



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

**Testimony in SUPPORT of HB1641
RELATING TO RECYCLING**

REPRESENTATIVE AARON LING JOHANSON, CHAIR
HOUSE COMMITTEE ON CONSUMER PROTECTION & COMMERCE
Hearing Date: 2/11/2022 Room Number: Via Videoconference

1 **Fiscal Implications:** This measure will not 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 HB1641 to amend Hawaii Revised Statutes
5 Section 342G to include recommendations from the "Financial and Program Audit of the
6 Department of Health's Deposit Beverage Container Program" (Audit) by the State of Hawaii
7 Office of the Auditor. The Audit identified specific activities that the Department should
8 implement to address potential issues with the beverage container importation and container fee
9 payment processes.

10 As detailed in the Department's response to the June 30, 2020 Audit, the Department has
11 begun or is already implementing many of the Audit's recommendations. The Department is
12 committed to improving the performance of, and restoring public trust in, the Deposit Beverage
13 Container Program.

14 **Offered Amendments:** None

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



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

**Before the House Committee on Consumer Protection & Commerce
Support of H.B. 1641: Relating to Recycling
February 11, 2022**

Good afternoon Chair Johanson, Vice Chair Kitagawa and members of the committee. Thank you for the opportunity to comment in support of H.B. 1641 – relating to the deposit beverage container program.

I am David Thorp, Vice President, State Government Affairs West 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 1,200 good-paying jobs across the 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) Agrees 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) agrees 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

David Thorp
American Beverage Association
Vice President, State Government Affairs West