



STATE OF HAWAII
DEPARTMENT OF HEALTH
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WRITTEN
TESTIMONY ONLY

**Testimony in SUPPORT of SB2721 SD1
RELATING TO THE DEPOSIT BEVERAGE CONTAINER PROGRAM**

SENATOR KARL RHOADS, CHAIR
SENATE COMMITTEE ON JUDICIARY

Hearing Date: 2/27/2020

Room Number: 016

1 **Fiscal Implications:** This measure may impact the priorities identified in the Governor's
2 Executive Budget Request for the Department of Health's (Department) appropriations and
3 personnel priorities.

4 **Department Testimony:** The Department supports SB2721 SD1 to amend Hawaii Revised
5 Statutes Section 342G to implement the findings from the June 30, 2018 "Financial and Program
6 Audit of the Department of Health's Deposit Beverage Container Program" (Audit) by the State
7 of Hawaii Office of the Auditor. The Audit identified specific activities that the Deposit
8 Beverage Container (DBC) Program should implement to address potential issues in the
9 beverage container importation and redemption process.

10 Specifically, the Audit recommends that the Department implement a compliance audit or
11 inspection of distributors importing beverage containers to ensure that distributor reports are
12 accurate and account for all eligible beverage containers entering the State. Similarly, the Audit
13 recommends that the Department implement a compliance audit or inspection of certified
14 redemption centers to ensure that redemption center reports are accurate and account for all
15 eligible beverage containers redeemed and subsequently reimbursed by the Department. In both
16 instances, the Audit prescribes that the Department implement a risk-based assessment of its
17 distributors and certified redemption centers to prioritize compliance audits and inspections.

1 The Department has begun the procurement process to hire an external consultant to
2 provide auditing and compliance assistance of certified redemption centers identified using a
3 risk-based assessment, per the Audit’s recommendation. With proper approvals, the Department
4 intends to release this Request for Proposals (RFP) by the end of State Fiscal Year (SFY) 2020
5 and execute a contract in the first half of SFY21. The Department will then begin the
6 procurement process for risk-based auditing and compliance assistance of distributors, with the
7 expectation of releasing this RFP in the second half of SFY21. With both RFPs awarded and
8 contracts arising from the RFPs executed, the Department expects to be in compliance with the
9 Audit’s findings going forward.

10 **Offered Amendments:** None.

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



To
Senate Committee on Judiciary
Senator Karl Rhoads, Chair
Senator Jarrett Keohokalale, Vice Chair

February 27, 2020; 10:30 am
Conference Room 016

From: Bruce Iverson, Director of Marketing and Development, Reynolds Recycling, Inc.

Testimony in Opposition to SB2721 SD1 Relating to Deposit Beverage Container Program

Reynolds Recycling, as Hawaii's largest bottle and can recycler, **opposes SB 2721 SD1.**

It appears that the vast majority of what is called for in the bill is already being done with regards to the recycling industry:

- The Recycling Locations are already being audited on a regular basis by the state or county.
- All paperwork from Recyclers is checked by the State DOH.
- Proof of material weights exported is already required.
- When enforcement actions have been necessary in the past, they have been enforced.
- Violations by both distributors/dealers and recyclers have already been made public.
- The state is already conducting audits of the program every other year.

The requirement that all Certified Redemption Centers (CRCs) install reverse vending machines (RVMs) puts an undue and unneeded expense on the recycling community. When they were previously in place, once the novelty wore off, the machines were not popular with most customers, and they very quickly became seldom used, but required expensive mechanical maintenance, and continual IT updating. Most CRCs do not have electrical connections so they would not be able to operate RVMs. Reynolds Recycling previously had 100 machines in service (costing over \$1 Million in 2005) throughout the state but because of the above reasons all of the RVMs were gradually taken out of service and disposed of. What other types of equipment that would fulfill this mandate are unclear, but clearly would be expensive for recyclers to put into place, and the bill does not give a time line to allow for research, training, and implementation to satisfy this measure.

Because of the above we **oppose SB 2721 SD1.**

Thank you for the opportunity to submit this testimony.



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TO:
Committee on Judiciary
Karl Rhoads, Chair
Jarrett Keohokalole, Vice Chair

FROM: HAWAII FOOD INDUSTRY ASSOCIATION
Lauren Zirbel, Executive Director

DATE: February 27, 2020
TIME: 10:30am
PLACE: Conference Room 16

RE: SB2721 SD1 Relating to the Deposit Beverage Container Program

Position: Support

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.

We support this measure requiring the Department of Health to implement the auditor's recommendations for the deposit beverage container program, including developing a risk-based selection process to select reports submitted by distributors and redemption centers for audit. Recent audits have noted a range of problems with the deposit beverage container program, we believe that addressing these existing issues and using a risk-based selection process is the first step towards creating a more efficient and effective deposit beverage container program for our state.



**Written Testimony of
David Thorp, American Beverage Association**

**Before the Committee on Judiciary
Support of S.B. 2721, SD 1: Relating to the Deposit Beverage Container Program
February 27, 2020**

Dear Chair Rhoads, Vice Chair Keohokalole and members of the committees. Thank you for the opportunity to comment in support of S.B. 2721, SD 1 – relating to the deposit beverage container program.

I am David Thorp, senior director of government affairs for the American Beverage Association (ABA). The American Beverage Association is the trade association representing the non-alcoholic beverage industry across the country and here in Hawaii.

Beverage industry’s local impact on Hawaii’s economy

The beverage industry is an important part of Hawaii’s economy – and one of the few remaining industries still manufacturing on the Islands. Unlike most consumer products, many of our beverages, aluminum cans and plastic bottles are manufactured and distributed in Hawaii by local workers.

Non-alcoholic beverage companies in Hawaii provide more than 1,200 good-paying jobs across our state. The industry helps to support thousands more workers in businesses that rely in part on beverage sales for their livelihoods and, such as grocery stores, restaurants and theaters.

Beverage Industry (Distributors) Agree with Auditor’s Recommendations

the State Auditor who currently audits HI-5 program every other year continually calls for developing a risk-based process to select distributors and redemption centers for audit. The beverage industry (distributors) agrees with this *risk-based* process to select distributors and redemption centers for audit. This would make the current audit process far more efficient by focusing audits on the aspects of the HI-5 program that have demonstrated the most significant discrepancies.

Audits Highlight Lack of Reporting Requirements for Redemption Centers; Examples of Fraud and Risk for Over Reporting

The following excerpts are from HI-5 Program Audits:

“The Program Pays Redemption Centers Based on Unsupported Redemption Activity:

The Program reimburses and pays for beverage containers redeemed by redemption centers on a monthly basis based on forms prepared by the redemption centers. We found that the Program does not require the redemption centers to provide any supporting records for the amounts reported and paid to the redemption centers. Consequently, the Program does not know if

amounts reported and paid are appropriate. Program's continued reliance on self-reported amounts increases the risk of over reporting by redemption centers.

The Program does not require redemption centers to submit any supporting records with the deposit refund reimbursement and handling fee requests. Because the Program reimburses redemption centers for all deposits refunded, there are opportunities for redemption centers to overstate redemptions and consequently receive overpayments for both the deposit refunds and handling fees."

Two redemption centers were found to have committed fraud. On one occasion, the auditor redeemed glass bottles and was paid 61-cents, but the recycler added 32 pounds of aluminum and 12 pounds of plastic to the receipt. The state should have reimbursed the redemption center for 61-cents but instead paid out nearly \$70.00. On another occasion, the auditor redeemed three pounds of plastic containers and was paid \$3.95 but nearly 7 pounds of aluminum cans was fraudulently added to the receipt – the redemption center should have been reimbursed for \$3.95 but instead was reimbursed \$14.99.

Distributor Audits Reveal Very Small Errors

- One audit indicated that the amounts of money involved on the distributor side were relatively trivial (less than \$200). – hardly earth-shattering figures in an \$85 million per year program.
- Another audit sampled payments to the HI-5 program from the 24 largest distributors. This included Paradise Beverages, BCI Coca-Cola of LA, and Pepsi Beverages Company. **None of those companies were found to have any exceptions.** The report did call out errors made by Kahuna Distribution, Target, and Wal-Mart, but the errors were very small.

Redemption Center Audits Detail Major Concerns

- The state Department of Health ultimately paid \$543,374 for audits of its beverage container redemption centers that were "of little value,"...
- In 2013, the state audit showed the HI-5 redemption program paid out \$6.2 million in deposit funds between fiscal 2010 to 2012 for nearly 7.5 million pounds of material that could not be accounted for.

Conclusion: Beverage Industry (Distributors) Support Risk-Based Audits

The beverage industry (distributors) agree with the auditor's recommendations for developing a risk-based process to select distributors and redemption centers for audit – keeping in mind that audit after audit finds very small monetary errors from reports by distributors.

Sincerely,
David Thorp