
HOUSE RESOLUTION

URGING THE DEPARTMENT OF HEALTH TO REFRAIN FROM IMPOSING ANY INCREASE TO THE NON-REFUNDABLE DEPOSIT BEVERAGE CONTAINER FEE UNTIL THE AUDITOR HAS COMPLETED AN UPDATED MANAGEMENT AND FINANCIAL AUDIT OF THE DEPOSIT BEVERAGE CONTAINER PROGRAM.

1 WHEREAS, Act 176, Session Laws of Hawaii 2002, established
2 the deposit beverage container recycling program ("program"),
3 which was intended to increase recycling rates and reduce
4 litter; and

5
6 WHEREAS, the program, as currently administered by the
7 Department of Health ("Department"), collects a fee of six cents
8 on each deposit beverage container sold in the State; and

9
10 WHEREAS, the six cent fee is passed on to consumers,
11 resulting in increased beverage prices; and

12
13 WHEREAS, the six cent fee is comprised of a refundable five
14 cent deposit that consumers may redeem by recycling the
15 containers at redemption centers and a one cent non-refundable
16 deposit beverage container fee to subsidize redemption center
17 operations; and

18
19 WHEREAS, all revenues generated by the five cent deposit
20 and the one cent container fee are placed into a deposit
21 beverage container special fund; and

22
23 WHEREAS, moneys in the special fund are used to reimburse
24 the five cent refund values to consumers and to pay handling
25 fees to the redemption centers; and

26
27 WHEREAS, the special fund was also intended, in part, to
28 fund the administrative, audit, and compliance activities
29 associated with the collection and payments of the deposits and
30 handling fees of the program, conduct recycling education,
31 promote recyclable market activities, support the handling and
32 transportation of the deposit beverage containers to end-



1 markets, hire personnel to implement the program, and fund
2 associated office expenses; and

3
4 WHEREAS, Hawaii is one of only two states where redemption
5 funds are managed by the State, and therefore the Legislature
6 mandated that the Auditor periodically audit the program; and

7
8 WHEREAS, section 342G-107, Hawaii Revised Statutes,
9 requires the Auditor to conduct a management and financial audit
10 of the program for fiscal years 2004-2005 and 2005-2006, and for
11 each fiscal year thereafter in an even-numbered year, and to
12 submit the audit report, including the amount of unredeemed
13 refund value and recommendations, to the Legislature and the
14 Department no later than twenty days prior to the convening of
15 the next regular session; and

16
17 WHEREAS, the November 2005 audit of the program concluded
18 that the Department had failed to establish a financial
19 accounting system to ensure that transactions are properly
20 recorded and reported and that assets are safeguarded; and

21
22 WHEREAS, the November 2005 audit further concluded that the
23 program lacked numerous internal controls over cash receipts and
24 disbursements and financial reporting which created
25 opportunities for potential abuse and untimely financial
26 reporting; and

27
28 WHEREAS, the Auditor has not submitted audit reports since
29 November 2005, and consequently, the Legislature has not
30 received audits for 2006, 2008, and 2010; and

31
32 WHEREAS, despite the Department's efforts to improve the
33 program and the management of the special fund, there has been
34 no subsequent management and financial audit to otherwise refute
35 the findings and recommendations in the November 2005 audit; and

36
37 WHEREAS, the Department's December 2010 annual report to
38 the Legislature on solid waste management detailed that the
39 program's solvency is contingent on a low recycling and
40 redemption rate, because the one cent container fee is
41 insufficient to cover the handling fees paid to redemption
42 centers. The report further stated:



1 "As of June 30, 2010, the [Deposit Beverage Container]
 2 special fund had about \$14 million remaining after
 3 encumbrances. The Program must rely on the fund's
 4 reserves to sustain itself to keep up with the high
 5 rates of deposit refunds. This is because the Program
 6 pays out more than it collects per container. While
 7 the Program collects 6 cents per container (deposit
 8 plus container fee), it pays 7 to 9 cents per
 9 container (5 redemption plus 2-4 cents handling fee).
 10 The Program relies on the percentage of unredeemed
 11 deposits to sustain itself. As the percentage of
 12 unredeemed deposits shrinks, due to the high number of
 13 deposits being refunded, then the Program must utilize
 14 the fund's reserves or increase the container fee to
 15 sustain itself"; and
 16

17 WHEREAS, the Department's December 2009 report to the
 18 Legislature on the activities of the program stated that, aside
 19 from moneys expended to refund the five cent deposit, for the
 20 period of October 2002 through June 2009, the Department paid
 21 \$63,000,000 in handling fees to redemption centers and
 22 \$17,000,000 in administrative expenses, reverse vending machine
 23 rebates, infrastructure improvement grants, and county support;
 24 and
 25

26 WHEREAS, the 2010 solid-waste report stated that, aside
 27 from moneys expended to refund the five cent deposit, in fiscal
 28 year 2010 alone the Department paid \$18,500,000 in handling fees
 29 to redemption centers and \$2,500,000 in administrative expenses;
 30 and
 31

32 WHEREAS, the 2009 report and the 2010 solid-waste report
 33 collectively indicate that, from October 2002 through the fiscal
 34 year 2010, the Department paid more than \$81,000,000 in handling
 35 fees to redemption centers and more than \$19,000,000 in
 36 administrative expenses; and
 37

38 WHEREAS, under the program, the Department has collected
 39 approximately \$400,000,000 in fees and deposits from Hawaii
 40 consumers, yet has operated with little external oversight of
 41 the program and special fund; and
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43 WHEREAS, the non-refundable one cent container fee raises
 44 beverage prices in Hawaii by at least \$10,000,000 each year; and



1
2 WHEREAS, the Department has indicated its intent to
3 increase the non-refundable one cent container fee as early as
4 September 1, 2012, and has claimed that additional funds are
5 required for the program; and
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7 WHEREAS, section 342G-102, Hawaii Revised Statutes,
8 authorizes the Department to increase the non-refundable
9 container fee from one cent to 1.5 cents per container if the
10 redemption rate is greater than seventy per cent; and
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12 WHEREAS, the Department maintains that currently, the
13 redemption rate is greater than seventy per cent; and
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15 WHEREAS, any increase in the non-refundable container fee
16 would further escalate beverage prices in Hawaii by an
17 additional \$5,000,000 to \$10,000,000 each year; and
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19 WHEREAS, this increase in beverage prices would be passed
20 on to consumers; and
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22 WHEREAS, in light of the Auditor's November 2005 findings
23 of an inadequate financial accounting system and the lack of
24 internal controls, and given the significant sums expended from
25 the special fund, the Department's expenditure reports are
26 insufficient to assess whether the special fund has been
27 appropriately managed for its intended purpose; and
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29 WHEREAS, until the Auditor completes a current audit to
30 attest to the management and financial integrity of the program
31 and the special fund, any increase in the non-refundable
32 container fee is an unjustifiable economic burden on consumers;
33 now, therefore,
34

35 BE IT RESOLVED by the House of Representatives of the
36 Twenty-sixth Legislature of the State of Hawaii, Regular Session
37 of 2012, that the Department is urged to refrain from imposing
38 any increase to the non-refundable deposit beverage container
39 fee until the Auditor has completed an updated management and
40 financial audit of the deposit beverage container recycling
41 program; and
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43 BE IT FURTHER RESOLVED that the Auditor is requested to
44 conduct a management and financial audit of the program,



1 pursuant to section 342G-107, Hawaii Revised Statutes, and
2 address among other things:

- 3
- 4 (1) The concerns reported in the November 2005 audit as to
- 5 the Department's lack of accounting and internal
- 6 controls for the program and special fund;
- 7
- 8 (2) The Department's current management of the program and
- 9 the special fund;
- 10
- 11 (3) Whether past expenditures from the special fund were
- 12 consistent with the purpose of the program;
- 13
- 14 (4) The results and continued financial viability of the
- 15 program; and
- 16
- 17 (5) Whether any increase to the non-refundable deposit
- 18 beverage container fee may be justified for consumers;
- 19 and
- 20

21 BE IT FURTHER RESOLVED that the Auditor is requested to
22 submit the audit to the Legislature at least twenty days prior
23 to the convening of the Regular Session of 2013; and
24

25 BE IT FURTHER RESOLVED that the Auditor is requested to
26 submit biennial audits of the program, in accordance with
27 section 342G-107, Hawaii Revised Statutes, thereafter; and
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29 BE IT FURTHER RESOLVED that certified copies of this
30 Resolution be transmitted to the Auditor and the Director of
31 Health.
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OFFERED BY:

[Handwritten signatures and names]

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 Linda Chiyama
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