared in consultation with the hospitality industry.

Minnesota Statutes, Section 3.197, specifies that a report to the legislature must include the cost of its preparation. The approximate cost of preparing this report was \$15,000.

Sincerely,

A handwritten signature in black ink that reads "Daniel A. Salomone". The signature is written in a cursive style with a long, sweeping underline.

Daniel A. Salomone  
Commissioner

cc: Secretary of the Senate  
Chief Clerk of the House  
Legislative Reference Library

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## Executive Summary

In 2003, Minnesota law was changed to allow licensed on-sale establishments to sell intoxicating liquor between the hours of 1 a.m. and 2 a.m. The law was enacted during the 2003 Session and became effective July 1, 2003. This study was also provided for in session laws.

Two primary areas have been identified that might benefit from the law change. The first area was the Minnesota convention business. Because many other states allow the on-site sale of liquor past 1 a.m. changing the time to 2 a.m. is expected to produce a more competitive convention market in Minnesota. The second area of commerce that may benefit from the extra hour of liquor sales was on-site establishments located near the state's border. The addition of an extra hour of on-site liquor sales would allow these establishments to attract customers from other states in addition to retaining Minnesota residents who might otherwise drive across the border.

For conventions, the convention industry produces estimates of delegate spending per day by category. This spending data in conjunction with anticipated gains in the number of convention delegates was the basis for this part of the estimate. For cross-border gains, the Minnesota Department of Revenue reviewed changes in sales tax collections before and after the law change for border establishments that purchased 2 a.m. permits. The difference in growth rates for liquor sales tax collections was used as a proxy for border establishment gains. The study focuses on new spending, not increased spending between 1 a.m. and 2 a.m. by Minnesota residents who would not otherwise have left the state. Spending by Minnesota residents is assumed to be spending that would have taken place somewhere else in Minnesota's economy and would not result in a revenue gain.

Based on the results of this study, it appears that there may be tax revenue gains from both increased convention activity and additional cross-border traffic. While the gains from cross-border traffic were immediate, additional convention activity will take until 2007 to fully mature. The lag in convention activity gains is due to the long lead times between convention planning and the actual event. The estimated tax revenue gains are:

### Estimated Additional Tax Revenue (\$ Thousands)

| Activity           | Calendar Years |              |              |              |
|--------------------|----------------|--------------|--------------|--------------|
|                    | 2004           | 2005         | 2006         | 2007         |
| Convention Gains   | \$52           | \$108        | \$166        | \$227        |
| Cross-Border Gains | 133            | 137          | 141          | 145          |
| <b>Total</b>       | <b>\$185</b>   | <b>\$245</b> | <b>\$307</b> | <b>\$372</b> |

While the law change is estimated to be beneficial to Minnesota's economy, the positive impact does not meet the threshold of \$3,850,000 per year specified in law.

## Introduction

Licensed on-sale establishments can sell intoxicating liquor between the hours of 1 a.m. and 2 a.m. as a result of a law change in 2003 (see page 13). The law established a graduated annual permit fee based on the annual gross receipts of the establishment. Each business pays a fee of \$200, \$500, or \$600 depending on their gross sales (see permit application on page 14 and fee chart on page 18).

Session law (Laws 2003 First Special Session, Chapter 19, Article 2, Section 76) provides the following:

- (a) The commissioner of revenue, in consultation with the hospitality industry, shall conduct a study to determine the amount of the annual increase in state tax revenue that is attributable to changes in the hours of permissible sale of alcoholic beverages. The commissioner shall report the results of the study to the governor and legislature by January 15, 2005.
- (b) If the study determines that the amount of the annual increase is at least \$3,850,000 during the period studied, the commissioner shall so report to the Secretary of State.

The analysis considers fiscal impacts from the 2 a.m. closing law change. Two primary areas have been identified that might benefit from the change in closing time. The first area is Minnesota's convention business. Very few other states require their on-site establishments to stop selling liquor at 1 a.m. Since many other states allow the on-site sale of liquor past 1 a.m., changing the closing time to 2 a.m. could make Minnesota more competitive in the convention market.

The second area of commerce that may benefit from the extra hour of liquor sales is on-sale establishments located near the state's border. The addition of an hour of on-site liquor sales would allow these establishments to gain additional customers from other states in addition to retaining Minnesota residents who might otherwise drive to another state based on closing times.

Both new convention activity and increased border sales would generate additional Minnesota revenue, and bring new spending into Minnesota's economy. Changes in liquor consumption patterns by Minnesota residents are expected to have little or no net statewide fiscal impact. It is expected that the 2 a.m. closing law change will result in altered market shares for on-sale businesses, sometimes related to which businesses hold a 2 a.m. license. It is not expected that Minnesotans will significantly alter their on-sale alcohol consumption spending. Additionally, it is expected that Minnesotans' entertainment spending is also relatively fixed. Bar owners report that patrons tend to shift time periods that they spend at on-sale establishments by arriving later to leave later. Moreover, to the extent that an increase in liquor spending could be identified, it is expected that this new liquor spending would be a substitution for spending that would have taken place and taxed somewhere else in the statewide economy (i.e., Minnesota's residents personal income is unchanged).

For the convention estimates, consultation with interested parties included two meetings that were held with representatives of the Minnesota hospitality industry (see page 22), meetings with other state agency representatives, and a survey of convention and visitor bureaus provided by Explore Minnesota Tourism (see pages 20-21).

The hospitality industry was asked to provide input on the study and to supply any information that was relevant to the study and also any similar studies that had been done that examined the impacts of changing closing times for on-site liquor sales.

The survey of selected convention and visitor bureaus in Minnesota provided general level information and found some consistent responses. First, estimated spending per convention visitor was generally less than the national estimate used by the International Association of Convention and Visitor Bureaus (IACVB). Second, the lead time for scheduling new convention activity was relatively long. Cities had yet to see any significant effects that are directly linked to the closing time law change. Finally, most bureaus reported that, despite finding no specific current effects, they believe that the 2 a.m. law change will improve the competitive position of the industry.

For conventions, the industry produces estimates of delegate per-day spending by category. These estimates were used to calculate sales tax generated by a convention delegate. To estimate the gains in tax revenues other than sales tax, an impact model was used to convert delegate spending into Minnesota personal income. This made it possible to estimate gains in state tax revenues other than sales tax. Using this approach and making assumptions based on history and convention industry input, a total revenue gain figure was calculated. The industry provided input about the number of convention delegates that would be attracted to Minnesota solely because of the law change.

For cross-border gains, Minnesota sales tax returns were reviewed to determine changes in liquor sales tax collections for establishments that purchased 2 a.m. permits and were located near the state border. These collections were compared to changes in liquor sales tax collections for non-border establishments. This comparison provided an estimate of liquor sales tax collections that might reasonably be attributed to gains in cross-border sales. Liquor sales tax was converted into spending. Using a method similar to the one used for the convention estimate, a state impact model was used to estimate changes in personal income. The change in personal income was then used to estimate gains in other state tax revenues.

The details of the methodology and estimates for the convention and cross-border activity are explained in the following two sections.

## Convention Analysis

The law change allowing closing times of 2 a.m. for bars and restaurants in Minnesota is expected to increase the competitive advantage of the hospitality industry to attract national and international convention business to the state. An increased number of conventions due to later bar and restaurant closing times would yield more nonresident visitors, increasing business and tourism spending in the Minnesota economy. It is estimated that site selection and planning for a convention occurs an average of three years prior to the actual convention date. Considering the 2 a.m. law change took effect in July 2003 with the majority of licenses being issued by early 2004, convention activity increase attributed to the 2 a.m. closing time would not be fully realized until 2007.

According to TravelScope survey data and the Minnesota Department of Employment and Economic Development, nonresident visitor days to Minnesota for conventions and seminars increased 1.0 percent on an average annual basis from 1995-2003 and was approximately 1,504,000 days in 2003. These visits represent overnight stays by business travelers attending conventions and seminars in Minnesota. Assuming a similar continued increase in visitor days, Minnesota could expect approximately 1,565,000 nonresident convention visitor days by 2007 without the effects of 2 a.m. closing times. Based on reasonable expectations and input from the convention industry, the study uses a 0.5 percent increase in convention attendees by 2007 attributed solely to the 2 a.m. closing time. This increase equates to an additional 7,825 visitor days by 2007.

The increase in nonresident visitor days would lead to an increased level of spending at Minnesota businesses. This study accounts for total increased spending by convention attendees, not simply the hourly incremental spending from 1 a.m. to 2 a.m. The IACVB estimates that a convention attendee spends an average of \$266 per day on items such as lodging, food and beverage, transportation, retail, and entertainment in 2004, up 1.9 percent annually from 2002 (see table on page 10). Assuming a similar growth rate through 2007, convention delegates would spend \$281 per day in 2007. This spending is estimated to generate \$19.03 of sales tax per visitor day (see table on page 10). The total sales and liquor excise taxes generated from spending by the increased number of convention attendees attributed solely to the 2 a.m. closing time is estimated to be \$151,000 in 2007 (see table on page 5).

The spending from an increased number of convention attendees will also have an impact on personal income in the state and generate other state tax revenues such as income tax and motor fuels tax. Based on results from the economic analysis model<sup>1</sup>, spending by the increased number of convention attendees would increase personal income in Minnesota by \$1,260,000 in 2007. From the November 2004 Forecast Price of Government, one dollar of personal income generates 6.0¢ in all other state tax revenue in addition to the general sales and liquor excise taxes. Therefore, the increased personal income produced from spending by the increased number of convention attendees generates \$76,000 in all other state tax revenue.

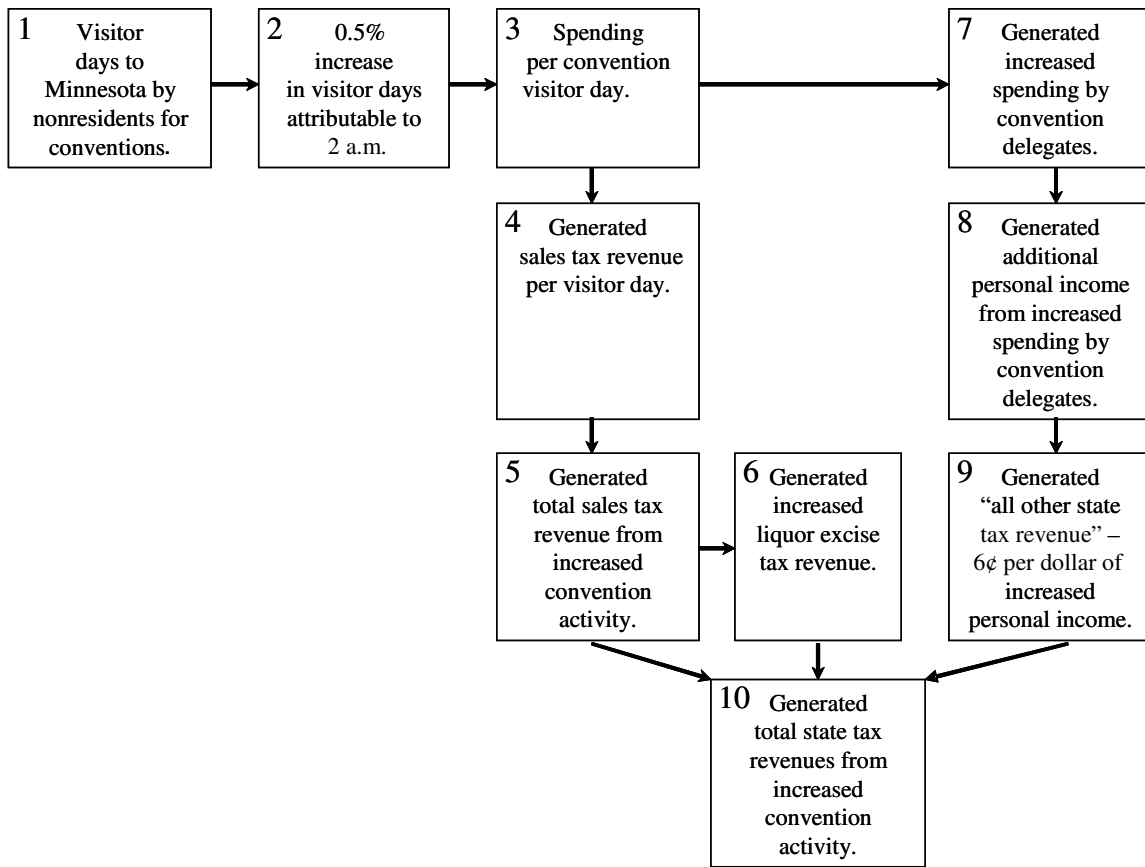
In summary, the increased convention attendees attributable to the 2 a.m. closing time for bars and restaurants will generate \$227,000 in total state tax revenue in 2007. Assuming marginal increases in convention activity attributable to the 2 a.m. closing time prior to 2007, there would be a lesser increase in state tax revenues of \$52,000 in 2004, \$108,000 in 2005, and \$166,000 in 2006. This phasing-in effect is due to the time lag between planning and the actual event.

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<sup>1</sup> Regional Economic Model, Inc. (REMI)



## Convention Activity Increase 2007



### State Tax Revenue Generated from Spending by Increased Number of Convention Attendees Due to 2 a.m. Closing Times

| Flowchart Box | Formula                      | Outcome     | Activity   |
|---------------|------------------------------|-------------|--|
| 1             | TravelScope                  | 1,565,000   | Visitor days to Minnesota by nonresidents for conventions.                             |
| 2             | $1 \times 0.5\%$             | 7,825       | ½ percent increase in visitor days attributable to 2 a.m.                              |
| 3             | IACVB                        | \$281       | Spending per convention visitor day.   |
| 4             | $3 \times 6.8\% \text{ ETR}$ | \$19.03     | Generated sales tax revenue per visitor day.   |
| 5             | $2 \times 4$                 | \$149,000   | Generated total sales tax revenue from increased convention activity.                  |
| 6             | $5 \times 3.8\% \times 36\%$ | \$2,000     | Generated increased liquor excise tax revenue.   |
| 7             | $2 \times 3$                 | \$2,199,000 | Generated increased spending by convention delegates.                                  |
| 8             | REMI                         | \$1,260,000 | Generated additional personal income from increased spending by convention delegates.  |
| 9             | $8 \times 6 \text{ ¢}$       | \$76,000    | Generated "all other state tax revenue" – 6 ¢ per dollar of increased personal income. |
| 10            | $5 + 6 + 9$                  | \$227,000   | Generated total state tax revenues from increased convention activity.                 |

## Cross-Border Analysis

Information from the Minnesota Department of Public Safety, Liquor Enforcement Division identified the bars and restaurants in the state that purchased the optional 2 a.m. closing license (see application and other participation information in appendix). The license registration information indicated that there were 897 businesses with the optional 2 a.m. license as of October 2004. Further, 77 percent of the optional 2 a.m. closing licenses issued between 7/1/03 (the first available date) and 6/30/04 were issued during the first six months.

Minnesota Department of Revenue sales tax data through September 2004 was used to identify and estimate industry tax revenue growth patterns. Year-to-year computations were made based on the six month period, January through June. Half-year amounts were annualized to calculate full-year changes. This analysis focuses on the tax revenue received at the 9 percent liquor rate. The tax revenue receipts at the 6.5 percent rate did not indicate higher growth rates by border establishments as compared to other establishments with the optional license.

The current law 9 percent liquor sales tax rate changes to 6.5 percent as of January 1, 2006. This analysis uses the 9 percent liquor rate and makes no adjustment for the change to 6.5 percent. The rate change to 6.5 percent will move the state closer to a single statewide sales tax rate. The effect of not making an adjustment for the current law rate change to 6.5 percent in 2006 is to overstate the 2006 and 2007 estimates.

The data aggregation (see following summary table) indicates that establishments with optional 2 a.m. licenses showed tax revenue growth for the identified period in 2003 and 2004 of 5 percent. This compares with approximately 2.7 percent growth for establishments without the optional license. The strongest factor in the trend of the series of growth rates for all businesses is likely general economic conditions.

### Annual Growth Rates – Minnesota Liquor Sales Tax

| Establishments                 | 2001-2002 | 2002-2003 | 2003-2004 |
|--------------------------------|-----------|-----------|-----------|
| All Bars                       | 3.5%      | 1.6%      | 3.5%      |
| 2 a.m. Licensees               | 3.0%      | 4.1%      | 5.0%      |
| 2 a.m. <u>excluding</u> border | 2.7%      | 3.8%      | 4.6%      |
| Border 2 a.m.                  | 7.3%      | 7.0%      | 8.6%      |
| 1 a.m. Businesses              | 3.8%      | 0.3%      | 2.7%      |

**Note:** Underlying data aggregations use available tax return year-to-year information; businesses that closed or transferred ownership are not included.

It was expected that this growth rate comparison might provide information on the tax revenue growth attributable to the change in the closing times. Determining specific differences between the types of liquor businesses with this general-level data is difficult. Anecdotal information from bar owners suggests that there is average additional growth in the 0 percent to 3 percent range for all businesses that have a 2 a.m. license. The growth rate information (see previous table) suggests that the difference in average growth rates between 2 a.m. establishments and other establishments might be in the 0 percent to 1 percent range.

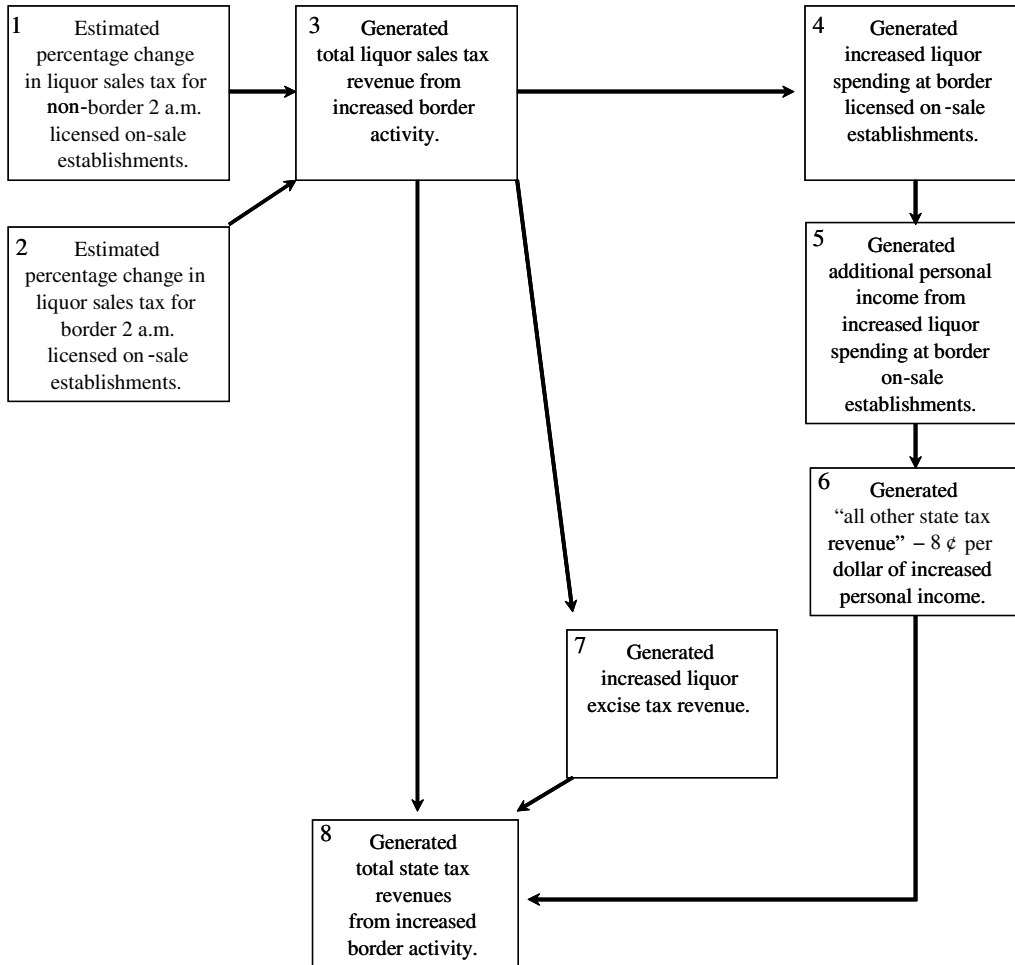
It is difficult to identify a definitive difference between the border businesses and the non-border businesses. Direct information that would have segmented any generally observable growth percentage differences into smaller gradations was not identified. Nevertheless, for purposes of estimation it is assumed in the following calculation that the difference in the gross percentage change between licensed border businesses and licensed non-border businesses is 2 percentage points.

The 148 border establishments with 2 a.m. licenses remitted approximately \$3,565,000 in 9 percent sales tax receipts for calendar year 2004, which equates to \$39,611,000 of sales. It is estimated that this yields \$792,000 of additional liquor revenue spending due to the 2 a.m. closing change, and \$71,000 in liquor sales tax revenue.

The \$71,000 estimated increase in liquor sales tax revenues is the basis for estimates of the increased liquor excise tax revenues and the increase from all other tax types. The total liquor excise tax collections were compared to total liquor sales tax collections. It is estimated that the impact on liquor excise tax collections of a \$71,000 liquor sales tax increase is \$26,000. Also, using the same method from the convention analysis which relates spending to personal income and to all other taxes, it is estimated that the increase in all other taxes is \$36,000.

To summarize, the primary assumption is that bars with 2 a.m. licenses and located near the border realized on average a net gain in revenues of 2 percent. From this assumption, it is estimated that the total tax revenue impact is the increased liquor sales tax revenues (\$71,000) plus the increased liquor excise tax (\$26,000) plus the increased tax from all other tax types (\$36,000). It is estimated that the total tax impact from increased cross-border activity is \$133,000 for calendar year 2004.

## Minnesota Border Activity Increase 2004



### State Tax Revenue Generated from Spending by Increased Border Liquor Spending Due to 2 a.m. Closing Time

| Flowchart Box | Formula                    | Outcome   | Activity  |
|---------------|----------------------------|-----------|---|
| 1             | DOR data                   | 1.0%      | Estimated percentage change in liquor tax for non-border 2 a.m. licensed on-sale establishments.      |
| 2             | DOR data                   | 2.0%      | Estimated percentage change in liquor tax for border 2 a.m. licensed on-sale establishments.          |
| 3             | $2.0\% \times \$3,565,000$ | \$71,000  | Generated total liquor sales tax revenue from increased border activity.                              |
| 4             | $3 \div 9.0\%$             | \$792,000 | Generated increased liquor spending at border licensed on-sale establishments.                        |
| 5             | REMI                       | \$435,000 | Generated additional personal income from increased liquor spending at border on-sale establishments. |
| 6             | $5 \times 8.3\text{¢}$     | \$36,000  | Generated "all other state tax revenue" – 8 ¢ per dollar of increased personal income.                |
| 7             | $3 \times 36\%$            | \$26,000  | Generated increased liquor excise tax revenue.  |
| 8             | $3 + 6 + 7$                | \$133,000 | Generated total state tax revenues from increased border activity.                                    |

# **APPENDIX**

## Expenditures Per Conventioneer

| Delegate Spending | 2002  | 2004  | 2007 Est.<br>(1.9% Annual Increase from 2004) |
|-------------------|-------|-------|---|
| Total Per Day     | \$256 | \$266 | \$281   |

## Average Convention Visitor Spending Estimated Sales Tax Collections (per day)

| Activities                         | 2004 Per Person Per Day Spending | 2004 Effective Sales Tax Rate | 2004 Per Person Per Day ST Paid Estimate | 2007 Per Person Per Day ST Paid Estimate <sup>2</sup> |
|------------------------------------|----------------------------------|-------------------------------|--|---|
| Lodging/Incidentals                | \$118                            | 6.5%                          | \$7.70                                   | \$8.12  |
| Hotel Food & Beverage*             | 34                               | 6.5% / 9.0%                   | 2.38                                     | 2.51  |
| Restaurant Food & Beverage*        | 30                               | 6.5% / 9.0%                   | 2.10                                     | 2.22  |
| Tours/Sightseeing                  | 5                                | 6.5%                          | 0.34                                     | 0.36  |
| Admissions to Museums, Theatres    | 2                                | 6.5%                          | 0.14                                     | 0.14  |
| Recreation                         | 1                                | 6.5%                          | 0.07                                     | 0.07  |
| Sporting Events                    | 1                                | 6.5%                          | 0.07                                     | 0.07  |
| Retail Stores*                     | 26                               | 0% / 6.5%                     | 1.69                                     | 1.78  |
| Local Transportation (taxi, limo)* | 3                                | 6.5%                          | 0.20                                     | 0.21  |
| Automobile Rental                  | 7                                | 12.7%                         | 0.92                                     | 0.98  |
| Gasoline, Tolls, Parking*          | 5                                | 0% / 6.5%                     | 0.34                                     | 0.36  |
| Other*                             | 6                                | 0% / 6.5%                     | 0.41                                     | 0.43  |
| Association/Exhibitor Spending     | 26                               | 6.5%                          | 1.69                                     | 1.78  |
|                                    | <b>\$266</b>                     | <b>6.8%</b>                   | <b>\$18.05</b>                           | <b>\$19.03</b>  |

The average daily spending per delegate is information from the International Association of Convention and Visitors Bureaus.

\* Prepared food is taxed at 6.5 percent and liquor is taxed at 9 percent. Clothing at retail stores is not taxed. Most other retail sales are taxable. There is an excise tax on gasoline and gasoline is not subject to sales tax. Parking is taxable. Other spending may include services which are not taxable.

A blended rate of 7 percent is applied to the food and beverage category and the 6.5 percent rate is applied to the other mixed categories.

*The current law tax rate for liquor and automobile rental are scheduled to be lowered in 2006. No adjustment was made for these rate changes.*

<sup>2</sup>Increased at same 1.9 percent annual rate that expenditures were estimated to increase from 2004 to 2007.

## Nonresident Convention/Seminar Visitors to Minnesota

| Calendar Year | Person Trips<br>x 1,000 <sup>1</sup> | Trip Duration <sup>2</sup> | Visitor Days <sup>3</sup> | Three-Year Moving Average <sup>4</sup> |
|---------------|--------------------------------------|----------------------------|---------------------------|--|
| 1995          | 269                                  | 4.22                       | 1,135                     | 1,401                                  |
| 1996          | 421                                  | 3.96                       | 1,667                     | 1,440                                  |
| 1997          | 300                                  | 5.06                       | 1,518                     | 1,617                                  |
| 1998          | 344                                  | 4.84                       | 1,665                     | 1,489                                  |
| 1999          | 336                                  | 3.82                       | 1,284                     | 1,532                                  |
| 2000          | 453                                  | 3.64                       | 1,649                     | 1,473                                  |
| 2001          | 422                                  | 3.52                       | 1,485                     | 1,401                                  |
| 2002          | 330                                  | 3.24                       | 1,069                     | 1,498                                  |
| 2003          | 657                                  | 2.95                       | 1,938                     | 1,504                                  |

<sup>1</sup> Person-trips (or visitors) in thousands. The term “person trips” counts the number of individual visits, regardless of the number of days or nights stayed. For example, when one person attends a three day convention, this equals one person trip.

<sup>2</sup> Mean trip duration (days or nights).

<sup>3</sup> Visitor days (i.e., person-trips x mean trip duration).

<sup>4</sup> Three-year moving average.

Source: TIA, TravelScope Surveys, 1995-2003

**State Tax Revenues**  
**November 2004 Forecast**  
Price of Government (000's)

| <b>Convention Method</b>                        |                                   |
|---|-----------------------------------|
| <b>Tax Type</b>                                 | <b>Actual Collections CY 2003</b> |
| All Other State Tax Revenues                    | \$10,253,302                      |
| Individual Income                               | 5,709,584                         |
| Corporate Income                                | 628,048                           |
| Gasoline and Special Fuels                      | 653,626                           |
| Motor Vehicle License                           | 492,339                           |
| Motor Vehicle Sales                             | 593,855                           |
| Statewide Property                              | 599,622                           |
| Health Care                                     | 266,804                           |
| All Other (excluding on-site liquor excise tax) | 1,309,424                         |
| Personal Income (\$ Billions)                   | \$172.217                         |
| All Other Taxes Per Dollar of Personal Income   | \$0.060                           |

| <b>Cross-Border Method</b>                         |                                   |
|--|-----------------------------------|
| <b>Tax Type</b>                                    | <b>Actual Collections CY 2003</b> |
| All Other State Tax Revenues                       | \$14,274,803                      |
| Individual Income                                  | 5,709,584                         |
| General Sales (excluding on-site liquor sales tax) | 4,021,501                         |
| Corporate Income                                   | 628,048                           |
| Gasoline and Special Fuels                         | 653,626                           |
| Motor Vehicle License                              | 492,339                           |
| Motor Vehicle Sales                                | 593,855                           |
| Statewide Property                                 | 599,622                           |
| Health Care  | 266,804                           |
| All Other (excluding on-site liquor excise tax)    | 1,309,424                         |
| Personal Income (\$ Billions)                      | \$172.217                         |
| All Other Taxes Per Dollar of Personal Income      | \$0.083                           |

Source: Minnesota Department of Finance



### **340A.504 Hours and days of sale.**

#### **Subd. 7. Sales after 1 a.m.; permit fee.**

(a) No licensee may sell intoxicating liquor or 3.2 percent malt liquor on-sale between the hours of 1 a.m. and 2 a.m. unless the licensee has obtained a permit from the commissioner. Application for the permit must be on a form the commissioner prescribes. Permits are effective for one year from date of issuance. For retailers of intoxicating liquor, the fee for the permit is based on the licensee's gross receipts from on-sales of alcoholic beverages in the 12 months prior to the month in which the permit is issued, and is at the following rates:

- (1) up to \$100,000 in gross receipts, \$200;
- (2) over \$100,000 but not over \$500,000 in gross receipts, \$500; and
- (3) over \$500,000 in gross receipts, \$600.

For a licensed retailer of intoxicating liquor who did not sell intoxicating liquor at on-sale for a full 12 months prior to the month in which the permit is issued, the fee is \$200. For a retailer of 3.2 percent malt liquor, the fee is \$200.

(b) The commissioner shall deposit all permit fees received under this subdivision in the alcohol enforcement account in the special revenue fund.

(c) Notwithstanding any law to the contrary, the commissioner of revenue may furnish to the commissioner the information necessary to administer and enforce this subdivision.

**NOTE:** Subdivision 7, as added by Laws 2003, First Special Session chapter 19, article 2, section 59, is repealed July 1, 2005, provided that the commissioner of revenue has made the report to the secretary of state of the determination described in Laws 2003, First Special Session chapter 19, article 2, section 76, paragraph (b), by that date. If no such determination has been made by that date, subdivision 7 remains in effect. Laws 2003, First Special Session chapter 19, article 2, section 79, subdivision 3.



Minnesota Department of Public Safety  
**Alcohol and Gambling Enforcement Division (AGED)**  
 444 Cedar Street, Suite 133, St. Paul, MN 55101-5133  
 Telephone 651-296-6979 Fax 651-297-5259 TTY 651-282-6555  
 www.dps.state.mn.us

**Application for Optional 2 a.m. Liquor License**

License type code: 2 a.m. License Expiration Date \_\_\_\_\_ ID# \_\_\_\_\_  
 (For Office Use Only)

Licensee Name: \_\_\_\_\_

Trade Name: \_\_\_\_\_

Licensed Location Address: \_\_\_\_\_

City, State, Zip Code: \_\_\_\_\_

Business Phone: \_\_\_\_\_

If the above named licensee is a corporation, partnership, or LLC, complete the following for each partner/officer:

| Partner/Officer Name | (First Middle Last) | DOB | Social Security # | Home Address |
|----------------------|---------------------|-----|-------------------|--------------|
|                      |                     |     |                   |              |
|                      |                     |     |                   |              |
|                      |                     |     |                   |              |

Licensee must report previous 12 month on sale alcoholic beverage gross receipts by checking one of the boxes below. Next to the box you check is your 2 a.m. license fee. Make check payable to: **Alcohol and Gambling Enforcement Division (AGED)**. Mail this application and check to: AGED, 444 Cedar St., Suite 133, St. Paul, MN 55101-5133.

- \$200 2 a.m. license fee - Up to \$100,000 in on sale gross receipts for alcoholic beverages
- \$500 2 a.m. license fee - Over \$100,000, but not over \$500,000 in on sale gross receipts for alcoholic beverages
- \$600 2 a.m. license fee - Over \$500,000 in on sale gross receipts for alcoholic beverages
- \$200 2 a.m. license fee - 3.2 percent On Sale Malt Liquor licensees or Set Up license holders
- \$200 2 a.m. license fee - Did not sell alcoholic beverages for a full 12 months prior to this application

Yes  No Does your city or county licensing official allow the sale of alcoholic beverages until 2 a.m.?

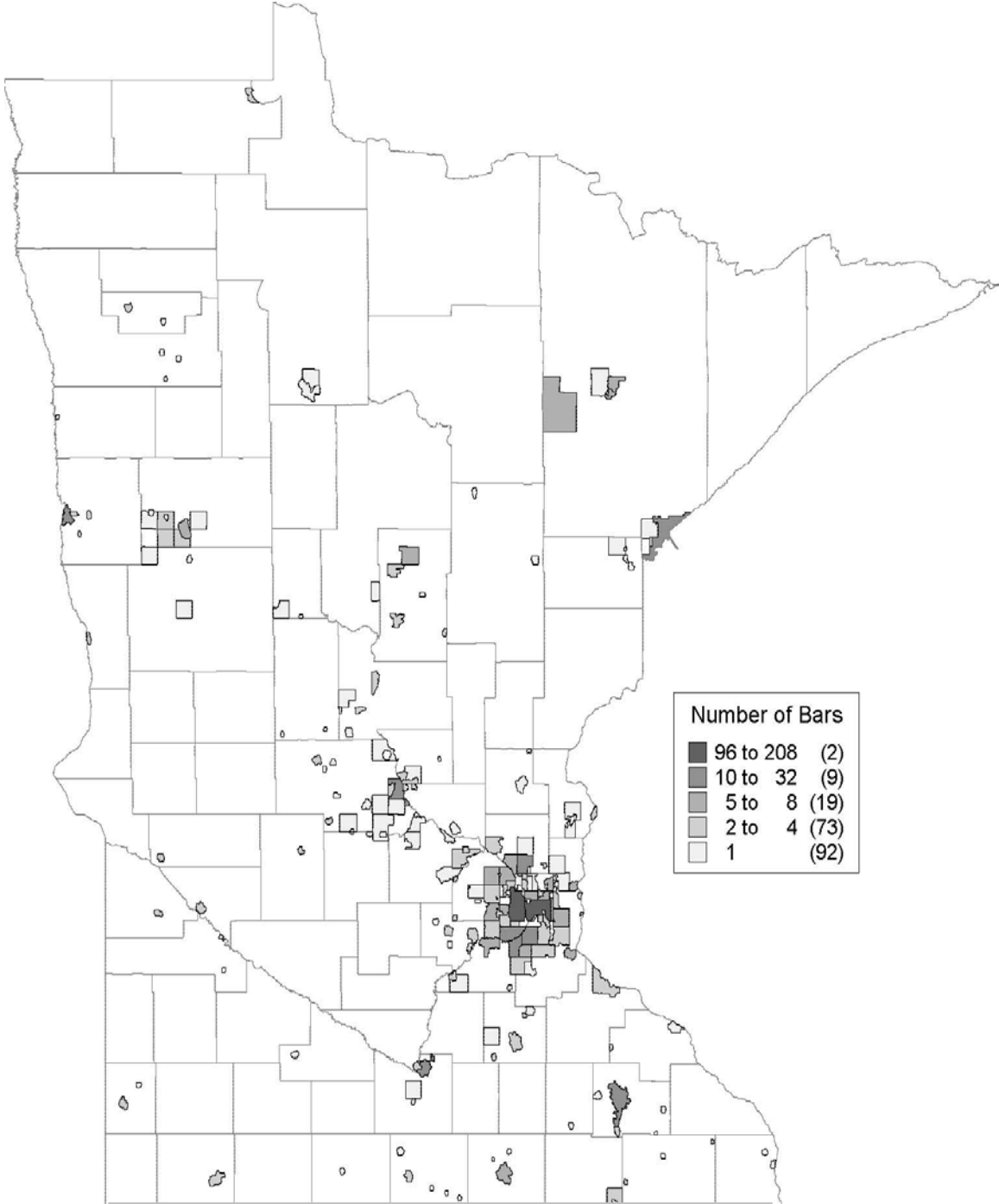
City Clerk/County Auditor Signature \_\_\_\_\_ Date \_\_\_\_\_  
 (I certify that the city or county of \_\_\_\_\_ approves the sale of alcoholic beverages until 2 a.m.)

Licensee Minnesota Tax ID Number (Required) \_\_\_\_\_

Licensee Signature \_\_\_\_\_ Date \_\_\_\_\_  
 (I certify that I have answered the above questions truthfully and correctly)

**Licensee: Prior to submitting this application to the Alcohol and Gambling Enforcement Division, it must be signed by your local city or county licensing official.**

# Optional 2 a.m. Closing Licenses by Municipality Establishments as of June 10, 2004



Source: Minnesota Department of Revenue  
Date Prepared: September 16, 2004

**2 a.m. License Registration Monthly Counts  
(As of October 6, 2004)**

| <b>Month</b>   | <b>Year</b> | <b>New</b> | <b>Percentage</b> | <b>Expired</b> | <b>Cumulative</b> |
|----------------|-------------|------------|-------------------|----------------|-------------------|
| July           | 2003        | 286        | 31%               | 0              | 286               |
| August         | 2003        | 159        | 17%               | 0              | 445               |
| September      | 2003        | 71         | 8%                | 0              | 516               |
| October        | 2003        | 86         | 9%                | 0              | 602               |
| November       | 2003        | 56         | 6%                | 0              | 658               |
| December       | 2003        | 57         | 6%                | 0              | 715               |
| January        | 2004        | 25         | 3%                | 0              | 740               |
| February       | 2004        | 11         | 1%                | 0              | 751               |
| March          | 2004        | 26         | 3%                | 0              | 777               |
| April          | 2004        | 21         | 2%                | 0              | 798               |
| May            | 2004        | 25         | 3%                | 0              | 823               |
| June           | 2004        | 26         | 3%                | 0              | 849               |
| July           | 2004        | 54         | 6%                | 10             | 893               |
| August         | 2004        | 8          | 1%                | 9              | 892               |
| September      | 2004        | 20         | 2%                | 10             | 902               |
| Thru October 6 | 2004        | 1          | 0%                | 6              | 897               |
| <b>Total</b>   |             | <b>932</b> | <b>100%</b>       | <b>35</b>      | <b>897</b>        |

**2 a.m. License Participation Estimate**

Based on information from the Minnesota Licensed Beverage Association, it is estimated that there are approximately 4,500 on-sale businesses selling intoxicating liquor. As of October 6, 2004 there were 897 businesses with an optional 2 a.m. license. The participation rate is therefore about 20 percent

Also, it is estimated that establishments with a 2 a.m. license represent 35 percent of the liquor sales tax paid.

**2 a.m. Licenses by County  
October 6, 2004**

| County         | Number of Licenses | County          | Number of Licenses |
|----------------|--------------------|-----------------|--------------------|
| Aitkin         | 2                  | Martin*         | 2                  |
| Anoka          | 31                 | Meeker          | 4                  |
| Becker         | 19                 | Morrison        | 8                  |
| Beltrami       | 1                  | Mower*          | 2                  |
| Benton         | 9                  | Nicollet        | 3                  |
| Blue Earth     | 25                 | Nobles*         | 3                  |
| Brown          | 1                  | Norman*         | 1                  |
| Carlton*       | 6                  | Olmsted         | 20                 |
| Carver         | 11                 | Otter Tail      | 7                  |
| Cass           | 1                  | Pipestone*      | 3                  |
| Chippewa       | 2                  | Polk            | 4                  |
| Chisago*       | 5                  | Ramsey          | 127                |
| Clay*          | 19                 | Red Lake        | 3                  |
| Crow Wing      | 13                 | Rice            | 11                 |
| Dakota*        | 51                 | St. Louis*      | 57                 |
| Dodge          | 1                  | Scott           | 16                 |
| Faribault*     | 6                  | Sherburne       | 6                  |
| Fillmore*      | 6                  | Stearns         | 33                 |
| Freeborn*      | 8                  | Swift           | 2                  |
| Goodhue*       | 5                  | Todd            | 2                  |
| Hennepin       | 297                | Wabasha*        | 2                  |
| Houston*       | 2                  | Wadena          | 1                  |
| Isanti         | 2                  | Washington*     | 31                 |
| Kandiyohi      | 3                  | Wilkin*         | 4                  |
| Lac Qui Parle* | 2                  | Wright          | 15                 |
|                |                    | Yellow Medicine | 2                  |
|                |                    | <b>Total</b>    | <b>897</b>         |

Note: 897 licenses in 51 counties. The remaining 36 counties have no 2 a.m. licensed establishments.

\* Denotes border counties. Dakota border includes only city of Hastings (6 licenses).  
St. Louis border includes only Duluth area (35 licenses).

**Metro vs. Greater Minnesota 2 a.m. License Breakdown  
as of October 6, 2004**

| <b>Area</b>       | <b>Number of Licenses</b> | <b>Percent</b> |
|-------------------|---------------------------|----------------|
| Statewide         | 897                       | 100%           |
| Metro (7-county)* | 564                       | 63%            |
| Greater Minnesota | 333                       | 37%            |

\*Seven counties are Anoka, Carver, Dakota, Hennepin, Ramsey, Scott and Washington.

**Optional 2 a.m. Closing License Summary**

| <b>Permit Levels</b>  | <b>Fee</b> |
|---|------------|
| Up to \$100,000 in gross receipts   | \$200      |
| \$100,000 to \$500,000 in gross receipts                                  | \$500      |
| More than \$500,000 in gross receipts                                     | \$600      |
| Businesses not selling on-sale for<br>12 months prior to license issuance | \$200      |
| Retailers of 3.2 percent malt liquor                                      | \$200      |

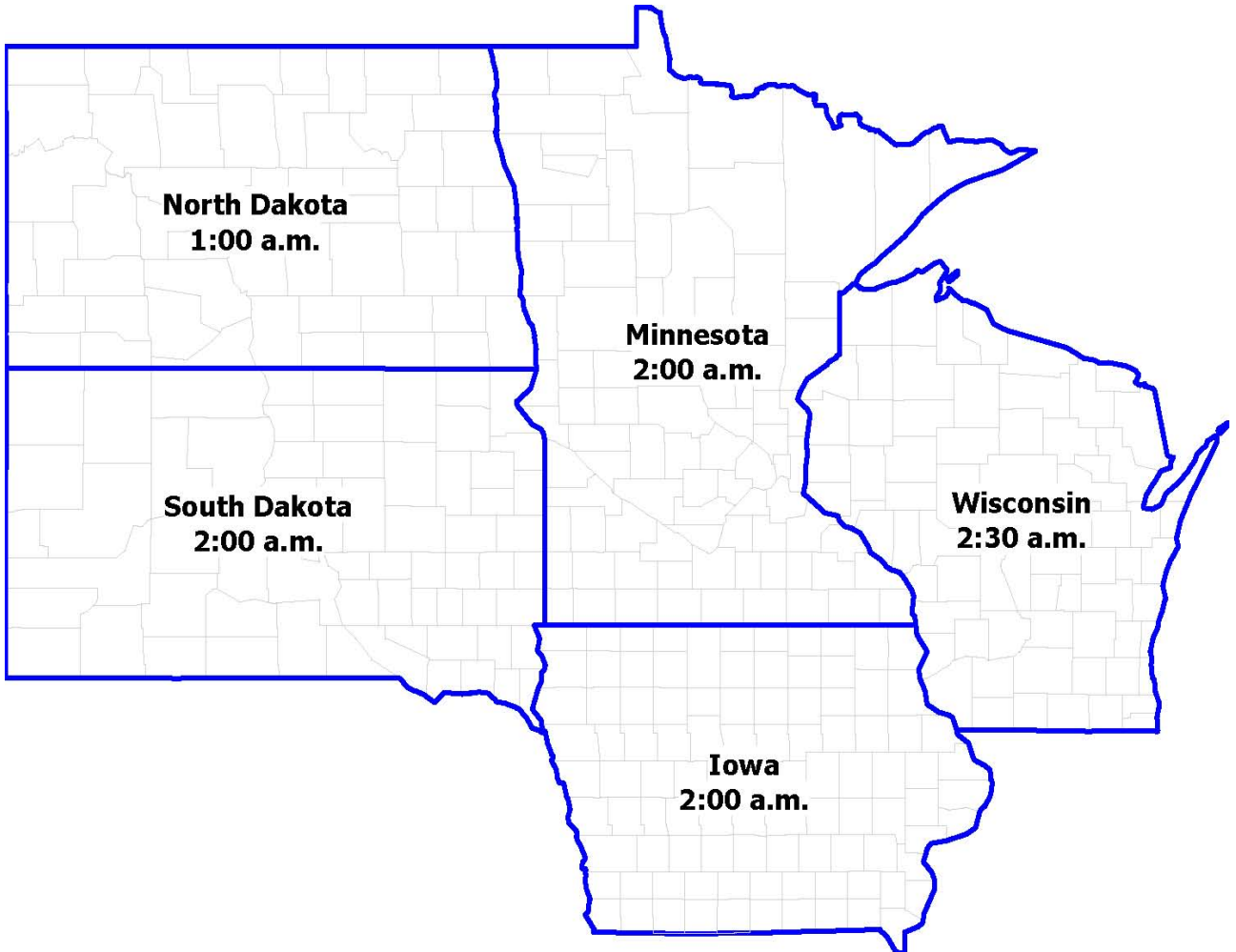
**Permits Issued for 2 a.m. Closing Time as of October 6, 2004**

*Information from Department of Public Safety, Alcohol and Gambling Enforcement Division*

| <b>Type of Permit</b> | <b>Number Issued</b> |
|-----------------------|----------------------|
| \$200 Permits         | 226                  |
| \$500 Permits         | 366                  |
| \$600 Permits         | 305                  |
| <b>Total</b>          | <b>897</b>           |

With the current number of permits and current distribution, annual fee revenues would be approximately \$400,000.

**Current Bar Closing Times  
for Minnesota and Neighboring States**



**DATE:** October 11, 2004

**TO:** Detroit Lake Regional Tourism Bureau  
Moorhead CVB  
Duluth CVB  
St. Cloud CVB  
Albert Lea CVB  
Mankato CVB  
Rochester CVB  
Apple Valley Chamber  
Bloomington CVB  
Burnsville CVB  
Eagan CVB  
Greater Minneapolis CVB  
Hastings Chamber & Tourism Bureau  
Inver Grove Heights CVB  
Lakeville CVB  
Minneapolis Metro North CVB  
Roseville Visitors Association  
Shakopee CVB  
St. Paul CVB  
Greater Stillwater Chamber of Commerce  
White Bear Area Chamber of Commerce

**FROM:** Colleen Tollefson  
800-657-3637 or 651-297-2635

**SUBJECT:** 2 a.m. Bar Closing

On July 1, 2003 the option for communities to allow 2 a.m. liquor sales went into effect. As a part of that legislation, the Department of Revenue, in consultation with the hospitality industry, is required to conduct a study on the amount of annual increase in state tax revenue as a result of the change in hours. The report is due by January 15, 2005.

Given the timeframe that the law has been in effect, this is a challenging task to accomplish. To help assess this impact, the following information is needed from each of your communities. Please save this document, complete the questions and e-mail it back to me by Wednesday, October 20. It is important that all communities respond to help in this estimation process. If you have questions, please call 800-657-3637 or e-mail: [colleen.tollefson@state.mn.us](mailto:colleen.tollefson@state.mn.us)



**Convention Activity and 2 a.m. Closing Law**

Name of Community/CVB: \_\_\_\_\_

Contact: \_\_\_\_\_ Phone: \_\_\_\_\_ E-mail: \_\_\_\_\_

1. Most Recent Annual Convention Information: Specify time frame: \_\_\_\_\_
- a) Number of conventions (limited to those with overnight stays): \_\_\_\_\_
  - b) Average number of attendees: \_\_\_\_\_
  - c) Average length of stay: \_\_\_\_\_

2. Spending Estimates per Delegate:
- a) What estimate do you use for average daily spending? \_\_\_\_\_
  - b) Is this estimate based on information from IACVB? \_\_\_\_\_ Yes  
\_\_\_\_\_ No

3. Changes in Convention Activity:  
Has your community identified an increase or decrease in convention activity (for conventions with overnight stays) due specifically to the 2 a.m. licensing change (exclude other factors such as economic growth, new facilities, changed funding levels, etc.)?

*If yes*, What is your estimate of the change in the number of conventions, per year?

*If no*,

- a) Do you expect increased/decreased convention activity in the future that is directly attributable to the change in the bar closing time?
  
- b) Expected change in number of conventions, per year (if available)?

4. What is your average lead time for booking conventions?

5. Other Comments:

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Please return by October 20, 2004 to: Colleen Tollefson via e-mail:  
colleen.tollefson@state.mn.us

## **Contacts with Hospitality Industry and Other Interested Parties**

### **September 22, 2004 Meeting with Industry Representatives**

### **October 28, 2004 Meeting with Industry Representatives**

#### **Attendees / Invitees for industry meetings**

DOR representatives

|                   |   |
|-------------------|---|
| Tom Day           | Hospitality MN                          |
| Maureen Scallen   | Minneapolis Convention and Visitors     |
| Shawn Corwin      | Bloomington Convention and Visitors     |
| Mike Polla        | Public Safety                           |
| Colleen Tollefson | Explore Minnesota Tourism               |
| Norman Foster     | Finance                                 |
| Brian Steeves     | Finance                                 |
| Brian Daugherty   | Duluth Convention and Visitors          |
| Brad Toll         | St. Paul Convention and Visitors        |
| Lorie Bushaw      | St. Paul Convention and Visitors        |
| Jim Farrell       | Minnesota Licensed Beverage Association |
| John Edman        | Explore Minnesota Tourism               |
| Joe Bagnoli       | McGrann Shea                            |
| Paul Wilson       | House Fiscal Analysis                   |
| MJ Hedstrom       | Senate Tax Committee Staff              |
| Tony Kwilas       | Minnesota Chamber of Commerce           |

#### **Other Contacts**

|                   |   |
|-------------------|---|
| Marlene Kjelsberg | Public Safety – Alcohol & Gambling Division |
| Al Erickson       | Public Safety – Alcohol & Gambling Division |
| Bob Isaacson      | Employment and Economic Development         |
| Neal Young        | Employment and Economic Development         |
| Art Adiarte       | Employment and Economic Development         |

#### **Others Contacted via Survey**

|                                       |  |
|---------------------------------------|--|
| Detroit Lakes Regional Tourism Bureau | Greater Minneapolis CVB                |
| Moorhead CVB                          | Hastings Chamber & Tourism Bureau      |
| Duluth CVB                            | Inver Grove Heights CVB                |
| St. Cloud CVB                         | Lakeville CVB                          |
| Albert Lea CVB                        | Minneapolis Metro North CVB            |
| Mankato CVB                           | Roseville Visitors Association         |
| Rochester CVB                         | Shakopee CVB                           |
| Apple Valley Chamber                  | St. Paul CVB                           |
| Bloomington CVB                       | Greater Stillwater Chamber of Commerce |
| Burnsville CVB                        | White Bear Area Chamber of Commerce    |
| Eagan CVB                             |  |