

# Minnesota's System of Liquor Regulation

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# House Research Department

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- House Research website for commerce:  
<https://www.house.mn.gov/hrd/topics.aspx?topic=3>
- Nonpartisan staff provides bill and amendment drafting, legal and policy analysis

# Terms

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- Liquor means alcoholic beverages (beer, wine, and spirits)
- Manufacturer (producer, brewer, distiller, etc.)
- Importer (from outside Minnesota)
- Wholesaler/distributor
- Retailer
  - Off-sale – Sales for consumption off the premises (liquor stores)
  - On-sale – Sales for consumption on the premises (restaurants)

# State and federal role in regulation

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- 21<sup>st</sup> amendment allows state control
- Very little federal regulation in this area
  - Limited to permits and labeling
- Constitutional limits (economic protectionism)

# Pre-prohibition era (1/2)

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- Tied-houses (regional monopolies, overconsumption, exclusive retailers)
- Social harm concerns

# Pre-prohibition era (2/2)

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- States struggled to regulate liquor
- Wilson Act (1890)
- Webb-Kenyon Act (1913)

# Prohibition

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- 18<sup>th</sup> amendment (1920)
  - After one year from the ratification of this article the manufacture, sale, or transportation of intoxicating liquors within, the importation thereof into, or the exportation thereof from the United States and all territory subject to the jurisdiction thereof for beverage purposes is hereby prohibited.
- Did not prohibit purchase and consumption
- Nonintoxicating liquor

# Post-prohibition era (1/3)

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- 21<sup>st</sup> amendment (ratified in 1933)
  - **Section 2.** The transportation or importation into any state, territory, or possession of the United States for delivery or use therein of intoxicating liquors, in violation of the laws thereof, is hereby prohibited.
- Basis for modern regulatory system



# Post-prohibition era (2/3)

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- Allowed state control
  - Control states – state controls aspects of sale and distribution
  - 3-tier system states – separate industry into 3 regulated tiers

# Post-prohibition era (3/3)

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- In a pure 3-tier system:
  - Manufacturers only sell to wholesalers
  - Wholesalers only sell to retailers
  - Retailers only sell to consumers

# Minnesota's *modified* 3-tier system

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- Vertical integration limited
- Each tier is licensed and regulated under chapter 340A
- Exceptions for small producers
- Local authority over retail

# Modifications to the 3-tier system

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- Brewpubs, microbreweries, microdistilleries, farm wineries
- Market shifts toward small producers

# 2022 omnibus liquor bill

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- Cocktail rooms
- Growler cap
- Microbrewery off-sale
- Liquor stores (citrus fruit and glassware sales)

# Local authority

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- Municipalities have significant authority to regulate liquor
- Municipal liquor stores – may monopolize off-sale
- Can be more restrictive
- Issues most but not all on- and off-sale licenses

# Special liquor laws

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- State or local limitations
- Allows a specific municipality to issue a specific license

# Enforcement

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- Municipalities and DPS may revoke or suspend certain licenses
- Also zoning and other ordinances, criminal prosecution, civil penalties
- Alcohol and Gambling Enforcement Division of the Department of Public Safety



# Dram shop liability

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- Personal injury liability for liquor retailers
- All liquor retailers must purchase insurance for this
- Does not apply to some small retail operations

# 3.2 beer

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- 3.2 beer is roughly 4% ABV
- Minnesota is the only remaining state with 3.2 laws
- Less regulated

# Resources

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- House research special liquor law lookup tool:  
<https://www.house.mn.gov/hrd/liquor.aspx>
- House research publications on liquor:  
<https://www.house.leg.state.mn.us/hrd/topics.aspx?topic=3>
- Alcohol and Gambling Enforcement:  
<https://dps.mn.gov/divisions/age/Pages/default.aspx>
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# Gambling in Minnesota

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# Types of gambling in Minnesota

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- Charitable (lawful) gambling – chapter 349
- Lottery – chapter 349A
- Pari-mutuel horse racing – chapter 240
  - Card clubs
- Tribal casinos

# Charitable gambling (1/3)

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- Conducted by charitable 501(c)(3) organizations on permitted premises
  - License required
  - Booth and bar operations
- Authorized games include:
  - Pull tabs (paper and electronic), bingo (paper and electronic), paddlewheels, raffles, and tipboards

# Charitable gambling (2/3)

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- Use of proceeds
  - Allowable expenses
    - Expenses directly related to the conduct of gambling
      - Compensation, rent, game development
  - Lawful purpose expenditures
    - Charitable missions
    - Taxes (federal, state, and local)

# Charitable gambling (3/3)

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- Agency regulation and oversight
  - Gambling Control Board – licensing, permits, audits, and game approval
  - Dept. of Revenue – collect taxes, audits
  - AGE – investigations into illegal gambling and criminal violations



# State Lottery

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- Tickets sold by licensed retailers (in-person sales only)
- Lottery net proceeds
  - 40 percent – environment and natural resource fund (constitutional)
  - 60 percent – general fund
- In lieu sales tax proceeds
  - Various legacy funds (84 percent)
- Agency regulation and oversight – MN State Lottery

# Pari-mutuel horse racing

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- Conducted at licensed racetracks
  - 2 licensed tracks in state (Canterbury Park and Running Aces)
  - Live racing and simulcast
- Racing tax proceeds
  - 6 percent of takeout over \$12 million – general fund
  - 1 percent of total amount bet – MN breeder's fund
- Agency regulation and oversight – MN Racing Commission

# Racetrack card club operations

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- Both racetracks licensed to offer card-themed games
  - Table games and touchscreen games
    - i.e. – blackjack, baccarat, poker
- Portion of revenue used for purse payments
  - 10 percent of revenue between \$0-\$6 million
  - 14 percent of revenue above \$6 million
- Agency regulation and oversight – MN Racing Commission

# Tribal casinos

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- 19 total casinos operated by the 11 federally recognized Tribes
- State/Tribal compacts provide:
  - Types of class III games authorized at casinos
  - State regulatory authority, if any
  - Revenue sharing arrangements, if any

# Sports betting

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- A 2018 Supreme Court case held a federal law prohibiting states from authorizing sports betting to be unconstitutional
- 39 states offer either mobile betting, retail betting, or both
- Remains unlawful in Minnesota

# Helpful resources

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## House Research publications:

- American Indians, Indian Tribes, and state government
  - Gaming Regulation in Indian County – page 55
- Charitable Gambling in Minnesota (published 2015)
- Charitable Gambling Taxes

# Questions?



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