

**STATE OF HAWAII
DEPARTMENT OF HEALTH**

P. O. Box 3378
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**Testimony in SUPPORT of SB2726
RELATING TO THE DEPOSIT BEVERAGE CONTAINER FEE**

SENATOR MIKE GABBARD, CHAIR
SENATE COMMITTEE ON AGRICULTURE AND ENVIRONMENT
Hearing Date: 2/3/2020 Room Number: 224

1 **Fiscal Implications:** None.

2 **Department Testimony:** The Department of Health (Department) supports SB2726 to adjust
3 the deposit beverage container fee annually by the percentage that the current Consumer Price
4 Index for All Urban Consumers in the Honolulu area exceeds the previous year's Consumer
5 Price Index for All Urban Consumers as published by the federal Bureau of Labor Statistics.
6 Rising costs in the State can outpace inflation at the federal level and accounting for this
7 difference may assist the Department in effectively implementing the Deposit Beverage
8 Container Program.

9 The Department respectfully requests that this annual adjustment to the deposit beverage
10 container fee be rounded to the nearest whole cent, as implementing a deposit beverage container
11 fee adjustment of a fraction of a cent is not feasible.

12 **Offered Amendments:** "(e) Beginning on August 1, 2021, and every August 1 thereafter, the
13 deposit beverage container fee shall be changed by the percentage, if any, by which the
14 Consumer Price Index for All Urban Consumers in the Honolulu area published by the Bureau of
15 Labor Statistics of the federal Department of Labor for that calendar year exceeds the Consumer
16 Price Index for All Urban Consumers for the prior calendar year, to the nearest whole cent."

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

DEPARTMENT OF ENVIRONMENTAL SERVICES
CITY AND COUNTY OF HONOLULU

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DEPUTY DIRECTOR

ROSS S. TANIMOTO, P.E.
DEPUTY DIRECTOR

IN REPLY REFER TO:
WAS 20-34

January 31, 2020

The Honorable Mike Gabbard, Chair
The Honorable Russell E. Ruderman, Vice-Chair
and Members of the Committee on Agriculture
Senate
State Capitol, Room 224
415 South Beretania Street
Honolulu, Hawaii 96813

Dear Chair Gabbard, Vice-Chair Ruderman, and Members of the Committee on
Agriculture:


SUBJECT: SB 2726 - Relating to Deposit Beverage Container Fee

The Department of Environmental Services (ENV) of the City and County of Honolulu submits the following comments on SB 2726, which would annually adjust the deposit beverage container fee based upon percentage changes in the Consumer Price Index for the Honolulu area.

ENV supports the deposit beverage container program, which has enabled the diversion of thousands of tons of beverage containers to recycling within the City and County of Honolulu since the program's inception in 2007-2008. Likewise, we support adjustments to the fee that reflect changes in cost to the Department of Health to administer the program. We question if the CPI, which measures the average change in prices paid for goods and service, is reflective of those costs. Also, the year-to-year CPI percentage change is small and would appear to not have any immediate and measurable impact on the fee.

Thank you for your consideration.

Sincerely,


Lori M.K. Kahikina, P.E.
Director



DEPARTMENT OF PUBLIC WORKS
THE COUNTY OF KAUA'I

DEREK S. K. KAWAKAMI, MAYOR
MICHAEL A. DAHLIG, MANAGING DIRECTOR

LYLE TABATA
DEPUTY COUNTY ENGINEER

Testimony of Allison Fraley
Solid Waste Program Coordinator
County of Kaua'i
Department of Public Works

Before the
Agriculture and Environment Committee
February 3, 2020; 1:30 p.m.
Conference Room 224

In consideration of
Senate Bill 2726
Relating to the Deposit Beverage Container Fee

Honorable Chair Gabbard, Vice Chair Ruderman, and Members of the Committee:

The County of Kaua'i Department of Public Works **offers comments** related to Senate Bill 2726 which proposes to annually adjust the Deposit Beverage Container (DBC) Fee to correlate with the Consumer Price Index of the Honolulu area.

We support the intent that a deposit increase could be beneficial to the program, and the Consumer Price Index (CPI) has been a good indicator for the health of the economy and the buying power of the individual. The CPI has been used across many different industries and government agencies to implement cost and price adjustments for goods and services. However, the DBC program affects companies all around the world, as well as all our local retailers and distributors that handle these beverages. Though the Department of Health has very capable and effective staff, we believe the shifting nature of the CPI would create an undue burden for the Department as they would need to track and account for all the changes required at all levels on an annual basis. CPI adjustments would also affect manufacturers who must mark their containers with the correct fee, all the distributors that must pay the fee, and all the retailers who collect the fee from their customers.

The DBC Program currently has a redemption rate of approximately 60% and is one of the most effective waste diversion programs in Hawai'i. The Kaua'i County Department of Public Works humbly suggests that Senate Bill 2726 be modified to implement a flat fee increase of a 10 cent deposit per beverage container in line with other programs such as Oregon's deposit beverage program. In Oregon, the increased deposit has allowed expansion of services not only in areas of operation, but also for customer service including new technology for redemption such as direct deposit of redemption funds, 24 hour drop off service, and other amenities. Hawai'i may realize these same benefits, in addition to the increased financial return for those redeeming containers. An increase in the deposit fee would likely guarantee a surge in redeemed material, potentially beyond the approximately 80% redemption rate that occurred in Hawai'i in 2009.

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Oregon's bottle redemption rate went from 59% to 82% in 2017 after their increase went into effect, and they reached 90% redemption in 2019. A simple increase with a reasonable implementation date would provide stability to the program and allow proper planning and innovation for all involved.

Along with a rate increase, the program could benefit from adding beverages to the DBC program that are currently excluded, such as wines, hard liquors, and milk products. The original bill was created in part to combat litter on our beaches and other public spaces and to divert valuable material from our landfills. With the current DBC program, it is rare to find a HI5 container sitting for very long at the beach; however, you may find numerous non-redeemable products left in trash cans or buried in the sand. Landfill space is at a premium on all islands and our pristine open spaces are under constant pressure from multiple sources.

The County of Kaua'i Department of Public Works would like to thank the Committee for considering our comments and the opportunity to submit this testimony.



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

FROM: HAWAII FOOD INDUSTRY ASSOCIATION
Lauren Zirbel, Executive Director

DATE: February 3, 2020
TIME: 1:30pm
PLACE: Conference Room

RE: SB2726 Relating to the Deposit Beverage Container Fee

Position: Oppose

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.

In 2016 the State Auditor completed the sixth biennial audit of the Deposit Beverage Container Program. The Auditor's Summary states,

"We found, as we did in each of our previous audits, the Program relies on self-reported data from distributors and certified redemption centers and **lacks adequate controls to monitor the accuracy and completeness of the information submitted...**"

and,

"...the Program continues to be exposed to fraud, which may result in higher costs and an unreliable reported redemption rate."

It would be illogical and irresponsible to make the type of changes to the Program that are proposed in this measure without first fixing the Program's current problems. Tying the deposit fee to the Consumer Price Index as a means to increase funds in the special fund does not make sense if we don't have accurate data about how current funds are being used.

Making real improvements to the Deposit Beverage Container Program will require getting reliable data, figuring out what is working in the program and what isn't, and then creating a plan to address those issues. Raising the fee as a knee jerk response is not the right way to make this important program work better for our environment and the people of our state.

It is also important to remember that if the redemption fee goes up it is an increase in the out of pocket expense for Hawaii families when buying groceries. The determination to raise the fee should be made thoughtfully by the State Legislature if it's necessary after fixing long running problems in the program. Increasing the price of groceries for Hawaii families should never be done automatically and without verifiably good reason. For these reasons we encourage you to hold this measure, we thank you for the opportunity to testify.

TAX FOUNDATION OF HAWAII

126 Queen Street, Suite 304

Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: MISCELLANEOUS, Index Deposit Beverage Container Fee

BILL NUMBER: SB 2726; HB 2025

INTRODUCED BY: SB by GABBARD; HB by YAMANE, AQUINO, CULLEN, HOLT, MIZUNO, MORIKAWA, QUINLAN, TARNAS, TODD, TOKIOKA, Nakamura, Onishi, San Buenaventura

EXECUTIVE SUMMARY: Annually adjusts the deposit beverage container fee based upon percentage changes in the Consumer Price Index for the Honolulu area.

SYNOPSIS: Amends section 342G-102, HRS, to provide that beginning on August 1, 2021, and every August 1 thereafter, the deposit beverage container fee shall be changed by the percentage, if any, by which the Consumer Price Index for All Urban Consumers in the Honolulu area published by the Bureau of Labor Statistics of the federal Department of Labor for that calendar year exceeds the Consumer Price Index for All Urban Consumers for the prior calendar year.

EFFECTIVE DATE: Upon approval.

STAFF COMMENTS: This bill ties increases in the container fee to an index, just like how tax brackets at the federal level are indexed. The trouble is that the deposit beverage container fee is one cent now, and it would have to go up 100% to get to the next cent. That would take some time. The chart on the next page, from the U.S. Bureau of Labor Statistics, shows that the year-over-year changes to the CPI-U index are typically in the -2.5% to 5% range. It may make sense for retailers or recycling companies that handle thousands of bottles a day to compute the fee to several decimal places, but that would make no sense as applied to the typical retail consumer.

Rather than worry about tiny fractions of a cent, it may make sense to focus attention on the operation of the program and preventing fraud, waste, and abuse as has been documented in the State Auditor's Report Nos. 15-02, 17-02, 19-08, and several others. The Auditor's Summary of Findings in its latest report states:

This is the seventh biennial financial and program audit of the Program since its inception. As in the prior years' audits, we have found that the Program has failed to develop and execute procedures to verify the accuracy and completeness of data used to prepare the required forms that determine:

1. Deposits and container fees paid to the Program by the distributors
2. Deposits and handling fees paid to the redemption centers

Because procedures were not developed and executed to verify the accuracy of critical self-reported data, the Program has essentially relied upon and accepted that cash receipts from the distributors and payments made to redemption centers were accurate and complete.

Due to this failure of the Program to validate the accuracy and completeness of critical data, our testing has found inaccuracies and possible fraudulent reporting in the data used in the aforementioned calculations. Our testing revealed the following:

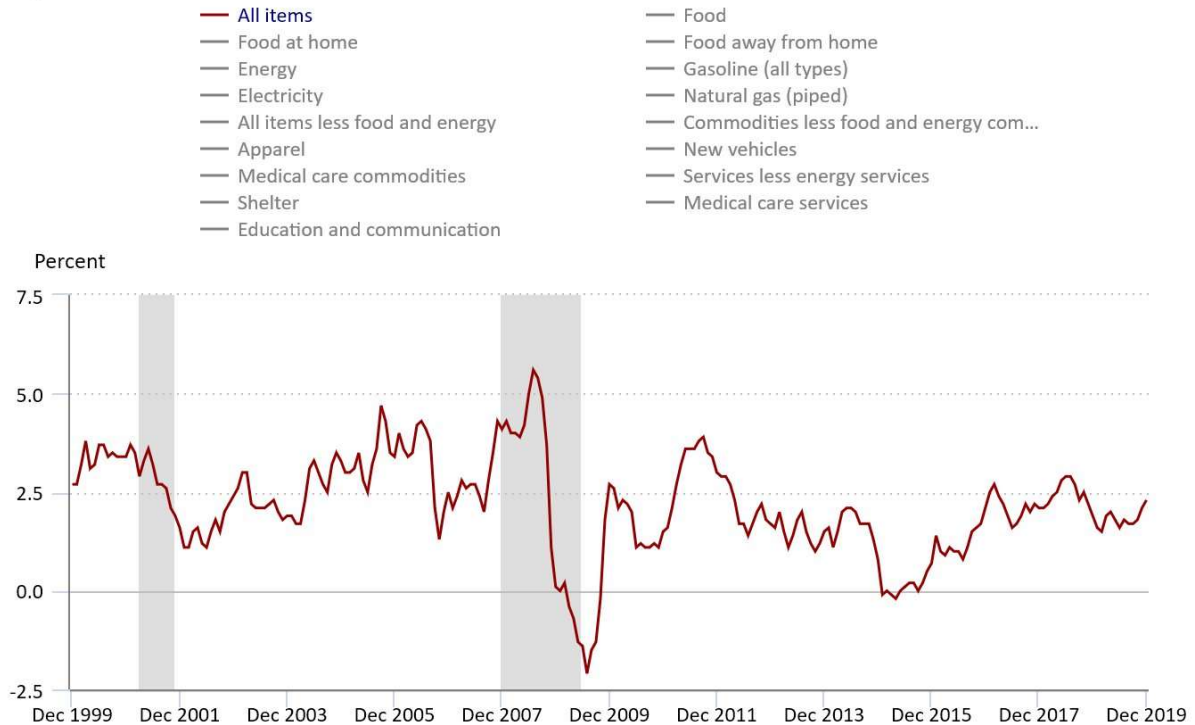
1. There were differences noted between the amounts reported on the Monthly Distribution Report Form and the distributor's supporting records
2. There potentially exists fraudulent overpayments of deposit refund reimbursements to redemption centers

Given the discrepancies noted in the prior years' audits and the discrepancies noted above and considering the limited sample testing performed, there are concerns as to whether the amounts being remitted by the distributors or amounts paid to the redemption centers are appropriate.

State Auditor's Report No. 19-08, p. 15.

The CPI-U chart follows.

12-month percentage change, Consumer Price Index, selected categories, not seasonally adjusted



Hover over chart to view data.
Note: Shaded area represents recession, as determined by the National Bureau of Economic Research.
Source: U.S. Bureau of Labor Statistics.





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

**Before the Senate Committee on Agriculture and Environment
Opposition to S.B. 2726 – Relating to the Deposit Beverage Container Fee
February 3, 2020**

Good afternoon Chair Gabbard, Vice Chair Ruderman and members of the committee. Thank you for the opportunity to comment in opposition to S.B. 2726 – relating to the deposit beverage container fee.

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. ABA represents hundreds of beverage producers, distributors, franchise companies and supporting businesses that employ more than 239,000 people across the country.

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.

HI-5 Program Equity: \$41.9 Million

*In FY 2018, the Program had revenues of \$24.6 million and expenditures of \$17.5 million, resulting in a \$7.1 million increase in fund balance to \$37.7 million at June 30, 2018. The Program’s container deposit liability increased to \$1.9 million at June 30, 2018. To refund deposits and to pay for other liabilities and expenses, **the Program had \$41.9 million in equity in cash and cash equivalents and investments in State Treasury at June 30, 2018.***

Financial and Program Audit of the Department of Health’s Deposit Beverage Container Program, June 30, 2018

Overview of the Deposit and Redemption Process

The HI-5 program requires deposit beverage distributors, defined in the HRS as “a person who is a manufacturer of beverages in the sale of filled deposit beverage containers or who imports and

engages in the sale of filled deposit beverage containers,” to pay a deposit and container fee to the Program. In turn, distributors shall pass on the costs to dealers or consumers. Dealers are defined in the HRS as “a person who engages in the sale of beverages in deposit beverage containers to a consumer for off-premises consumption in the State.”

Consumers or redeemers, as defined by the HRS, turn in empty containers to redemption centers and claim the deposit amount. Redemption centers then deliver containers to recycling facilities and submit required forms and documentation to the Program to obtain reimbursement for deposits and handling fees.

Increasing HI-5 Container Fee is Unnecessary and Harmful to Consumers

The HI-5 program has nearly \$42 million in equity as of June 30, 2018. The State Auditor’s biennial audit of the HI-5 program continually calls for improving efficiencies of the program, including the potential for millions of dollars in annual redemption fraud.

Before consumers are asked to pay even more for their beverages into a program that has a nearly \$42 million balance, improving the efficiencies and oversight of the HI-5 program need to be undertaken.

Sincerely,
David Thorp

SB-2726

Submitted on: 1/31/2020 4:55:14 PM

Testimony for AEN on 2/3/2020 1:30:00 PM

Submitted By	Organization	Testifier Position	Present at Hearing
Bruce Iverson	Testifying for Reynolds Recycling	Support	Yes

Comments:

SB-2726

Submitted on: 2/1/2020 5:26:43 PM

Testimony for AEN on 2/3/2020 1:30:00 PM

Submitted By	Organization	Testifier Position	Present at Hearing
Alexandra Kahn	Testifying for Surfrider Oahu	Support	No

Comments:

SB-2726

Submitted on: 1/27/2020 8:07:48 PM

Testimony for AEN on 2/3/2020 1:30:00 PM

Submitted By	Organization	Testifier Position	Present at Hearing
Benton Kealii Pang, Ph.D.	Individual	Support	No

Comments: