

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

**Testimony in SUPPORT of SB2998 SD1  
RELATING TO RECYCLING**

REPRESENTATIVE SYLVIA LUKE, CHAIR  
HOUSE COMMITTEE ON FINANCE

Hearing Date: 4/5/2022

Room Number: 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 SB2998 SD1 to amend Hawaii Revised  
5 Statutes Section 342G to include recommendations from the "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 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 Finance  
In Support of S.B. 2998, SD1: Relating to Recycling  
April 5, 2022**

Good afternoon Chair Luke, Vice Chair Yamashita, and members of the committee. Thank you for the opportunity to comment in support of S.B. 2998, SD1 – relating to recycling.

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

**HAWAII LIQUOR WHOLESALERS ASSOCIATION  
FIVE WATERFRONT PLAZA  
500 ALA MOANA BLVD STE 400  
HONOLULU, Hawaii 96813**

April 4, 2022

House Committee on Finance  
Conference Room 308  
State Capitol  
415 S. Beretania St.  
Honolulu, Hi 96813

Re: SB 2998 - RELATING TO RECYCLING  
Hearing Date: April 5, 2022

Dear Chair Sylvia Luke, Vice Chair Kyle T. Yamashita, and Committee Members:

The Hawaii Liquor Wholesalers Association respectfully submits the following written testimony in **opposition** to SB 2998 Relating to Recycling.

SB 2998 would amend Chapter 342G to require the Department of Health (“DOH”) to develop a risk-based process to audit certain deposit beverage distributor and redemption center reports.

For years now, the DOH has received numerous reports from distributors, and, unfortunately, this bill places the onus on distributors to do more reporting, when the Department of Health should first be studying all the of data that has been submitted monthly in their possession.

Establishing this unjustified process for the DOH to audit certain deposit beverage distributor and redemption center reports will have adverse consequences on businesses and consumers.

First, having to prepare monthly or semi-annual distribution reports, without specificity or limitation of supporting documentation as may be required by the DOH would be unduly burdensome on distributors, who are already required to submit monthly Hawaii Deposit Beverage Container Program Monthly Distributor Reports. The addition preparation and reporting will only result in additional administrative costs and expenses, which will drive the cost of business up. These costs and expenses ultimately will be passed on to the consumer.

Second, this bill would require distributor businesses to develop and submit an internal control process for approval to insure accuracy of the data and record maintenance, when there is no showing the current data and record maintenance are inadequate. Further, there is no clear

guideline as to the development of the internal control process. This will only result in additional expenses and labor costs which ultimately will hurt the business and be passed to the consumer.

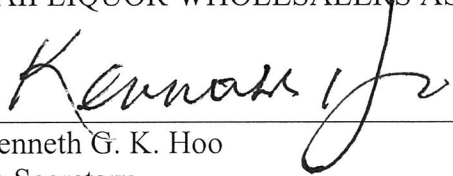
Third, the requirement to obtain independent audits every other year is, again, unjustified, costly, and not beneficial to the general public.

Based on the above, we respectfully oppose SB 2998. Thank you for your consideration of the foregoing.

Very truly yours,

HAWAII LIQUOR WHOLESALERS ASSOCIATION

By: \_\_\_\_\_

  
Kenneth G. K. Hoo  
Its Secretary