



**STATE OF HAWAII
DEPARTMENT OF HEALTH**

P. O. Box 3378
Honolulu, HI 96801-3378
doh.testimony@doh.hawaii.gov

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

SENATOR ROSALYN H. BAKER, CHAIR
SENATE COMMITTEE ON COMMERCE, CONSUMER PROTECTION, AND HEALTH

SENATOR MIKE GABBARD, CHAIR
SENATE COMMITTEE ON AGRICULTURE AND ENVIRONMENT

Hearing Date: 2/11/2020

Room Number: 229

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 to amend Hawaii Revised Statutes
5 Section 342G to implement the findings from the June 30, 2018 "Financial and Program Audit of
6 the Department of Health's Deposit Beverage Container Program" (Audit) by the State of
7 Hawaii Office of the Auditor. The Audit identified specific activities that the Deposit Beverage
8 Container (DBC) Program should implement to address potential issues in the beverage
9 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 the eligible beverage containers entering the State. Likewise, the
13 Audit 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 the
15 eligible beverage containers redeemed and subsequently reimbursed. In both instances, the Audit
16 prescribes that the Department implement a risk-based assessment of its distributors and certified
17 redemption centers to prioritize compliance audits and inspections.

1 The Audit also recommends that the Department require distributors to develop internal
2 controls to ensure accurate reporting and obtain independent audits in odd-number years; and
3 require certified redemption centers to install reverse vending machines or other mechanical
4 devices to ensure accurate reporting.

5 The Department has already begun the procurement process to hire an external consultant
6 to provide auditing and compliance assistance of certified redemption centers, per the Audit's
7 recommendation. With proper approvals, the Department intends to release this Request for
8 Proposals (RFP) by the end of State Fiscal Year (SFY) 2020 and execute a contract in the first
9 half of SFY21. The Department will then begin the procurement process for auditing and
10 compliance assistance of distributors, with the expectation of releasing this RFP in the second
11 half of SFY21.

12 The Department respectfully requests that the Legislature amend the proposed statutory
13 language to define distributor and certified redemption center qualifications by statute. The
14 Department also requests that the Legislature expand the allowable types of equipment that can
15 be used to accurately and securely record deposit beverage container redemption transactions.

16 **Offered Amendments:** “~~§342G-~~ (c) [~~The department shall modify the deposit beverage~~
17 ~~container requirements, including, but not limited to requiring] All distributors [~~to~~] shall.”~~

18 “(d) All redemption centers shall install reverse vending machines or other type of mechanical or
19 electronic devices approved by the program at all redemption center locations.”

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



To
Senate Committee on Commerce, Consumer Protection, and Health
Senator Rosalyn H. Baker, Chair
Senator Stanley Chang, Vice Chair

Senate Committee on Agriculture and Environment
Senator Mike Gabbard, Chair
Senator Russell E. Ruderman, Vice Chair

February 11, 2020; 8:30 am
Conference Room 229

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

Testimony in Opposition to SB2721 Relating to Deposit Beverage Container Program

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

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 throughout the state but because of the above reasons all of the RVMs were gradually taken out of service and disposed of.

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

Thank you for the opportunity to submit this testimony.



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

**Before the Committee on Commerce, Consumer Protection, and Health –
and Committee on Agriculture and Environment**

**Support of S.B. 2721: Relating to the Deposit Beverage Container Program
February 11, 2020**

Good morning Chair Baker, Vice Chair Chang, Chair Gabbard, Vice Chair Ruderman and members of the committees. Thank you for the opportunity to comment in support of S.B. 2721 – 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.

News Headlines from HI-5 Program Audits:

Editorial: Recycle program in need of repair

Honolulu Star Advertiser

August 3, 2015

Editorial: HI-5 program needs to be more efficient

Honolulu Star Advertiser

January 3, 2016

Before any such change [raising fees] is contemplated, the Health Department needs a complete review of the program aimed at reducing losses.

Cheating in redemption payments alleged in Hawaii bottle bill audit

March 5, 2019

Star Advertiser

Beverage Industry (Distributors) Agree with Auditor's Recommendations

In its broken-record-sounding recommendations, the Auditor 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.

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.**

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.

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

SB-2721

Submitted on: 2/8/2020 12:53:20 PM

Testimony for CPH on 2/11/2020 8:30:00 AM

Submitted By	Organization	Testifier Position	Present at Hearing
Andrea Quinn	Individual	Support	No

Comments:

Dear Honorable Committee Members:

Please support SB2721. The beverage container program is vital to Hawaii's environment.

Thank you for your time and the opportunity to present my testimony.

Sincerely,

Andrea Quinn

Kihei