LATE TESTIMONY

Representative Angus McKelvey, Chair
Representative Isaac Choy, Vice Chair
Committee on Economic Revitalization & Business

Representative Denny Coffman, Chair
Representative Derek Kawakami, Vice Chair
Committee on Energy & Environmental Protection

HEARING Thursday, March 29, 2012
9:40 am
Conference Room 312
State Capitol, Honolulu, HI 96813

RE: HCR202 / HR156: 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

Chairs McKelvey and Coffman, Vice Chairs Choy and Kawakami, and Members of the Committees:

Retail Merchants of Hawaii (RMH) is a not-for-profit trade organization representing 200 members and over 2,000 storefronts, and is committed to support the retail industry and business in general in Hawaii. Through November 2011, retail generated $25.6 billion in sales and paid over $1 billion in GET. The retail industry is one of the largest employers in the state, employing 25% of the labor force.

RMH supports HCR202 / HR156, which urges 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 an financial audit of the Deposit Beverage Container Program.

The cost of living in Hawaii is the highest in the nation, and it behooves government to be mindful of actions that deliberately add to that burden, particularly when the impact will be greatest on those citizens who can least afford increased costs. Market conditions, competition, and laws dictate prudent business decisions. Government must be held to the same standard.

We urge you to pass HCR202 / HR156. Thank you for the opportunity to testify.

Carol Pregill

Carol Pregill, President

RETAIL MERCHANTS OF HAWAII
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Honolulu, HI 96814
ph: 808-592-4200 / fax: 808-592-4202

PEPSI BEVERAGES COMPANY

LATE TESTIMONY

March 29, 2012

Representative Angus McKelvey, Chair
House Committee on Economic Revitalization & Business

Representative Denny Coffman, Chair
House Committee on Energy & Environmental Protection

Hawaii State Capitol, Conference Room 312
Thursday, March 29, 2012 - 9:40 a.m.

Re: HCR 202 and HR 156 - Audit; Deposit Beverage Container Program

Chairs McKelvey and Coffman, Vice Chairs Choy and Kawakami, and Committee members:

My name is Gary Yoshioka, General Manager of The Pepsi Beverages Company Hawaii ("Pepsi"), testifying in support of HCR 202 and HR 156, which urges 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.

Our company continues to do everything that we can make the operation of the redemption program simple for our retail customers and to make sure consumers know how to get their deposits back. In short, we are doing our part to make this program work and to comply with all aspects of the law.

In addition, we must emphasize that the redemption system is very costly to operate and with the introduction of new products, we incur administrative expenses to ensure compliance with the program. The visible costs to consumers come in the form of the 1¢ container tax and the loss of deposits for those that do not redeem containers. Not every consumer who forfeits a deposit does so because they can afford to give up the money - it also happens because consumers don't have the time or ability to get empty containers to redemption centers.

The invisible costs of the system add up in the time and effort required to redeem containers - setting aside containers, making special trips to redemption locations, waiting in line - research in deposit states shows that those costs are significant and add up to real money for consumers. An audit will ensure that the millions of dollars in collected fees and unredeemed containers are properly expended and accounted for as prescribed in the law that established the program.

Pepsi respectfully asks the Committee to consider the commitments that were made to consumers, retailers, and the beverage industry during the contemplation of the bottle bill that established the deposit beverage container program. On behalf of The Pepsi Beverages Company Hawaii, thank you for the opportunity to testify.

HAWAII MARKET UNIT, 99-1325 HALAWA VALLEY STREET, AIEA, HI 96701

Coca-Cola Bottling Company of Hawaii

LATE TESTIMONY

a COCA-COLA ENTERPRISES company

949 Mapunapuna Street
Honolulu, HI 96819
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Representative Angus McKelvey, Chair
Representative Isaac Choy, Vice Chair
House Committee on Economic Revitalization & Business

Representative Denny Coffman, Chair
Representative Derek Kawakami, Vice Chair
House Committee on Energy & Environmental Protection

Thursday, March 29, 2012
9:40 a.m., Conference Room 312

RE: HCR 202/HR 156 - 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

Chairs McKelvey and Coffman, Vice Chairs Choy and Kawakami, and Members of the Committees:

My name is Michelle Tang, Distribution Center Manager at Coca-Cola Bottling Company of Hawaii (Coca-Cola), **testifying in support of HCR 202/HR156**. This Resolution discourages the Department of Health from unilaterally increasing the container tax without fulfilling its obligations under the law – to have the finances of the program audited on a regular basis and to address prior concerns raised in a 2005 audit about the use of funds.

An active participant in "bottle bill" discussions over a decade ago, Hawaii beverage manufacturers expressed concerns that the deposit beverage container special fund would someday be raided to support the State's general fund. It was our assertion then that this fund should be managed with the highest level of fiscal scrutiny to assure prudent use of the fund to avoid an increase in the beverage container deposit fee. Without that scrutiny, the beverage industry and Hawaii consumers would then be expected to fund shortfalls in the program via an increased fee.

To the extent that program funds are being used to support extra handling fees, special grants, the State's general fund (Act 192 of 2010), and other non-core purposes, it raises the prospect of increasing costs to consumers again. A comprehensive audit will examine and address these concerns.

Failure to conduct statutorily-required audits, especially when the sole audit that was conducted raised serious concerns, is troubling to our industry. We appreciate the Legislature's review of this issue and the opportunity to testify in support of HCR 202/HR 156.

LATE TESTIMONY

ITO EN

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Committee on Economic Revitilization & Business
Rep. Angus L.K. McKelvey, Chair
Rep. Isaac W. Choy, Vice Chair

Committee on Energy & Environmental Protection
Rep. Denny Coffman, Chair
Rep. Derek S.K. Kawakami, Vice Chair

Date: Thursday, March 29, 2012
Time: 9:40 a.m.
Place: Conference Room 312
State Capitol
415 South Beretania Street

RE: HCR 202 – SUPPORT

Chairs McKelvey and Coffman, Vice Chairs Choy and Kawakami, and Members of the Committees:

My name is Leighton Horiuchi, President of ITO EN (USA) Inc., testifying in **support** of HCR 202 and HR 156. To put it simply, the State needs to follow through in accounting for funds it collects and spends by conducting the independent audits on the Hawaii Deposit Beverage Container Fee Reporting required by law. Without such audits there is no unbiased financial report that can account for:

a) how much money has been collected,
b) how is the money being managed,
c) what the money is spent on and
d) how much money is remaining in the fund.

Without a proper accounting of a, b, c and d how can businesses and consumers believe the Department of Health's purported redemption rate is accurate and trustworthy? How can businesses and consumers be assured the Department's request for a rate hike in deposit fees is in fact to support the purpose of the redemption program and will not result in diverted funds used for other purposes, such as the $1.3 million lawmakers took from the program's reserves to help balance the State budget.

The container fee has a tremendous overall impact to beverage prices in Hawaii, the beverage industry estimates the half-cent proposed rate hike could result in $4.5 million in fees. As a business we cannot absorb this cost and will be forced to pass it on to our customers. Such a fee hike should not be passed without sound financial basis.

Businesses and consumers expect accountability from our State government.

LATE TESTIMONY

NEIL ABERCROMBIE
GOVERNOR OF HAWAII

LORETTA J. FUDDY, A.C.S.W., M.P.H.
DIRECTOR OF HEALTH

STATE OF HAWAII
DEPARTMENT OF HEALTH
P.O. Box 3378
HONOLULU, HAWAII 96801-3378

In reply, please refer to:
File:

HOUSE COMMITTEE ON ECONOMIC REVITALIZATION & BUSINESS

HOUSE COMMITTEE ON ENERGY & ENVIRONMENTAL PROTECTION

HCR 202, 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.

Testimony of Loretta J. Fuddy, A.C.S.W., M.P.H.
Director of Health

March 29, 2012
9:00 a.m.

Department's Position: The Department of Health respectfully opposes this measure as it is unnecessary.

Fiscal Implications: Increasing the container fee from 1 cent per container to 1.5 cents per container would increase program revenue by approximately $4.5 million.

Purpose and Justification: This measure urges the Department of Health to refrain from increasing the non-refundable deposit beverage container fee until the auditor has completed an updated management and financial audit of the deposit beverage container recycling program.

The Deposit Beverage Container (DBC) Program's revenue is derived from the 5 cent refundable deposit and 1 cent non-refundable container fee collected on each eligible deposit container sold in the state. FY2010-11 revenue was approximately $55 million based on approximately 907 million deposit containers.

The bulk of the DBC program's expenditures are redeeming the 5 cent deposit to consumers and paying the two to four-cent handling fee to recyclers on each redeemed container. FY 2010-11 deposit redemption and handling fee payments totaled $55 million.

Because individual container payouts are greater than the individual container revenue the program is designed to operate on the reserves created by un-redeemed containers. However, reserve levels decrease as redemption levels increase. Redemption and handling fee payments begin to exceed revenues when the redemption rate reached approximately 76%. A trigger to automatically increase the container fee to 1.5 cents per container exists in statute to allow the program to maintain adequate operating funds. The trigger is set below the break-even point (70% redemption rate) to avoid having reserve funds fall below sustainable levels. With monthly expenditures averaging $5 million, the program ideally strives to maintain a minimum fund balance of $15 million, or three months worth of expenditures. The fund balance has been steadily decreasing and is approaching the minimum operating balance as indicated in Chart 1 (attachment).

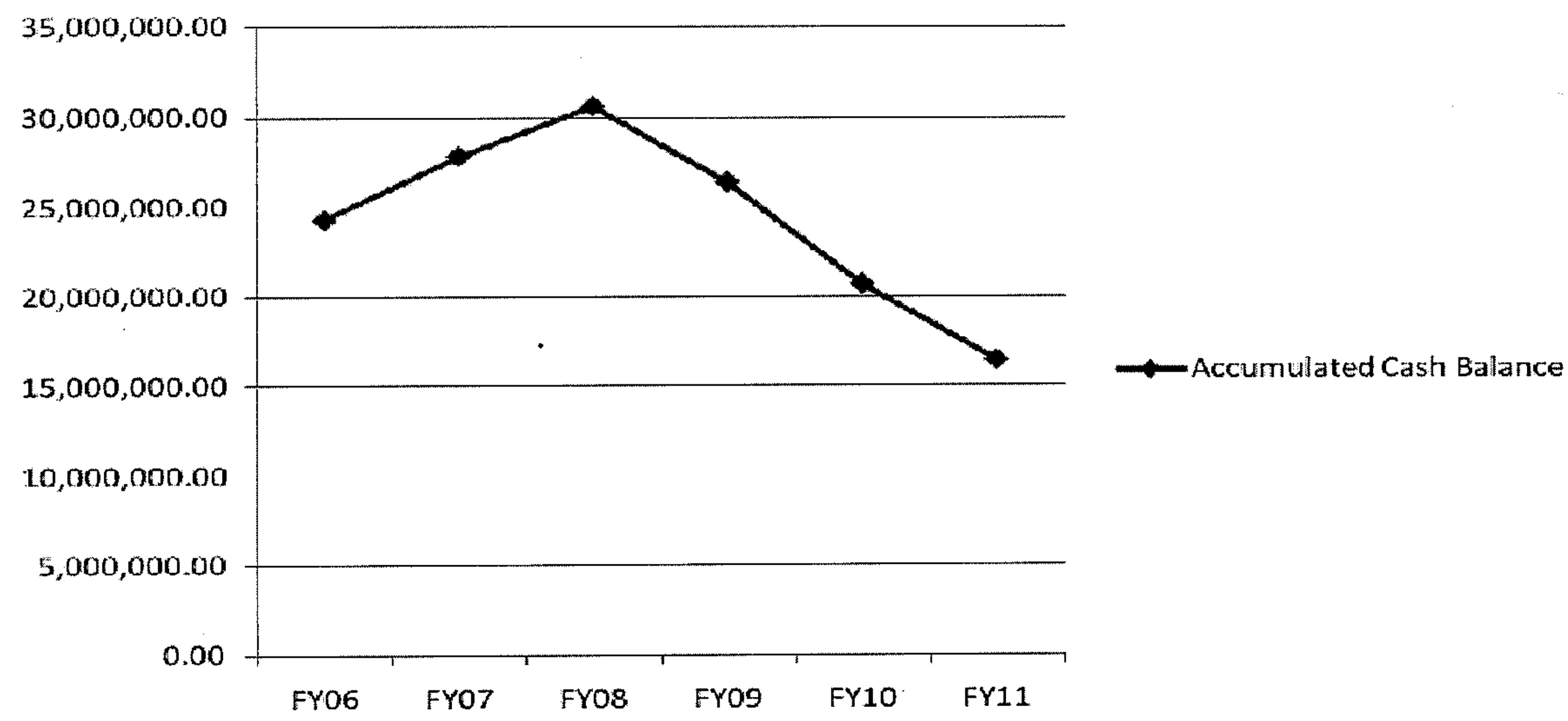
Redemption rates first exceeded 70% in FY 2007-08 and have remained above that level since. The department, however, has never increased the container fee as it has the ability to temporarily suspend the automatic increase. The department continually monitors revenues, expenditures and the program's fund balance. An adequate fund balance has enabled the department to absorb the higher expenditures and avoid the imposition of higher costs on beverage consumers.

However, the program's revenue situation has taken a serious turn in the past two years. Fund transfers to the General Fund totaling $1.3 million were made in FY 2010-11. Additionally, Act 79 (SLH 2009) had a two-fold impact on program revenues. First, it removed the program's exemption from the Central Services Fee charged by the Department of Accounting and General Services for the management of the special fund. The fee of 5% is charged on all revenue in the fund and amounted to approximately $5.6 million over the past two fiscal years. A second provision of Act 79 allowed the transfer of interest earned by the DBC fund to the General Fund. Lost interest income is approximately $1.2 million per year. Collectively these actions have reduced program revenue by approximately $9.3 million over the fiscal years 2009-10 and 2010-11. Chart 2 (attachment) indicates the program's revenue and expenditure trends.

The department does not wish to increase the container fee, however, consistent with past practices, the department will analyze redemption data for FY 2011-12 and will determine a course of action consistent with program needs and the applicable statutory requirements. The most expedient option to prevent an increase of the container fee is to rescind Act 79 (SLH 2009) as it currently applies to the DBC Program.

Thank you for the opportunity to testify on this measure.

Chart 1
DBC Program
Accumulated Cash Balance



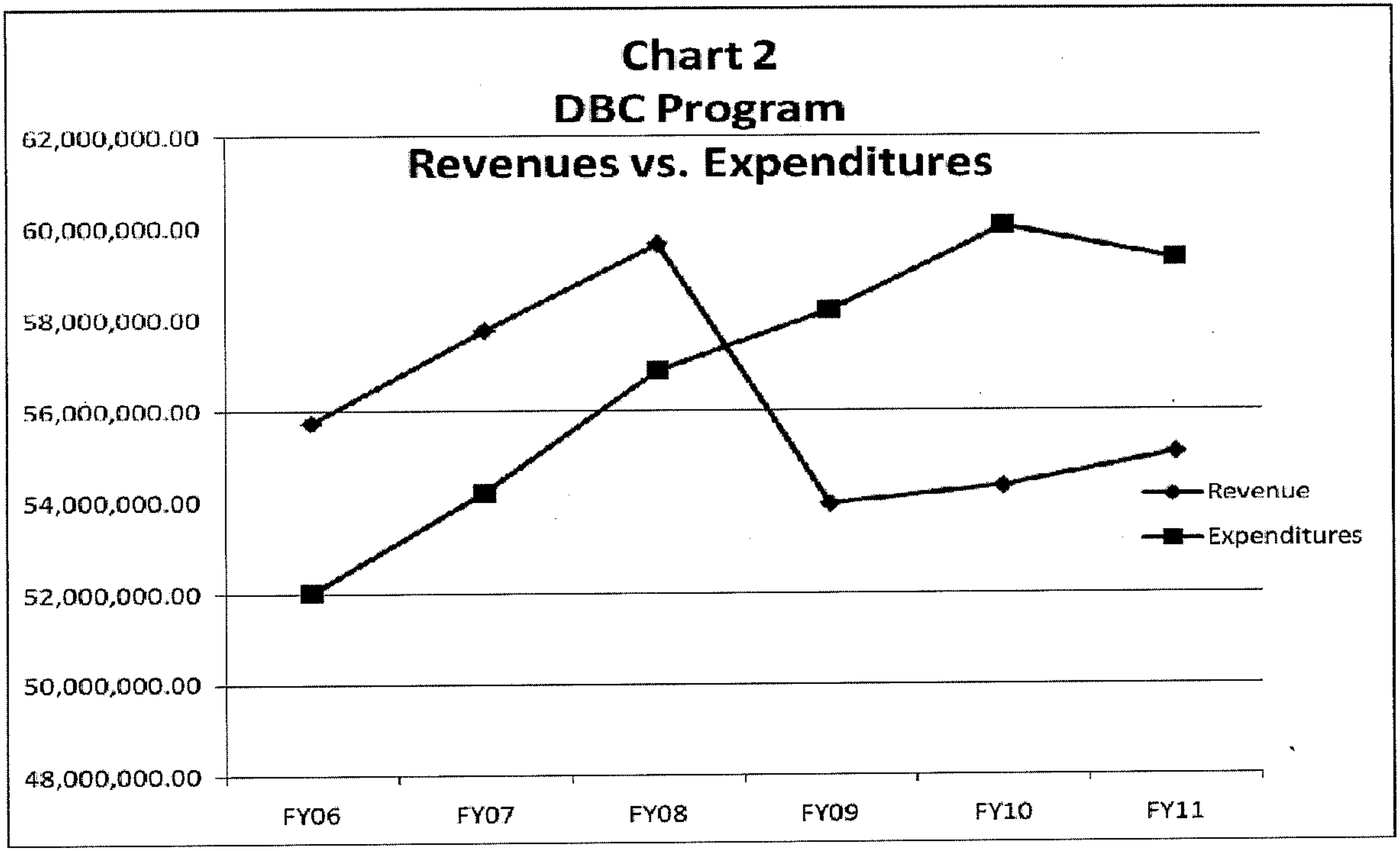


Chart 2
DBC Program
Revenues vs. Expenditures
62,000,000.00
60,000,000.00
58,000,000.00
56,000,000.00
54,000,000.00
52,000,000.00
50,000,000.00
48,000,000.00
FY06
FY07
FY08
FY09
FY10
FY11
Revenue
Expenditures