

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

In reply, please refer to:  
File:

**HOUSE COMMITTEE ON HEALTH  
HOUSE COMMITTEE ON ENERGY & ENVIRONMENTAL PROTECTION**

**H.B. 1021, RELATING TO THE DEPOSIT BEVERAGE CONTAINER  
PROGRAM**

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

**February 13, 2013  
10:30 a.m.**

1 **Department's Position:** The Department of Health respectfully opposes this measure.

2 **Fiscal Implications:** Decrease program revenue by approximately \$3.5 million per year.

3 **Purpose and Justification:** This bill proposes to require the Director of Health to set the deposit  
4 beverage container (DBC) fee at one cent per container until the department addresses all of the  
5 recommendations of the auditor in its 2010 audit of the DBC program.

6 Decreasing the DBC fee from the current one-and-a-half cent per container to one-cent per  
7 container would decrease the program's operating fund balance. The decline in revenue would likely  
8 lower levels to the point of insolvency in less than one fiscal year.

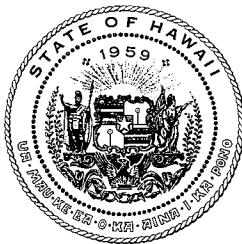
9 Prior to September 2012, the department had deferred raising the container fee despite  
10 consistently high redemption rates. However, the increase became necessary when FY 2013-14  
11 projections indicated a negative fund balance. The program had avoided the fee increase by relying on  
12 its reserve funds. However, the program's balance has been steadily eroded since 2009 by a  
13 combination of legislative actions including direct transfers to the general fund, losing the DBC fund's  
14 exemption from the Department of Accounting and General Services Central Services Fee (CSF), and

1 loss of the fund's interest revenue. Collectively, these actions have decreased the DBC Program's  
2 reserve funds by approximately \$12 million since 2009. We are attempting to rectify this situation with  
3 administrative bill HB 899 which seeks to restore the program's CSF exemption. This change alone is  
4 expected to restore \$2.5 million to \$3 million per year to the program.

5 We understand the concerns raised by the Auditor's report and take them very seriously.  
6 However, we have just begun the process of addressing the issues identified in the report. The  
7 department is concerned that reducing the container fee at this point would endanger the DBC  
8 Program's viability.

9 Thank you for the opportunity to testify on this measure.

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**TESTIMONY OF JAN K. YAMANE, ACTING STATE AUDITOR,  
ON HOUSE BILL NO. 1021, RELATING TO THE DEPOSIT BEVERAGE CONTAINER  
PROGRAM**

**House Committees on Health and on Energy & Environmental Protection  
February 13, 2013**

Chair Belatti, Chair Lee, and Members of the Committee:

I am Jan Yamane, Acting State Auditor. Thank you for this opportunity to comment on House Bill 1021, relating to the Deposit Beverage Container Program. We appreciate reference in this bill to our reports on the Deposit Beverage Container Deposit Special Fund for fiscal years ended June 30, 2008 and 2010, in which we found that the program is poorly managed and exposed to fraud. These financial and program audits were conducted by the certified public accounting firm of Accuity LLP and I want to acknowledge and thank them for their work.

I want to provide you with additional information regarding our follow-up efforts on report recommendations since this measure seeks to set the deposit beverage container fee at one cent per container until the Department of Health addresses all of our recommendations in the report for FY 2010. We are currently in the process of contracting with Accuity LLP for a management and financial audit for fiscal year ended June 30, 2012. Section 342G-107, Hawai'i Revised Statutes, requires that we conduct such an audit in fiscal years ending in even-numbered years. As part of the FY 2012 work, we intend to report on our recommendations from the prior two

audits for fiscal years 2010 and 2008. We anticipate delivering that report prior to the convening of the 2014 Legislature.

Additionally, at the end of this year (2013), we will ask the Department of Health to provide responses to our previous recommendations made in the two reports released in 2012, but we do not independently verify or do follow-up work to validate those responses. We compile those responses and report them as part of our 2013 Annual Report. We anticipate delivery of that report to the 2014 Legislature in spring 2014.

Thank you for this opportunity to offer comments. We hope this information assists you with your decision-making. I am available for questions should you have any.



## HAWAII FOOD INDUSTRY ASSOCIATION (HFIA)

1050 Bishop St. Box 235  
Honolulu, HI 96813  
Fax : 808-791-0702  
Telephone : 808-533-1292

DATE: Wednesday, February 13, 2013

PLACE: Conference Room 329

TIME: 10:30 a.m.

TO: COMMITTEE ON ENERGY AND ENVIRONMENTAL PROTECTION

Rep. Chris Lee, Chair; Rep. Cynthia Thielen, Vice Chair

COMMITTEE ON HEALTH

Rep. Della Au Belatti, Chair; Rep. Dee Morikawa, Vice Chair

FROM: Hawaii Food Industry Association: Lauren Zirbel, Executive Director

### **RE: HB 1021 RELATING TO THE DEPOSIT BEVERAGE CONTAINER PROGRAM**

*Requires the director of health to set the deposit beverage container fee at one cent per container until DOH addresses all of the recommendations of the auditor pursuant to the State of Hawaii Deposit Beverage Container Deposit Special Fund Financial and Program Audit of 2010.*

Chair & Committee Members:

The Hawaii Food Industry Association is comprised of two hundred member companies representing retailers, suppliers, producers and distributors of food and beverage related products in the State of Hawaii.

**The Hawaii Food Industry Association strongly supports this measure.**

This measure will ensure that the Deposit Beverage Container Deposit Special Fund's integrity and ensure that consumers' money is being handled appropriately. We owe this to the consumer of Hawaii.

Mahalo for the opportunity to provide this testimony.



**TLC**

# THE LEGISLATIVE CENTER

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1188 BISHOP STREET, SUITE 1003  
HONOLULU, HAWAII 96813-3304  
PHONE: (808) 537-4308 • FAX: (808)533-2739

February 13, 2013

TESTIMONY TO:            House Committee on Health  
                                 Representative Della Au Belatti, Chair

                                 House Committee on Energy & Environmental Protection  
                                 Representative Chris Lee, Chair

FROM:                      Tim Lyons  
                                 Legislative Liaison  
                                 Anheuser Busch Companies

SUBJECT:                 H.B. 1021 – RELATING TO DEPOSIT BEVERAGE  
                                 COTAINER PROGRAM

Chair Au Belatti, Chair Lee and Members of the Joint Committees:

I am Tim Lyons representing Anheuser Busch Companies and we support this bill.

It is fairly clear that the fund is not operated in a prudent and responsible way. As the 2010 audit on the Deposit Beverage Container Special Fund points out, there are several deficiencies that expose the program to fraud including the lack of systematic compliance inspections, the lack of some inspections completely and unauthorized beverage containers entering the redemption stream all adding up to the reported redemption rate not being reliable.

It is, of course, this redemption rate that the Department relied on in order to increase the fee from \$.01 to \$.01 ½. With only 105 certified redemption centers on Oahu and the neighbor islands, it is rather puzzling as to why these centers have not been properly inspected and, we might point out, this audit is not the first one that has been critical of the program. The first audit discovered a \$5,000,000.00 misstatement on the funds financial statements and in this audit, discovered were a variety of unverified reports. Overall, the audit also found that the program lacked inadequate internal control over financial reporting.

With those kinds of findings, we find it somewhat puzzling that someone would propose to raise the handling fee from the current .01 to .015. With all of the problems that the program has it would appear that higher container fees that are being charged now are questionable.

We think it is time to take a step back and get this fund in order before suggesting that there should be additional fees imposed on the consuming public. This program should be operating so that the \$.05 container fee itself is sufficient in order to operate the entire program in consideration of the unredeemed deposits which the state gets to keep.

Based on the above then, we support this bill.

Thank you.

Representative Della Au Belatti, Chair  
Representative Dee Morikawa, Vice Chair  
Committee on Health

Representative Chris Lee, Chair  
Representative Cynthia Thielen, Vice Chair  
Committee on Energy & Environmental Protection



HEARING            Wednesday, February 13, 2013  
                         10:30 am  
                         Conference Room 329  
                         State Capitol, Honolulu, HI 96813

**RE:    HB1021, Relating to the Deposit Beverage Container Program**

Chairs Au Belatti and Lee, Vice Chairs Morikawa and Thielen, 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. The retail industry is one of the largest employers in the state, employing 25% of the labor force.

**RMH supports HB1021**, which requires the department of health to set the deposit beverage container fee at one cent per container until DOH addresses all of the recommendations of the auditor pursuant to the State of Hawaii Deposit Beverage Container Deposit Special Fund Financial and Program Audit of 2012.

**Hawaii's consumers** took the greatest hit last September when the handling fee was raised by 50% from 1 cent to 1½ cents. Prices for beverages taxed under the Deposit Beverage Container Program, including juices, waters, sports drinks, sodas and beer, increased. The fee for a 6-pack increased to 39 cents; for a 12-pack, 78 cents, and for a 24-pack, \$1.56. Redeeming and recycling 24 containers recovers \$1.20, but the additional 36-cent fee belongs to the government.

The second hit was to Hawaii's **small retailers and convenience store operators**, whose beverage sales are primarily single units or containers. On a bottle of water, for example, the deposit fee remained at 5-cents; the handling fee rose to 1½ cents. What's a ½-cent? There is no ½-cent currency! The small retailer "eats" the ½ cent on every single unit he sells. In this mandated business model, the more the retailer sells the more money he or she loses!

Admittedly, the Deposit Beverage Container Program has successfully diverted cans and bottles from our landfill and has increased recycling of these items. It does seem ironic that Hawaii's residents who are to be commended for the success of this program are now bearing higher costs for this success.

We respectfully request that you pass HB1021. Thank you for the opportunity to comment.

A handwritten signature in black ink that reads 'Carol Pregill'.

Carol Pregill, President

RETAIL MERCHANTS OF HAWAII  
1240 Ala Moana Boulevard, Suite 215  
Honolulu, HI 96814  
ph: 808-592-4200 / fax: 808-592-4202





**To: Rep. Della Au Belatti, Chair  
Rep. Dee Morikawa, Vice Chair  
Committee on Health**

**To: Rep. Chris Lee, Chair  
Rep. Cynthia Thielen, Vice Chair  
Committee on Energy & Environmental Protection**

**Fr: Terry Telfer, President  
Reynolds Recycling**

**Date: Wednesday, February 13, 2013, 10:30 in Conference Room 329**

**Re: Testimony in opposition to HB1021, Relating to DBC Program**

Reynolds Recycling operates the largest network of redemption and scrap metal buy back centers in Hawaii. Reynolds has invested heavily to make DBC recycling convenient to consumers, and to be a responsible corporate citizen in the Hawaii community.

Without additional revenue into the Deposit Beverage Container Program fund, it could become insolvent in the near future, putting the entire program at risk.

As a leader in Hawaii's recycling industry, Reynolds Recycling remains committed to protecting Hawaii's future by recycling today, and in the future. We respectfully oppose HB1021

Thank you.



TO: Members of the Committees on Health and Energy & Environmental Protection

FROM: Natalie Iwasa  
Honolulu, HI 96825  
808-395-3233

HEARING: 10:30 a.m. Wednesday, February 13, 2013

SUBJECT: HB 1021 Beverage Tax - **OPPOSED**

Aloha Chairs and Committee Members,

Thank you for allowing me the opportunity to provide testimony on HB 1021, which would expand the beverage container **tax** (please call it what it is) to include milk and other containers. I oppose this bill and ask you to vote "no."

We recycle. We pay extra fees. We take our deposit containers to redemption centers for recycling, but before we take them in, we have to have a place to store them. **Enough with the extra fees already** and the extra work created to get our money back!

If you want to see more containers being recycled, then expand county recycling programs to include all residents.

**Please vote "no" on this bill.**

**thielen3 - Charles**

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**From:** mailinglist@capitol.hawaii.gov  
**Sent:** Monday, February 11, 2013 5:19 PM  
**To:** EEPtestimony  
**Cc:** alohashellservice@hawaii.rr.com  
**Subject:** \*Submitted testimony for HB1021 on Feb 13, 2013 10:30AM\*

**HB1021**

Submitted on: 2/11/2013

Testimony for EEP/HLT on Feb 13, 2013 10:30AM in Conference Room 329

<b>Submitted By</b>	<b>Organization</b>	<b>Testifier Position</b>	<b>Present at Hearing</b>
Paul Hanada	Aloha Shell Service	Oppose	No

Comments:

Please note that testimony submitted less than 24 hours prior to the hearing, improperly identified, or directed to the incorrect office, may not be posted online or distributed to the committee prior to the convening of the public hearing.

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