

SPECIAL CITY COUNCIL WORK SESSION

March 2, 2021

On-Line Meeting Via Webex

Following the

6:15 p.m.

THE PUBLIC MAY OBSERVE THE ON-LINE MEETING BY CALLING MARCIA GLICK, CITY MANAGER, AHEAD OF TIME AT 763-531-1258 FOR LOG-IN INSTRUCTIONS. THE PUBLIC WILL BE ABLE TO LISTEN BY CALLING +1-312-535-8110 AND ENTERING ACCESS CODE 177 652 5161 . IF PROMPTED, HIT #.

AGENDA

1. CITY COUNCIL WORK SESSION CALLED TO ORDER BY MAYOR PRO TEM
2. ROLL CALL: Kline, Webb, Selman, Backen, Mayor Blonigan
3. DISCUSSION: Liquor Manager, Chris Huber will share information on the operations of Robbinsdale Wine & Spirit and answer questions. The attachments to the agenda are from a publication by the Minnesota Municipal Beverage Association.
4. ADJOURNMENT

CAMPAIGN FOR A HEALTHY ALCOHOL MARKETPLACE

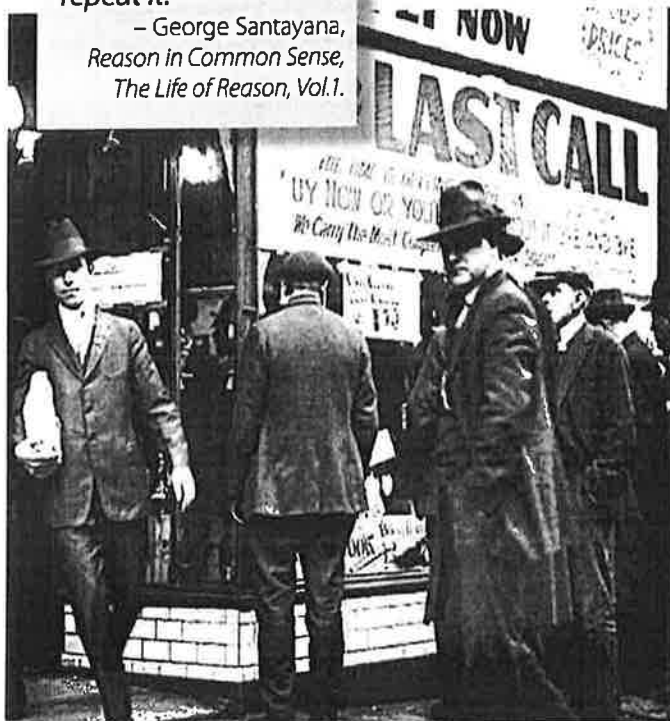


Aren't our alcohol regulations antiquated? Weren't they designed to prevent organized crime and other problems of Prohibition?

Today's alcohol regulations were primarily designed to prevent problems which occurred before Prohibition. As Historian W.J. Rorabaugh reminds us, "For generations, Americans had been heavy drinkers, and by 1900 saloons were identified with political corruption, prostitution, gambling, crime, poverty and family destruction." Prior to Prohibition alcohol was sold in a free-market scenario with little regulation. National manufacturers controlled the industry and owned retail saloons—called "tied houses" because they only sold one manufacturer's products. Almost all alcohol was consumed in these establishments, as three-quarters of saloons were tied houses. To compete, each national company saturated neighborhoods with multiple outlets, which were often located near factories to attract workers.

"Those who cannot remember the past are condemned to repeat it."

— George Santayana,
Reason in Common Sense,
The Life of Reason, Vol. I.



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Aggressive promotions encouraged high volume consumption and money was used to dissuade politicians from crackdowns.

Most of our alcohol regulations are designed to prevent companies from dominating local markets by heavily promoting large amounts of cheap alcohol. That is a very modern concern given the propensity of large corporations to do that with other commodities and to do that in countries where alcohol can be sold in virtual free-market scenarios.

The lessons from Prohibition are different. A primary lesson is that extreme measures applicable to the entire country with very little flexibility do not work. When alcohol problems occur, they usually manifest in a local area. Therefore, some level of local or state control is needed. Second, laws must have public support to be effective. As a result, our alcohol regulations are primarily state-based, allowing for differences, experimentation and varying levels of local control.

Currently, our regulations enjoy a **high** level of support as evidenced in numerous surveys. Based on a national survey published in 2000 by Alexander Wagenaar and his colleagues, the "results showed high levels of public support for most alcohol control policies." A more recent survey conducted for the Center for Alcohol Policy revealed the following:



89%

of adults agree that regulating alcohol is important



72%

agree that alcohol should not be sold in the same way as other consumer goods



4 in 5

adults are satisfied with convenience and variety of alcoholic beverages available in their community

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Since alcohol is a legal product, why can't it be sold like orange juice or any other legal product?

Most "legal" products are regulated to protect the public's health and safety. In the US, food products are regulated by the Food and Drug Administration to ensure that products are safe and that the contents match their labels. When regulation is weak or sloppy, we are at risk of food poisoning, food-borne illnesses, fraudulent packaging and other problems. For similar reasons, restaurants are regularly inspected locally to ensure that they serve only safe and healthy products. Fines and other penalties are issued to those in violation. No one would suggest that we should have no food regulations merely because the sale of food products is legal.

One highly regulated product in today's market is the automobile. Regulations require that each car sold must contain a long list of equipment to ensure its safety, fuel economy, and to reduce air pollution. Once you buy a car, there are more regulations to follow, including those for proper use of children's car seats, seat belts, safe driving speeds, and so on. Once again, no one would ever suggest that we should eliminate regulations just because the automobile is a legal product.

Cigarettes are highly regulated products that have some interesting parallels with alcohol. While cigarettes are legal to buy and smoke, there are many restrictions on their sale and use. You have to be at least 21 to purchase cigarettes in all 50 states. You may not smoke in many public places. And you may have to pay higher insurance fees if you are a smoker. We all know that the reason behind these regulations is the great harm cigarettes can cause to the human body, including to those who inhale passive smoke from others. Research has shown a definite connection between cigarette smoke and cancer and many other health problems.

Alcohol is unique in that it is invariably harmful when used to excess. The Centers for Disease Control and Prevention estimate that 88,000 deaths PER YEAR WERE ATTRIBUTED TO EXCESSIVE ALCOHOL USE FROM 2006 – 2010. In 2018, drunk driving alone caused 10,511 deaths. MADD estimates the price tag of drunk driving at \$132 billion a year. These data alone justify the need for significant regulation. It should be noted that after substantial reductions over the past years, drunk driving is now increasing. More work is needed.

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What are the benefits of the three-tier system of alcohol control?

The United States has a unique system that requires alcohol to be sold through three separate market tiers: manufacturer/supplier, wholesaler, and retailer.

Generally, the tiers must be separately licensed and owned, independent of one another. This prevents marketplace domination by large companies that seek to greatly increase the sale of alcohol through aggressive sales practices, or by controlling the entire alcohol distribution chain, from manufacturer to consumer.

Before Prohibition, large manufacturers dominated the alcohol marketplace by owning chains of retail establishments. They pushed the retailers to sell very aggressively to make high profits. A modern version of marketplace domination can be found in the United Kingdom, where four large grocery chains dominate the market and sell alcohol so cheaply that it has fueled an epidemic of alcohol-related illnesses. It is also believed that this domination has caused many traditional pubs to close since more people are drinking cheap alcohol at home.

The tiered system in the US keeps prices balanced, prohibits or inhibits aggressive sales practices, and allows both small and large operators to be profitable. This system also uses checks and balances from one tier to another to enforce many provisions, and the middle tier is used to collect taxes and track products (a function the government would otherwise have to perform at extra cost to the taxpayers).

At right is a general illustration of how the three-tier system works. Each state does it somewhat differently and all are subject to some federal regulations preventing ownership or financial ties between manufacturers and retailers. A publication that features just two of the benefits of the three tiered system called, "Safe and Sound: How the three-tier system of U.S. alcohol regulations helps ensure safe products and protects against revenue loss", is available at healthyalcoholmarket.com.

How the Three-Tier Alcohol Control System Supports a Healthy Alcohol Marketplace



Manufacturers

+



Distributors

+



Retailers

Financial Independence prevents business practices which promote increased and high-volume consumption through price reductions. (Ownership prohibited between sectors)

Functional Independence protects the integrity of the three-tier system by prohibiting ways to circumvent it. (One sector can't perform function of another)

Price Regulations prevent increased consumption that would occur by selling large quantities of very cheap product. (Uniform pricing, ban on volume discounts.)

Promotion and Advertising Regulations prevent business practices that target high-drinking groups and promote volume consumption.

Tax Collection provides for an efficient tax collection system.

Product Tracking prevents sale of tainted and counterfeit product.

Age Restrictions prevent sales to underage youth.

Availability Limits reduce consumption, social problems and burden on law enforcement.

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Why shouldn't alcohol be more convenient for customers to buy?

Today, large national chain grocers are arguing for loosening regulations in order to provide greater customer convenience. They argue that customers shouldn't have to go to several other stores for their alcohol. They should be able to have a "one-stop shop."

The first consideration for any change in alcohol regulation should be its impact on public health and safety, not customer convenience. Additional convenience for alcohol consumers would mean more stores, longer opening hours, and more forms of alcohol in more locations. A review of the research indicates that all of these things increase consumption, which leads to more social problems. This, in turn, puts a large and costly burden on social services and law enforcement. When regulations are relaxed, most of the additional alcohol sold is purchased by heavy drinkers, a category which also includes youth.

The fact is that today's shoppers routinely shop at several different stores during a given week. While large chains may want customers to only shop at their "one-stop shop" store, customers just don't do that. According to Business Insider reporter Hayley Peterson, "The grocery industry in the U.S. is undergoing some of the most dramatic changes since supermarkets emerged in the 1940s. Whereas a single store once served all of shoppers' food and beverage needs, consumers are now buying groceries across more than a dozen retail channels." Just letting all big chains sell alcohol won't necessarily improve convenience.

A second fact to be considered is that most citizens are not regular consumers of alcohol as revealed in a survey by the Centers for Disease Control and Prevention.



As one can see, 36% of Americans do not drink at all, and another 12% drink only a few times a year. In addition, 32% have three drinks or fewer per week, which means they buy less than a six pack of beer or one bottle of wine a week. This leaves moderate drinkers (1-2 drinks per day) and heavy drinkers (3 or more drinks per day) as regular alcohol customers. Thus, the expanded availability of alcohol would benefit only 20% of the population at most, but the increased social and law enforcement costs would be borne by every taxpayer.

Given these statistics, one should ask: "Isn't it sensible to inconvenience 20% of the population to protect the other 80% from the social ills and law enforcement costs that occur when problem drinkers have unlimited access to alcohol?"

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What is the problem with allowing more stores to sell alcohol?

We've always known that a neighborhood saturated with bars, liquor stores and other alcohol outlets can be a recipe for disaster. Now we have research that confirms this idea. The Centers for Disease Control and Prevention hosts an independent task force that reviews credible research. That group, the Community Preventive Services Task Force, recommends using regulatory authority, such as licensing and zoning, to limit outlets. Their research shows a positive link between the number of establishments selling alcohol, over-consumption and related harms.

Here are some examples of specific research findings: Two Indiana University professors reported on their analysis of crime and outlet density in Cincinnati. They found that off-premise outlets (grocery and convenience stores) were responsible for one in four simple assaults and one in three aggravated assaults. In another study of eight college communities, E. R. Weitzman and her team from the Harvard School of Public Health found that alcohol outlet density was correlated with heavy drinking, frequent drinking, and drink-related problems, particularly among women, underage students, and students who did not drink prior to coming to college.

Using alcohol regulation or local zoning to reduce outlet concentration can be complicated. It usually involves a process of establishing problem areas by mapping crime and nuisance incidents and locations of licenses. These are the areas where caution is needed when considering applications for new licenses. This is particularly true for the types of licenses that generate the most police calls, i.e., places where alcohol constitutes the bulk of sales.

In Glendale, Arizona, police found that the top six convenience stores for police calls cost the city \$39,000 a year. Four of those six had over 1,000 calls to police in just one year. While most licensees are responsible, adding many more outlets can overwhelm law enforcement. There are helpful resources available to guide local communities in dealing with this issue. The Center for Alcohol Marketing and Youth (camy.org) and the Community Anti-Drug Coalitions of America (cadca.org) have an action guide for use by local coalitions.

*The Community Preventive Services Task Force recommends "the use of regulatory authority (e.g., through licensing and zoning) to limit alcohol outlet density on the basis of sufficient evidence of a **positive association between outlet density and excessive alcohol consumption and related harms.**"*

– <https://www.thecommunityguide.org /topic/excessive-alcoholconsumption>

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Can't we save taxpayers some money by eliminating the liquor cops and using local law enforcement or state police instead?

Today, states are under great pressure to reduce budgets. All government agencies are vulnerable. However, budget changes which result in greatly reduced alcohol law enforcement can have serious consequences.

There are some disturbing trends. According to former Michigan regulator Pat Gagliardi, the burden for liquor enforcement has increased significantly. The number of licensees per liquor enforcement agent went up 22% from 2003 to 2012. While some states added staff, more of them decreased it. Some states have taken drastic steps to downgrade liquor law enforcement, adding this function to already burdened local or state law enforcement, or merging with other agencies such as lottery or tobacco.

All states should carefully review these kinds of proposals to clearly understand the losses and gains. While merging liquor enforcement with a criminal justice or other regulatory agency may gain some administrative efficiency, it may result in less effective liquor law enforcement. Here are some potential impacts of such a measure:

Loss of effective industry partnerships: Regulating the alcohol industry is very different from enforcing criminal laws. It requires an effective and active working relationship with the regulated community. The reason is that major responsibilities for prevention of problems are placed on the shoulders of licensees. These include stopping sales to minors and intoxicated persons. For these functions the retail licensee is the front line of defense. Substantial responsibilities are also required of licensed wholesalers. They collect the excise tax. They must track every bottle and can to guard against fake and tainted products. When a damaged product is identified, they must quickly remove it from the market. In some states, wholesalers are required to implement pricing regulations to prevent price wars. Such price practices invariably increase consumption, particularly among young people.

Loss of voluntary compliance: One of the most cost-effective enforcement strategies is voluntary compliance. No system of law or regulation can work by intensely scrutinizing and policing all laws and all those subject to regulation. It would be too big of a job requiring enormous resources. All systems—from criminal law to child labor regulations—count on compliance by most parties. The partnership between regulatory enforcement and the regulated community, which seeks to maximize compliance, is very cost-effective and saves taxpayer dollars.

Such compliance is usually achieved through education and communication. The aim is to obtain a high level of voluntary compliance because this reduces the need for more labor-intensive techniques such as investigation of complaints, compliance checks, and random audits or observations. When traditional law enforcement agencies are given the additional responsibility for liquor law enforcement, they simply may not have the time or resources to invest in the education and communication needed for good relationships with the regulated industry.

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Isn't alcohol regulation bad for business? Shouldn't we loosen alcohol regulation to help local business?

The answer is generally "no" to both questions. In fact, for most businesses, alcohol regulation offers some real benefits. While the system sometimes seems cumbersome and a business owner may wish for a free market system, most free markets end up benefiting only a few large companies. The states' alcohol regulatory systems are designed to foster alcohol moderation, prevent underage drinking and other problems **AND to allow the owners of all sizes and types of businesses to make a reasonable profit.** While the overall purpose of regulation is public health and safety, policy-makers should also consider the following benefits to business:

The Three-Tier System prevents market domination:

Look at the soda pop shelf in your grocery store and you have an idea of what alcohol might look like in a deregulated environment. The soda space is dominated by two major companies. The alcohol regulatory system requires that alcohol be sold through three separate, independent tiers: manufacturer, wholesaler and retailer. In addition, most states require price policies that level the playing field. For example, uniform price laws require the wholesaler to sell their products at the same price to all retailers. This means the large corporation can't get a better deal than the local mom-and-pop store. It also keeps prices from going so low that "bargains" encourage people to drink more.

Regulations reduce some costs of doing business:

For most commodities, large grocery stores require slotting fees; that is, payments made to the grocer to assure products a place on their shelves. Manufacturers and wholesalers may also have to stock shelves, pay for advertising, provide promotional point-of-sale items, and buy refrigerated units. These are generally illegal for alcohol products. If controls are removed, small players would not be able to get their product to market without paying for these "extras."

Freedom from price wars and other forms of market volatility:

Most states have several ways of keeping the price of alcohol balanced, i.e., not low enough to encourage volume consumption, nor so high as to encourage bootlegging and illegal importation. Laws such as bans on volume discounts and selling below cost, keep prices reasonably stable. Without these laws, large corporations

with huge economic buying power would undercut small—usually local—businesses, and possibly put them out of operation.

Product tracking protects against unwarranted business ruination:

Even the best manufacturing companies can make a mistake that creates a tainted batch or product. In today's market, even minor problems with product quality can ruin a company or disrupt a commodity market. This is much less likely to happen in the alcohol marketplace because wholesalers are required to track every bottle and can. With this system, a problem batch or product can be quickly identified and removed from the retail shelf. This minimizes harm and can save a business.

Predictability:

Because the regulations keep the alcohol marketplace balanced and free from extreme volatility, business owners can have confidence in their investments. Predictability reduces risks and makes business planning easier.

Compliance with regulations helps prevent neighborhood and community problems:

Most business people find that a clean and safe neighborhood is good for business. Alcohol regulations help. By preventing sales to underage youth and intoxicated people, fewer neighborhood problems are likely.

Policy-makers should consider these points very carefully when alcohol deregulation measures are under review. While being free of regulations may sound good, the reality is often very different. Remember that the change in rules must apply to all licensees. For example, if the law requiring uniform prices is abandoned, wholesalers would then be allowed to give some retailers special prices. Who would get that special price and how would that impact local businesses? Chances are that large, global corporations would be the only ones getting the best deals because they alone can buy a very large volume of product. Thus, a so-called "free market" would only benefit a few companies.

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