

**STATE OF HAWAII**  
**DEPARTMENT OF HEALTH**  
P. O. Box 3378  
Honolulu, HI 96801-3378  
doh.testimony@doh.hawaii.gov

**Testimony in SUPPORT of SB2727 SD2  
RELATING TO DEPOSIT BEVERAGE CONTAINERS**

REPRESENTATIVE NICOLE E. LOWEN, CHAIR  
COMMITTEE ON ENERGY & ENVIRONMENTAL PROTECTION

Hearing Date: 3/12/2020

Room Number: 325

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 if the Department is required to establish additional redemption centers  
4 funded by the Deposit Beverage Container (DBC) Special Fund. The DBC Special Fund may  
5 also be significantly impacted if inflation or handling fee payments outpace the amount of  
6 deposit beverage container fees collected.

7 **Department Testimony:** The Department supports SB2727 SD2 to amend Hawaii Revised  
8 Statutes (HRS) Section 342G-113, subsections (b)(1) and (d), to reduce the high-density  
9 population area dealer exemption from within two miles to within one mile of a certified  
10 redemption center, and for the Department to partner with the respective County to establish  
11 certified redemption centers if necessary. This will reduce the distance between certified  
12 redemption centers and increase the number of certified redemption centers. This bill should also  
13 make it more convenient for the public to participate in the recycling program, improve the  
14 State's recycling rates, and help reduce litter.

15 The Department respectfully offers the following comments regarding SB2727 SD2 that  
16 amends HRS Section 342G-117, subsections (b) and (c) to annually adjust the deposit beverage  
17 container handling fee by the percentage that the current Consumer Price Index (CPI) for All  
18 Urban Consumers in the Honolulu area exceeds the previous year's CPI for All Urban  
19 Consumers as published by the federal Bureau of Labor Statistics:

1           Rising costs in the State can outpace inflation at the federal level and accounting for this  
2 difference may assist the Department in effectively implementing the Deposit Beverage  
3 Container (DBC) Program. The Department recently published its handling fee for State Fiscal  
4 Year (SFY) 2021, and the Department’s handling fee consultant incorporated the CPI variance,  
5 in addition to other factors like labor, transportation, and healthcare costs, into the final fee  
6 determination. The new handling fees for glass, plastic, and metal deposit beverage containers  
7 are \$0.033, \$0.078, and \$0.039 per container, respectively. These fees are in addition to the  
8 \$0.05 per container deposit refund paid to the certified redemption centers to cover the costs of  
9 recycling, using revenue from the \$0.01 container fee paid by consumers. The Department  
10 estimates that implementing this increased handling fee, coupled with the anticipated annual  
11 increases proposed in this bill, will lead to expenses outpacing revenue. The Department’s  
12 handling fee consultant estimates that by SFY 2024 the Department will dip into its reserves, and  
13 the Department may need financial assistance by Legislative appropriation or increased container  
14 fees to accommodate the handling fee increases and maintain the effectiveness of the Deposit  
15 Beverage Container Program.

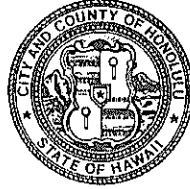
16 **Offered Amendments:** None.

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

DEPARTMENT OF ENVIRONMENTAL SERVICES  
**CITY AND COUNTY OF HONOLULU**

1000 ULUOHIA STREET, SUITE 308, KAPOLEI, HAWAII 96707  
TELEPHONE: (808) 768-3486 • FAX: (808) 768-3487 • WEBSITE: <http://envhonolulu.org>

KIRK CALDWELL  
MAYOR



LORI M.K. KAHIKINA, P.E.  
DIRECTOR

TIMOTHY A. HOUGHTON  
DEPUTY DIRECTOR

ROSS S. TANIMOTO, P.E.  
DEPUTY DIRECTOR

IN REPLY REFER TO:  
WAS 20-107

March 10, 2020

The Honorable Nicole E. Lowen, Chair  
The Honorable Tina Wildberger, Vice-Chair  
and Members of the Committee on Energy & Environmental Protection  
House of Representatives  
State Capitol, Room 325  
415 South Beretania Street  
Honolulu, Hawaii 96813

Dear Chair Lowen, Vice-Chair Wildberger, and Members of the Committee on Energy & Environmental Protection:

**SUBJECT: SB 2727 SD2 - Relating to Deposit Beverage Containers**

The Department of Environmental Services (ENV) of the City and County of Honolulu submits the following comments on SB 2727 SD2, which exempts a beverage dealer who is located in a high density population area from operating a redemption center if the dealer is located within one (1) mile of a certified redemption center operated independently of the dealer.

The deposit beverage container program is one of the mainstays of recycling in Hawaii and has enabled the diversion of hundred thousand (100,000) tons of containers to recycling within the City and County of Honolulu since the program's inception in 2007-2008. We support the intent of this bill, which is to provide more convenient access to deposit beverage container recycling options for consumers.

Thank you for your consideration.

Sincerely,

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



1050 Bishop St. PMB 235 | Honolulu, HI 96813  
P: 808-533-1292 | e: info@hawaiiifood.com

#### Executive Officers

**Joe Carter**, Coca-Cola Bottling of Hawaii, *Chair*  
**Charlie Gustafson**, Tamura Super Market, *Vice Chair*  
**Eddie Asato**, The Pint Size Corp., *Secretary/Treas.*  
**Lauren Zirbel**, HFIA, *Executive Director*  
**John Schlif**, Rainbow Sales and Marketing, *Advisor*  
**Stan Brown**, Acosta Sales & Marketing, *Advisor*  
**Paul Kosasa**, ABC Stores, *Advisor*  
**Derek Kurisu**, KTA Superstores, *Advisor*  
**Beau Oshiro**, C&S Wholesale Grocers, *Advisor*  
**Toby Taniguchi**, KTA Superstores, *Advisor*

---

TO:  
Committee on Energy and Environmental Protection  
Rep. Nicole E. Lowen, Chair  
Rep. Tina Wildberger, Vice Chair

FROM: HAWAII FOOD INDUSTRY ASSOCIATION  
Lauren Zirbel, Executive Director

DATE: March 12, 2020  
TIME: 8:30am  
PLACE: Conference Room 325

RE: SB2727 SD2 Relating to Deposit Beverage Containers

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.

HFIA is opposed to this bill because we believe it is necessary to fix the glaring and substantial problems with the HI5 program before asking consumers to contribute even more of their hard-earned money into this program.

This program has failed multiple audits to an alarming degree. We encourage legislators to read the auditor's summary and full report here:

<https://auditor.hawaii.gov/summary/report-no-19-08-financial-and-program-audit-of-the-department-of-healths-deposit-beverage-container-program-june-30-2018/>

Auditor's Report No. 13-08, November 2013 states that, "the program paid out \$28 million more in handling fees than it collected in container fees." Auditor's Report No. 15-02, April 2015 states that, "In FY2014, the program paid \$2.8 million in deposit refunds for approximately 3.5 million pounds of recycled materials that it could not account for."

In the most recent Auditor's Report No. 19-08, March 2019 it states that:

“On October 2, 2018, KMH's staff auditor redeemed glass bottles, which the redemption center determined weighed 5.1 pounds. The staff auditor was paid \$0.61. However, after the visit, 32.8 pounds of aluminum cans and 12.8 pounds of plastic containers were added to the cash receipt log, adding \$52.48 and \$16.83 respectively to the total. As a result, instead of \$0.61, the redemption center requested and was reimbursed \$69.31 by the State. Two days later, on October 4, 2018, the staff auditor redeemed plastic containers, which the redemption center determined weighed three pounds. The staff auditor was paid \$3.95, but 6.9 pounds of aluminum cans were added to the cash receipt log, which added \$11.04 to the total. The redemption center was reimbursed \$14.99 instead of \$3.95.”

Before we ask consumers to contribute more money towards this regressive fee system, we must be able to reasonably assure consumers that these issues have been resolved. If we do not, we are simply throwing more money into a bottomless bucket.

It is also important to note that the handling fee language for SB2727 SD2 was taken from SB2726 and that the DOH testimony for that states, "The Department is currently updating its handling fee for State Fiscal Year 2021, and the 12 Department's contractor has already been instructed to incorporate the CPI variance, in addition 13 to other factors like labor, transportation, and healthcare costs. "

Because action on changing administrative fees can be handled without the passage of legislation, we believe this measure is not the right choice.

We also oppose language in this measure that would change the redemption center exemption distance for a retailer in a high-density area from 2 miles to 1 mile and would increase the handling fee for deposit beverages. **Most retailers do not control the space in which they operate their stores. Landlords have strict rules about what types of behavior is allowed on their property. In many cases landlords do not sanction the collection of garbage in large quantities inside or outside the premise of a retail location.**

We ask that this measure be held, and we thank you for the opportunity to testify.



To  
COMMITTEE ON ENERGY & ENVIRONMENTAL PROTECTION  
Rep. Nicole E. Lowen, Chair  
Rep. Tina Wildberger, Vice Chair

March 12, 2020; 8:30 am  
Conference Room 325

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

Testimony in **Support of SB2727 SD2** Relating to Deposit Beverage Containers

Reynolds Recycling, as Hawaii's largest bottle and can recycler, **supports SB 2727 SD2.**

This bill would encourage the creation of new certified redemption centers to enable consumers to more easily redeem their HI-5 Deposit Beverage Containers (DBC).

While it was many years ago, Reynolds Metals previously conducted a survey about recycling, and found that convenience was the number one requirement for people to regularly recycle. As more Certified Redemption Centers (CRCs) were developed within the state of Hawaii the redemption rate also increased, and from 2008 onward that rate was over 76%.

This bill would also require the DOH to annually adjust the Handling fees paid to the recycler and also support the recycling network with annual adjustments to enable them to keep pace with CPI increases. While the DOH has been doing an excellent job of doing these the last two years, previously that was not modified for all items for 14 years. This regular review of the Handling Fee is the main opportunity to support the recyclers and to keep them strong.

This bill would help strengthen the recycling requirements for retailers, and continue to support the recyclers. This would ensure that it is just as easy to recycle a beverage container as it is to purchase a beverage in the first place.

Because of the above we **support SB 2727 SD2.**

Thank you for the opportunity to submit this testimony.



**Written Testimony of  
David Thorp, American Beverage Association  
Before the House Committee on Energy & Environmental Protection  
Opposition to S.B. 2727, SD 2 – Relating to Deposit Beverage Containers  
March 12, 2020**

Good morning Chair Lowen, Vice Chair Wildberger and members of the committee. Thank you for the opportunity to comment in opposition to S.B. 2727, SD 2. I am David Thorp, senior director of government affairs for the American Beverage Association (ABA). ABA is the trade association representing the non-alcoholic beverage industry.

S.B. 2727, SD 2 seeks to annually increase the HI-5 program's handling fee according to the Consumer Price Index (CPI).

**An automatic annual handling fee is neither warranted nor justified:**

1. Honolulu County handling fees increased by 50% - 75% in July 2019;
2. Handling fees will increase by an additional 10.7% - 11.8% in July 2020;
3. Handling fees for 2019 and 2020 went up so much because the calculations ignore the substantial scrap revenue of aluminum and plastics;
4. Redemption center audits detail major concerns about fraud;
5. DOH is already authorized to annually evaluate the handling fees.

**1. Honolulu County handling fees increased by 50% - 75% in July 2019:**

- a. Aluminum: Increased 50% from 2-cents to 3-cents per container;
- b. Plastic: Increased 75% from 2-cents to 3.5-cents per container;
- c. Glass: Increased 75% from 4-cents to 7-cents per container

**2. Honolulu County handling fees will increase by an additional 10.7%-11.8% in July 2020:**

- a. Aluminum: Increase 10.7% from 3-cents to 3.3-cents per container;
- b. Plastic: Increase 10.7% from 3.5-cents to 3.9-cents per container;
- c. Glass: Increase 11.8% from 7-cents to 7.8-cents per container

**3. Handling fees are higher because scrap revenue of aluminum and plastics is ignored in handling fee calculations:**

- a. In addition to receiving the "handling fee" per container, redemption centers also keep the value of the commodities which is a significant source of revenue for aluminum and PET. While the scrap value of aluminum and PET do fluctuate because they are

commodities, aluminum can be worth about \$900 per ton and PET can be worth about \$200 per ton, which is revenue that goes directly to redemption centers.

- b. Crowe, LLP evaluated the handling fee for the Dept. of Health. The initial handling fee study results were modified to exclude the scrap value of aluminum and plastic from the handling fee calculation, which resulted in higher handling fees than are justified:

*“Crowe and the DOH ultimately decided to remove the scrap revenue per container from the handling fee calculation... **The result is that handling fees are higher than they would have been** had DOH utilized the equation on the prior page [including the scrap value].”*

<https://health.hawaii.gov/hi5/files/2019/06/Hawaii-Handling-Fee-Summary.pdf>

#### **4. Redemption Center Audits Detail Major Concerns About Fraud**

The State Auditor’s biennial audit of the HI-5 program continually calls for improving efficiencies of the program, including the need to address **the potential for millions of dollars in annual redemption center fraud:**

- 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.

#### **5. DOH Is Already Authorized to Evaluate Handling Fee**

Hawai’i Revised Statutes, Chapter 342G-177 states that the department shall evaluate the handling fee at least once a year. This annual evaluation is able take into account the variety of factors impacting the HI-5 program, both globally and locally.

For the above reasons, ABA respectfully requests that this bill be held.

Sincerely,  
David Thorp