

REPORT TO THE LEGISLATURE
STATE OF HAWAII
2007

Deposit Beverage Container Program

PURSUANT TO SECTION 16, ACT 176, TWENTY-FIRST LEGISLATURE 2002,
SECTION 2, ACT 228, TWENTY-THIRD LEGISLATURE 2005.
AND SECTION 2, ACT 231, TWENTY-FOURTH LEGISLATURE 2006
(AMENDING SECTION 6, SESSION LAWS OF HAWAII 2005)
REQUIRING THE DEPARTMENT OF HEALTH TO GIVE A REPORT ON THE
ACTIVITIES OF THE DEPOSIT BEVERAGE CONTAINER PROGRAM

PREPARED BY:

STATE OF HAWAII
DEPARTMENT OF HEALTH

December 2006

EXECUTIVE SUMMARY

The Department of Health reported an inaugural annual redemption for fiscal year 2006 of 68%. This is an increase of 27 percentage points above the average redemption rate of 41% reported for 2005, the first calendar year of the program. The increasing redemption rate clearly demonstrates that the Hawaii Deposit Beverage Container Program is even closer to reaching the goal of 80% redemption of deposit containers. Overall, distributors and dealers reported FY 2006 sales of approximately 930 million deposit beverages. Certified redemption centers reported and claimed reimbursement and handling fees for approximately 630 million redeemed deposit beverage containers. It's important to note that the FY 2006's 68% annual redemption rate again surpasses California's rate of 55% during the first year of their deposit program in 1988. The department's goal to reach an 80% redemption rate is based on other states with a 5¢ deposit value, which average an 80% rate. The Hawaii program's sustained high redemption rates measure the effectiveness of and success of the program.

As of June 30, 2006, the department certified 84 certified redemption centers, including 68 stationary and 21 mobile sites. This is an increase of 7 new sites since the start of January 2006. The majority of the new sites are located on Oahu (total Oahu sites: 52). Redemption center sites are open for a total of 2,730 hours.

As of June 30, 2006, the department collected approximately \$90.1 million in container fees and deposits from distributors. From October 2002 through June 30, 2006, the department paid out almost \$57.2 million to redemption center operators for redeemed deposits and eligible handling fees. Around \$5 million was encumbered as of June 30, 2006, which included \$897,000 for county redemption operation support, \$190,000 for administration of the program, \$1.5 million for redemption center deposit reimbursements and eligible handling fees, and \$2.4 million for the redemption center and recycling infrastructure improvement grant established under Act 228, Session Laws of 2005. The special fund had slightly more than \$17 million remaining after encumbrances. The program collects 6 cents per container but pays out 7 or 8 cents per container.

The number of complaints for the first half (July to December) of 2005 (total: 93) declined 46 per cent in the second half of the fiscal year (January to June 2006) (total: 43). One prevalent complaint focused on the alleged inaccuracy of the segregated conversion rates. The department is conducting a re-evaluation of the segregated rates, which represent the number of deposit beverage containers per pound for each material type (i.e., aluminum, plastic, glass and bi-metal) during FY 2007.

The department is proposing a major change in how redemption and recycling companies make claims for deposit refunds and handling fees. DOH proposes that the combined DBC refund value and handling fee claims be based on the quantity of DBC material that they ship to the end user recyclers, instead of the amount of DBC that redemption centers claim that they receive from customers at the centers. This modification will better assure that payment requests made by redemption centers for

DBC material redeemed/collected are equivalent to the quantity of DBC material shipped to an end-user recycler.

The data presented and utilized in this report reflects that data collected as of June 30, 2006.

I. DEPOSIT PROGRAM MEASURE OF EFFECTIVENESS

The department, at this writing, has selected a single measure of effectiveness, i.e., the deposit beverage container redemption rate, which the deposit beverage container program believes is reflective of the efficacy of the program to accomplish primary its mission to: (1) collect and redeem eligible deposit beverage containers and (2) recycle deposit beverage container materials.

Deposit Container Redemption Rate

The redemption rate increased from 41% in the second half of fiscal year 2005 (because redemption started in January 2005) to 68% in fiscal year 2006. The information below shows the actual numbers of containers sold and containers redeemed.

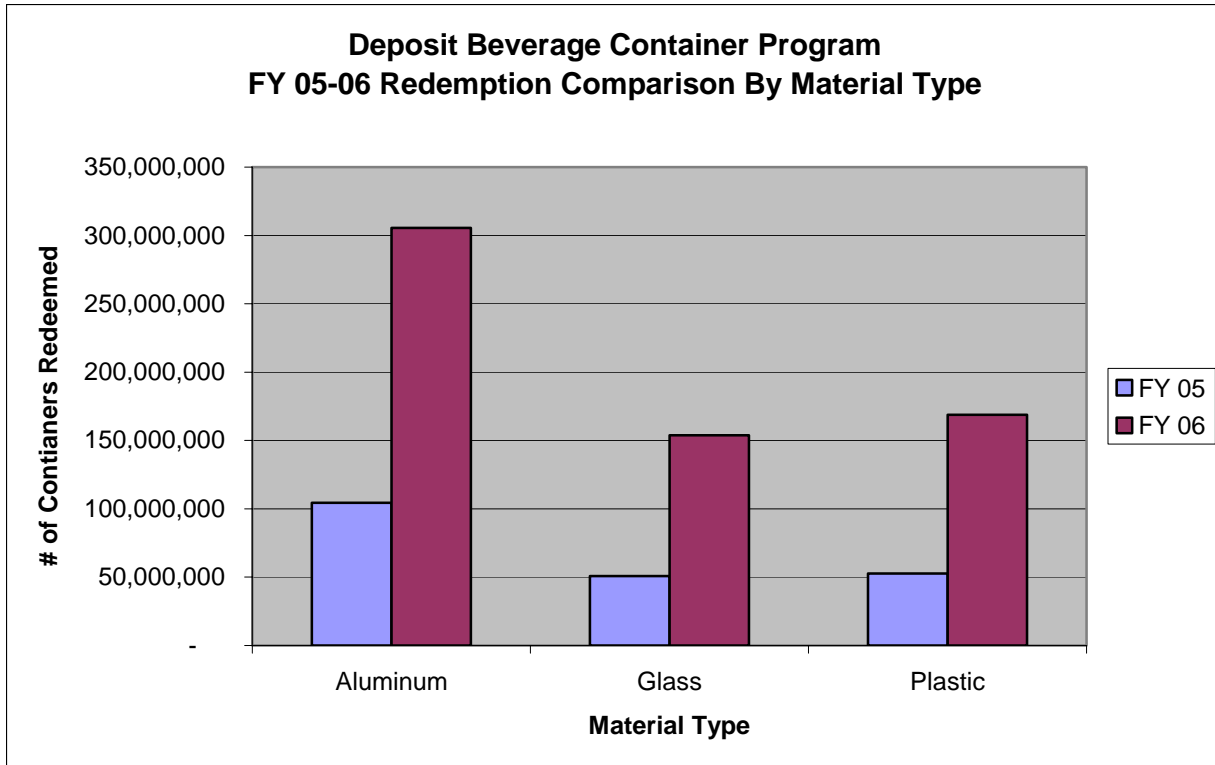
The redemption rate is calculated by dividing the number of deposit containers redeemed by the number of deposit containers sold.

$$\text{Redemption Rate} = \frac{\# \text{ deposit beverage containers redeemed}}{\# \text{ deposit beverage containers sold}}$$

$$\text{Redemption Rate} = \frac{628,818,330 \text{ redeemed}}{930,353,658 \text{ sold}}$$

$$\text{Redemption Rate} = 68\%$$

The following chart shows the increase in redemption from 2005 to 2006, by material type.



II. PROGRAM PERFORMANCE INDICATORS

Payments to Certified Redemption Centers

All Certified Redemption Center sites are submitting deposit and handling fee request forms. The department has been able to process the majority of payments within 2 weeks. From October 2002 through June 30, 2006, the department paid out almost \$57.2 million to redemption center operations for redeemed deposits and eligible handling fees. Incomplete forms or questions related to verification documentation that are submitted to the department may delay payment.

Charities and Fundraising

The program continues to provide schools and non-profits fundraising opportunities through donation programs. Fundraising efforts complement the program and contribute to the overall number of containers recycled by encouraging people who are not motivated to recycle for a 5¢ deposit. These people may only recycle to help their favorite organizations raise funds. Schools and churches run collection drives and partner with recyclers to receive deposits. The National Kidney Foundation of Hawaii expanded their pick-up service for donated household goods to include deposit containers.

Certified Redemption Centers

As of June 3, 2006, the department has certified 84 redemption centers, including 63 stationary sites and 21 mobile truck sites. This is an increase of 7 new sites since the start of January 2006. The majority of the new sites are located on Oahu. Redemption centers are open for a total of 2,730 hours per week across the state. See table below for breakdown by island.

Island	January 2005	December 2005	June 2006	Weekly Hours of Operation (June 2006)
Hawaii	5	11	12	395.5
Maui	9	9	12	472.5
Molokai	1	1	1	37.5
Lanai	1	1	1	15
Oahu	23	49	52*	1,660.5
Kauai	5	6	6	143
Total:	44	77	84	2,730 hours per week

* Four sites are located on military bases and not open to general public. Hours from these sites, amounting to 58 hours, are included in the column titled "Weekly Hours of Operation."

A few dealers (supermarkets) have allowed recyclers to operate redemption centers in their store parking lots. These sites are open for business 1-2 days a week and are serviced through mobile trucks with Reverse Vending Machines (RVMs). These sites are included in the table above. The table below shows locations and operating hours per week.

Supermarket Locations 2005	Days per week	Hours per week
Times McCully	2	12
Times Beretania	2	12
Times Kahala	2	12
Foodland Beretania	1	6
Foodland Aina Haina	1	6
Foodland Kaneohe	1	6
Foodland Ewa Beach	1	6
Stadium Sack & Save	1	6
KMCB Hawaii – Base Exchange	1	5
Schofield Barracks Commissary	1	4
Windward Mall	2	10
Tamura's Market (Wahiawa)	2	18
Pearl Harbor Navy Exchange	2	18

Additionally, one retailer continues to operate his own redemption services. The Aloha Shell Station on Maui offers redemption services through Reverse Vending Machines. The location is an independent registered redemption center working with a larger recycler to process the materials and move them to an end market for recycling. In June of 2006, the operator expanded his operation from one RVM to six RVMs. In addition, the operator began accepting larger loads by weight.

Environmental Indicators

A total of 42,277 tons of deposit beverage containers have been recycled.

Material Type	Total Tons Recycled in FY 2006
Aluminum	5,092
Bi-metal	42
Glass	32,060
Plastic	5,083
Total	42,277

To determine the program's impact on litter the department used the Ocean Conservancy's International Coastal Cleanup data report as an indicator. Every September volunteers help clean up coastal areas and record the types and numbers of debris they find. Data is compiled into reports and release the following year in spring. The below table compares data from the 2004 and 2005 reports

Number of Debris Found During Cleanup

Beverage Container Type	2003	2004	2005
Glass Bottles	7,687	11,362	7,194
Plastic Bottles	5,246	5,215	3,824
Metal Cans	4,946	6,894	3,518
Total	17,879	23,471	14,430

Note: The number of volunteers and targeted areas vary from year to year. To better determine the impact of the Deposit Program on litter it will take a few more years to show a trend or overall decrease.

Percentage of Total Debris Collected During Cleanup

Beverage Containers	2003	2004	2005
Beverage Containers (glass, metal, plastic)	15.9%	14.5%	12.3%

The table below shows the top five debris items collected at the beach cleanup. This shows that beverage containers are a large part of beach litter. It is important to

continue to have a deposit on those containers to increase the incentive to recycle and decrease the temptation to litter.

Top 5 Debris Items Collected During The 2005 Cleanup

Land Cleanups Only	Number of Debris Items	Percent Of Total Collected
1. Cigarettes	39,893	34.0%
2. Beverage Containers (<i>glass, metal, plastic</i>)	14,430	12.3%
3. Caps & Lids	14,233	12.1%
4. Food Wrappers	10,929	9.3%
5. Cups, Plates & Utensils	5,365	4.6%
Underwater Cleanups Only	Number of Debris Items	Percent Of Total Collected
1. Beverage Containers (<i>glass, metal</i>)	1,197	78%
2. Fishing Line	51	3.3%
3. Fishing Lures & Light Sticks	37	2.4%
4. Clothing	29	1.9%
5. Rope	27	1.8%

III. DEPOSIT BEVERAGE CONTAINER SPECIAL FUND

Revenue and Expenditures

From October 2002 to June 30, 2006 the department has collected around \$90.1 million in container fees and deposits from distributors. In October 2002 the law first required the department to collect a \$0.005 (one-half cent) container fee. Subsequently, starting in October 2004, the law required the department to collect a 1¢ container fee and a 5¢ deposit on all eligible deposit beverages manufactured, sold and imported in the State. Beginning January 2005 through June 30, 2006, the department paid out almost \$57.2 million to redemption center operators for redeemed deposits and eligible handling fees. Around \$5 million was encumbered as of June 30, 2006, including \$897,000 for the 3 counties for redemption operation support, \$190,000 for program administration, \$1.5 million for redemption center operators for redeemed deposits and eligible handling fees, and \$2.4 million for redemption center and recycling infrastructure improvement grant, required under Act 228, Session Laws of Hawaii 2005. This Act also set aside deposit beverage container special fund monies for rebates for retailers who purchased reverse vending machines however, no retailer applications were received for the subject rebates. By June 30, 2006, approximately \$1.4 million was provided to all 3 counties for redemption operation support. Additionally, \$ 2.5 million was expended for program administrative costs. The department has determined that the total program cost to recycle each container is approximately 3¢ per container (including handling fees paid to recyclers).

The following table represents deposit beverage container special fund revenues and expenditures from October 2002 through July 31, 2006.

October 2002 – July 31, 2006

Revenue		
Distributor Payments		
Deposits (5c/container)	\$ 70,134,049	
Container Fees (1c/container)	\$ 23,406,950	
Interest (from Bank)	\$ 1,031,454	
Total Revenue		\$ 94,572,453
Expenditures		
Payments to Redemption Centers		
Deposits (5¢/container)	\$ 44,794,740	
Handling Fees (2 or 3¢/container)	\$ 16,317,248	
Subtotal	\$ 61,111,988	
County Support		
County of Hawaii	\$ 857,267	
County of Maui	\$ 446,542	
County of Kauai	\$ 178,160	
Subtotal	\$ 1,481,969	
Administrative Expenses		
DOH Payroll	\$ 623,933	
DOH supplies, phone, misc.	\$ 282,260	
For contracts (Act 228, 2005)	\$ 588,118	
Advertising/Outreach	\$ 761,674	
Payment to General Fund for Admin Expenses for FY05	\$ 162,864	
Audit Fee for FY05	\$ 92,480	
Others - Travel	\$ 23,257	
Subtotal	\$ 2,534,586	
Total Expenditures		\$ 65,128,543
Unspent before encumbrances		\$ 29,443,910
Encumbrances		
For redemption center payments (from July 2005 to June 2006)	\$ 7,492,858	
For County Support	\$ 1,646,829	
For marketing, admin, misc.	\$ 297,364	
For contracts (Act 228, 2005)	\$ 2,411,882	
Total Encumbrances		\$ 11,848,933
Unspent after encumbrances		\$ 17,594,977
Reserved	MEMO ONLY	

For RVM (reversed vending machine) Rebate	\$ 3,000,000	
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Infrastructure Improvement Grant Program

The Infrastructure Improvement Grant Program (Act 228, SLH 2005) went into effect July 2005 and made \$3 million in funds available to encourage expansion and improvement of redemption center service to the public and help raise recycling rates. A Request for Proposals (RFP) was published to solicit proposals. The department awarded seven proposals in December 2005 and the contractors began work in February 2006.

The top 2 awardees were Goodwill Industries and Reynolds Recycling. Goodwill was awarded \$939,400 for new redemption center locations. Goodwill will open 6 new certified redemption centers located in high demand areas of Oahu (2 redemption centers were opened in early FY 06). The centers will include a comprehensive recycling format where the general public can redeem deposit containers and donate used household items. A key focus of the centers will be on customer convenience and service with centers open 7 days a week during retail hours (9 a.m. – 7 p.m.). Some of the centers will provide 24-hour accessibility for redemption through the use of reverse vending machines.

Reynolds Recycling received \$1,138,800 for Improved Customer Care and Infrastructure development. Reynolds Recycling will, among other improvements, utilize the grant funds to implement an integrated communication system. This will speed up customer refunds and safeguard against site closures. The new technology will link Reynolds’ main facility to all certified redemption center sites allowing a faster response to problems such as low funds or full containers and the result for consumers will be fewer site closures. An added community benefit will be improved safety through a direct link to 911 emergency services for fire, police, or medical assistance if needed. New base yard equipment will be purchased to increase the company’s capacity to collect and move recyclable materials. This will help to prevent closures from overloaded sites. Reynolds’ increased capacity to collect, process and ship deposit beverage containers will help operations run more quickly and allow them to handle more consumers material in a reduced amount of time thereby directly improving customer convenience.

Other Awards for Improved Infrastructure include:

Maui Disposal Co., Inc.	\$ 429, 600
Garden Isle Disposal	\$ 120,000
Honolulu Recovery Systems	\$ 260,000
Aloha Glass Recycling, Inc.	\$ 98,600
RRR Recycling Services Hawaii	\$ 13,600

These contractors will install new equipment to increase capacity to collect, process and ship deposit beverage containers. This will improve each redemption center's capacity to collect material, improve customer convenience, and expand locations.

Reverse Vending Machine Rebate

The Reverse Vending Machine (RVM) Rebate program (Act 228, Session Laws of Hawaii 2005, amended by Act 231, Session Laws of Hawaii 2006, codified at HRS 342G-102.5) received very little interest from retailers even though it offered a 100% rebate on the purchase price, tax, and shipping of each RVM. The department developed and distributed rebate application forms but did not receive any completed applications. Retailers may not have applied for any number of reasons, including:

- Lack of interest in operating redemption center services at their stores;
- Uncertain of requirement to keep RVMs in service for 2 years or face reimbursement of rebate; or
- Wary of signing service agreement with recyclers if the retailer did not want to service the machines themselves.

Companies that sell and lease RVM machines did approach retailers to encourage them to take advantage of the rebate program. These companies reported some retailers appeared interested however were not willing to commit to any purchases or agreements. The department did receive some inquiries from other organizations including non-profits, schools, and churches.

IV. INFORMING AND LEARNING FROM BUSINESS AND THE PUBLIC

Program Outreach

The department is working with Hastings and Pleadwell Communications to develop a print and radio media campaign as well as instructional training materials for redemption center operators. The direction of this campaign is based on a statewide telephone survey done by Ward Research in April and May of 2006. The results showed a 90% awareness of the program and 70% participation. The results also showed that 50% of the public views the HI 5 program positively and 50% have a neutral or negative view of the program. Customer service and a lack of information were the top complaints. The goal of the media campaign and instructional training is to inform the public of program specifics and provide redemption center operators with customer service tools to help them better serve the public.

Educational Outreach

In conducting the marketing and outreach, the department identified pre-school and elementary grade level students as an important market to reach. These students are very effective in educating and motivating members in their families to accept new concepts like recycling and change their habits. The department plans to reach these students through educational classroom activities and plays.

The department and Kokua Hawaii Foundation are working on developing an RFP together to request proposals for an interactive musical theater performance for students in grades Pre-6. The performance will include a resource guide with instructive curriculum to teach children in about waste minimization and recycling. The theater performance will travel to schools around the state to excite students about the 3-R's and how to apply lessons learned in their households.

The department is also working with Honolulu Theater for Youth to develop a short "playlet" before their main "Christmas Talk Story" performances. The shows will run during November through December for schools and the public. The playlet will be filmed and run on Olelo Public Television. The topic of the playlet will be on how to recycle and to not litter.

Improving Customer Service At Redemption Centers

The department is working with its marketing contractor to develop a workshop series for redemption center operators to help encourage them to make changes that will improve customer service and become "goodwill ambassadors" of the program.

A large part of how the public feels about the program will come from the experience they have at the centers. Redemption center operators are the "face" of the program. If a customer takes their deposit containers to a redemption center for refund and feels they were not treated fairly by the operator then they leave disappointed with the operator and with the program as a whole.

The department has asked recycling companies and redemption center operators to explain customer service problems. Companies and operators report that change is coming but efforts to properly train new employees have been difficult for a variety of reasons, including:

- High employee turnover rates make it difficult to keep up with training employees;
- The state's low unemployment rates have made it difficult to find new employees; and
- Low employee retention due to less than ideal working conditions at centers and employees having to deal with many angry customers.

V. ENFORCEMENT & INSPECTIONS

The department has logged and followed up on 137 complaints from July 1, 2005 to June 30, 2006. The most common complaints by month are as follows:

Month/Year	Complaint
July/2005	1. Redemption centers are closed and/or full

	2. Centers not accepting specific material types: glass, bi-metal, or plastic
	3. Segregated rates not accurate
	4. Not enough redemption center locations and convenient hours of operation
August	1. Redemption centers are closed and/or full
	2. Centers not accepting specific material types: glass, bi-metal, or plastic
	3. Not enough redemption center locations and convenient hours of operation
September	1. Redemption centers are closed and/or full
	2. Redemption centers not redeeming the deposit on eligible deposit containers
	3. Centers not accepting specific material types: glass, bi-metal, or plastic
	4. Redemption centers not paying full refund value
October	1. Centers not accepting specific material types: glass, bi-metal, or plastic
	2. Rude staff/operators of redemption centers
	3. Not enough redemption center locations and convenient hours of operation
	4. Segregated rates not accurate
November	1. Segregated rates not accurate
	2. Containers not labeled and consumer charged the deposit
	3. Retail stores charging full refund value to non-eligible containers
	4. Rude staff/operators of redemption centers
December	1. Segregated rates not accurate
	2. 50 container count is too low, inconvenient
	3. Containers not labeled and consumer charged the deposit
	4. 7 day expiration date voucher is inconvenient
	5. Not enough redemption center locations and convenient hours of operation

Month / Year	Complaint
January/2006	1. Segregated rates not accurate
	2. Centers not accepting specific material types: glass, bi-metal, or plastic
	3. Redemption centers have long lines and wait times
	4. 50 container count is too low, inconvenient
February	1. Redemption centers are closed and/or full
	2. Segregated rates not accurate
	3. Redemption centers have long lines and wait times

	4. Redeeming procedures are inconvenient: sorting, counting, logging
March	1. Segregated rates not accurate 2. 50 container count is too low, inconvenient
April	1. Redemption centers are closed and/or full 2. Segregated rates not accurate 3. Redemption activities at the center are noisy 4. Centers not paying full redemption value by weight, or scale is wrong
May	1. Centers not accepting specific material types: glass, bi-metal, or plastic 2. Rude staff/operators of redemption centers 3. Stores charging 5¢ on non-HI5 containers
June	1. Segregated rates not accurate 2. Redemption centers are closed and/or full 3. Rude staff/operators of redemption centers

The number of complaints for the first half (July to December) of 2005 (total: 93) declined by 46 per cent in the second half of the year (January to June) of 2006 (total: 43). A common complaint focused on the alleged inaccuracy of the deposit beverage container segregated rates. The department is now re-evaluating the subject segregated (conversion) rates (see page 15).

Inspections for Compliance and Complaints

As a way to inform distributors, retailers, and recyclers on the requirements in law, the Program Inspectors visit businesses to help with compliance. Further, inspectors conduct site inspections of regulated businesses on which complaints have been received. Additionally inspectors also conduct more comprehensive compliance evaluation inspections (CEIs) of regulated facilities, including certified redemption centers and deposit beverage container recycling facilities. Some CEIs are initiated following facility complaints, which warrant more intensive investigation. Businesses that are not in compliance with the law are issued warning letters to inform them of actions they need to take to help bring them into compliance.

Month	Compliance Inspection	Complaint Inspection	Warning Letters	Follow Up to Warning Letter
July 2005	5	4	4	0
August	2	5	7	2
September	16	1	4	0
October	11	12	2	2

November	5	0	0	0
December	28	1	0	0
January 2006	5	2	2	0
February	7	3	21	0
March	13	0	4	0
April	8	4	6	0
May	0	1	8	0
June	4	2	2	0
Total	114	35	60	4

Enforcement

The department has issued enforcement notices and orders, in the form of official Notices of Findings and Orders (NFVOs), to two (2) program-regulated facilities, i.e., Papaya's Natural Foods and Healthy's Inc., dba Down to Earth. Papaya's Natural Foods has complied with the department's enforcement order by submitting its required corrective action plan and paying the specified penalty in full. Healthy's Inc. dba, Down to Earth has responded to the department's order and has indicated a willingness to discuss its obligations.

VI. CHALLENGES

Segregated Rate

The department adopted "segregated rates" (weighing rates for converting weights to counts for separated types of containers) to help process containers faster and to give the public options on how to redeem containers to recover their deposits. The Department is conducting a new segregated rate study. The study includes statewide sampling to determine the average number of beverage containers per pound. The segregated rate is an average because beverage containers come in a wide variety of sizes and weights. The segregated rates are:

Deposit Container Material Type	As of 03/23/05 # Containers per Pound
Aluminum	30.0
Bi-metal	8.0
Glass	2.4

Plastic (polyethylene terephthalate (PET) & high density polyethylene (HDPE))	16.6
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The weighing of containers upset consumers who were not getting back 5¢ back for every container. They wanted a count of all containers instead of weighing.

Consumers have a choice to request redemption by weight or by count. They can request a hand count, and redemption centers must provide a hand count of loads of 50 or less containers if requested. Some redemption centers have reported to the department that they are hand counting larger loads. If people believe that the weight rate may undercount, as may happen if many small plastic containers are involved, they can segregate the containers by size and seek a hand count. People who bring in *large loads* of deposit containers may choose to have their loads weighed to avoid waiting while each container is counted. The department also intends to help consumers get counts of larger loads by amending the administrative rules, as discussed below.

Proposed Changes for Certified Redemption Center Claims

The program is considering making a major change to its current redemption and recycling company claims procedures. We propose that the DBC refund value and handling fee claims be based on the quantity of DBC material that is shipped to end user recyclers (e.g. glass and aluminum melters). Presently, the DBC refund/deposit value is based on the quantity of DBC that redemption centers claim to have received from consumers. This summer the program became concerned that the DBC quantity claimed by redemption centers is not a reliable indicator of the actual quantity of DBC material collected, which has been found to be affected/reduced by such factors as material shrinkage, theft, contamination, etc. DOH also proposes to establish a single combined deposit and handling fee form, combining the current 5-cent Deposit Refund Request (DR-1) and Handling Fee Request (HR-1) forms, so that both the deposits and fees are paid at once. Currently deposit refunds are paid first, based on deposit forms, and handling fees are paid later, based on handling fee forms. These modifications will better assure that payment requests made by redemption centers for DBC material redeemed/collected is equivalent to the quantity of DBC material shipped to an end-user recycler. DOH expects opposition from the certified redemption centers and recycling companies because they will be paid later and must bear the risk of differences in counts or weights between when they collect and when they ship DBCs.

VII. ADMINISTRATIVE RULES

Hawaii Administrative Rules Chapter 11-282 was approved by the Governor and became effective July 1, 2005. The rules provide: 1) clarifying definitions; 2) reporting and container labeling requirements for distributors and dealers; 3) provisions for inspections and enforcement procedures by the DOH; 4) exemptions for dealers from redeeming containers; 5) requirements for redemption center certification and operation; 6) requirements for recycling centers; 7) a method to calculate the numbers of different types of containers per pound; and 8) other procedures for the DOH.

During the fiscal year 2006 Legislative Session, the Legislature passed SB 3181. SB 3181 would have increased the quantity of DBC that redemption centers were required to count from 50 to 200 containers and included several other program technical improvements. Governor Lingle vetoed the measure suggesting that several of the provisions could be addressed through the program's administrative rules. The department is in the process of drafting amendments that address several of these provisions including; requiring redemption centers to count up to 200 containers, authorizing redemption centers to refuse payment for containers that show characteristics of being previously processed or bailed, and providing specifications and a penalty matrix for field citations.

VIII. STAFFING AND PROGRAM ORGANIZATION

Staffing

The department has been successful in converting all previously temporary positions to permanent status. Currently, 2 Environmental Protection Specialist III and Planner IV positions require filling. The Planner IV position was recently vacated when the incumbent returned to the mainland. The following table provides a listing and current status of all program staff positions.

Position	Number	Position Filled	SR Rating
Accountant	1	Yes	SR-20
Account Clerk	2	Yes	SR-8
Environmental Health Specialist III	5	2 vacant	SR-20
Engineer IV	1	Yes	SR-24
Planner IV	1	No	SR-22
Recycling Coordinator – partial deposit beverage container (DBC) special funded	1	Yes	Exempt
Solid Waste Management Coordinator – partially DBC special funded	1	Yes	Exempt
Total	12	9	

The department will attempt to hire two additional environmental health specialists for inspections. We have interviewed and may be hiring one environmental health specialist in the very near future. The program has encountered difficulty in hiring environmental health specialists because the program must compete with all other DOH environmental health programs for these positions. The program is further handicapped because environmental health specialist applicants opt for higher-level environmental health specialist IV positions in the department. Currently, the program has only environmental health specialist III positions available. The program intends to upgrade these positions to the IV level.

In FY 06, the program received its first account clerk II eligibility list and has recently hired an additional employee in this position to assist in program accounting. The program is also having difficulty in finding a planner comparable to the individual who recently vacated this position. It is a program priority to find the right person to fill the planner IV position as this position is involved in all phases of the program and is intrinsic to its success.

Program Organizational Charts

(see enclosed documents)

IX. LEGISLATIVE AUDIT

The program has undergone its first Legislative Audit, and the financial portion of the program's second audit has begun. The program continues to take corrective actions and make improvements as recommended by the audit. The department has submitted written responses to the audit's recommended actions, which has been included below:

RECOMMENDATIONS

1. The governor should assist in the Department of Health's implementation of the Deposit Beverage Container Program according to Chapter 342G, Part VIII, HRS.

2. The Department of Health should:
 - a. fill the Solid Waste Coordinator position;

 - b. reevaluate the program's organization, staffing, and position descriptions;

AFFECTED AGENCY

During the 2006 Legislative Session, the Governor requested and was subsequently granted, during the 2006 Legislative Session, 4 additional deposit beverage container (DBC) positions (i.e., Planner IV, 2 Environmental Health Specialist (EHS) IIIs, and an Account Clerk II), and the conversion of the original 6 temporary DBC positions to permanent.

This position has been filled since January 2006.

The DBC program reevaluated its needs, organization, staffing, and position descriptions, and added 4 permanent positions to strengthen and improve the program's planning and outreach, inspection and accounting areas. The program converted its 6 previously temporary positions to permanent, which will increase the attractiveness of these positions thereby improve recruiting and retention. Further, the program has reviewed current position descriptions and determined that the Accountant III position and, at this writing, one EHS III position require upgrading, i.e., upgraded to an Accountant IV and EHS IV, based on their current and future position duties and responsibilities. The Accountant III position currently supervises 2 Account Clerk II positions and one currently-filled EHS III assists in training and directing the other EHS III incumbents.

- c. provide staff members sufficient time and resources to perform inspection and enforcement responsibilities, including conducting random audits;

Currently, we have 2 vacant EHS III positions and 1 vacant Planner IV position. We have selected an additional EHS III candidate, which hopefully will fill the position soon. Filling the other EHS III position and vacant Planner IV position will provide staff with additional time and resources to perform increased inspections, enforcement and audits of program-regulated facilities. One currently-filled EHS III incumbent also performs Planner IV work due to the May 2006 departure of our previous planner. The filling of the Planner IV vacancy and dedication of the aforementioned EHS III to strictly EHS work will also increase the time and resources available for inspections, enforcement and audits. Further, the filling of our second Account Clerk II position (which hopefully will occur very soon) will also increase our audit and audit support capability.

- d. set and enforce standard levels of service for and encourage competition in the operation of redemption and recycling centers;

The DBC program sets and enforces standard levels of service for redemption and recycling centers via its rules and inspection and enforcement program. Redemption and recycling centers must comply with set laws, rules and certification/solid waste permit conditions that are enforced by the program. Identical regulatory-compliance requirements level the playing field for redemption centers with regards to basic redemption and recycling recycling procedures.

The program also takes and refers customer service complaints to redemption and recycling companies so they can communicate with their customers and, if appropriate, improve customer service.

The program also encourages competition in the operation of redemption and recycling centers by providing training as well as opportunities for improving customer service. The program has contracted to provide customer service training, on a voluntary basis, for redemption and recycling companies. The purpose of this training is to provide redemption and recycling companies with examples of acceptable customer service, which the companies may choose to implement to the degree that they want to increase the desirability of their redemption services.

Further, the program has made available a total of \$6 million in DBC funds for: 1) \$3 million redemption and recycling infrastructure (e.g., the purchase of equipment, etc.) improvement grants and 2) \$3 million reverse vending machine (RVM) rebates to assist companies in increasing redemption sites as well as improve customer service.

- e. establish a graduated fine system to enforce certification permits and standard levels of service;

Although, the program currently utilizes the Solid Waste Administrative and Civil Penalty Policy, the program has prepared a DBC draft enforcement policy and associated draft DBC program administrative and civil penalty policy with attached penalty/fine matrix. The draft DBC enforcement and administrative and civil penalty policy continue to be discussed and revised prior to submittal for approval.

The program is currently preparing an administrative rule amendment to provide field citation authority and ability. The draft rules have been prepared as well as a draft penalty schedule, which identifies the violations and associated fines.

- f. educate the public on the environmental benefits of recycling, as well as program changes and improvements;

The program has contracted for advertisements, which are now running and being published, which include information on the benefits of recycling as well as guidance on DBC redemption. Media outlets include print, radio and the program's HI5¢ website. Program staff also provides in-person instruction and information to schools, organizations and the public (e.g., via recycling fairs and conferences). (see also Section IV, *supra*, Education Outreach)

- g. evaluate whether handling fees paid to redemption centers are sufficient to sustain acceptable levels of service;

At this writing, the program has not received complaints on the inadequacy of current handling fees. The program has attempted on, at least 2 occasions, to obtain redemption service profit-related information from recycling and redemption companies. Companies have declined to provide such information, which they claim is proprietary. Legislation would be needed to expand the program's access to such profit and financial status information from redemption and recycling companies.

- h. develop and enforce written information technology policies, procedures, and controls, including verification of data reported by distributors and redemption and recycling centers; and

The program has established standard reporting, payment and DBC refund value and fee claims procedures for distributors and redemption/recycling companies via appropriate forms and documents. The program continues to evaluate the efficacy of established reporting, payment and claims procedures to provide accurate and verifiable information, payments and claims.

The program is considering making a major change to its current redemption and recycling company claims procedures. We propose that the DBC refund value and handling fee claims be based on the quantity of DBC material that is shipped to end user recyclers (e.g. glass and aluminum melters). Presently, the DBC refund/deposit value is based on the quantity of DBC that redemption centers claim to have received from consumers. This summer the program became concerned that the DBC quantity claimed by redemption centers is not a reliable indicator of the actual quantity of DBC material collected, which has been found to be affected/reduced by such factors as material shrinkage, theft, contamination, etc. DOH also proposes to establish a single combined deposit and handling fee form, combining the current 5-cent Deposit Refund Request (DR-1) and Handling Fee Request (HR-1) forms, so that both the deposits and fees are paid at once. Currently deposit refunds are paid first, based on deposit forms, and handling fees are paid later, based on handling fee forms. These modifications will better assure that payment requests made by redemption centers for DBC material redeemed/collected is equivalent to the quantity of DBC material shipped to an end-user recycler.

- i. develop and implement a system that allows for electronic filing of forms and data exchange from distributors and redemption and recycling centers to improve reliability and efficiency.

The program has contracted Computer Training Academy (CTA) for the development of a system that allows for electronic filing of forms and information, as well as information exchange, from distributor and redemption and recycling centers. This electronic form and filing program should improve data reliability and efficiency.

3. Regarding financial controls, the Department of Health should:

- a. provide fiscal guidance to and/or oversight of the program, including defining the Administrative Service Office's fiscal responsibilities and the applicability of financial accounting reports;

The Program, in general, complies with the Department of Health's (DOH) Administrative Services Office (ASO) policies and procedures related to the processing, submittal and approval of financial documents, e.g., purchase orders, etc. The program maintains communication with key DOH-ASO staff to address and resolve specific and/or heretofore un-encountered as well as chronic financial issues and problems.

- b. provide training for staff in the areas of procurement to ensure compliance with Section 103D, HRS, and governmental accounting and the governmental financial reporting process;

Select staff have received State Procurement Office (SPO)-sponsored training, both in-person and via the SPO website. Staff received and review available procurement policy and procedure, which explain HRS Chapter 103D rules and advise regarding revisions to Chapter 103D and SPO policies and procedures. Staff also maintain POCs within SPO to consult on specific procurement issues and problems.

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| <p>c. develop, implement, and enforce clearly defined written policies and procedures that ensure consistent and systematic processing of transactions in accordance with the law and governmental accounting principles;</p> | <p>The program's accounting policies and procedures have been developed, which are consistent with the law and governmental accounting principles. These program accounting policies and procedures have been implemented and strictly adhered to, except as required to be revised due to amended accounting requirements and/or in response to modified and/or heretofore un-encountered circumstances.</p> |
| <p>d. develop, implement, and enforce clearly defined written policies and procedures for the review and maintenance of program accounting records;</p> | <p>Please see program response to Recommendation #3.a., above. The program utilizes both Quickbooks accounting software and reconciles to the State's FAMIS reports on a monthly basis.</p> |
| <p>e. ensure that proper cut-off dates for transactions and adjustments are developed, implemented, and enforced; and</p> | <p>Proper cut-off dates for transactions and adjustments have been established, consistent with the program's written policies and procedures and, as applicable, those of DOH-ASO. Cut-off dates for transactions and adjustments have been established for DBC distributor reports and payments as well as redemption center claims for reimbursement and fees. For example, non-reporting, non-paying and delinquent DBC distributors are identified, mailed demand letters, followed by DOH warning</p> |

- f. ensure that QuickBooks accounting records are periodically reconciled with government financial reports.

letters. If warning letters are not heeded, enforcement and the imposition of sanction and penalties is considered.

Program Quickbooks accounting records are reconciled to FAMIS reports on a monthly basis.

X. LEGISLATIVE PROPOSALS AND CLOSING REMARKS

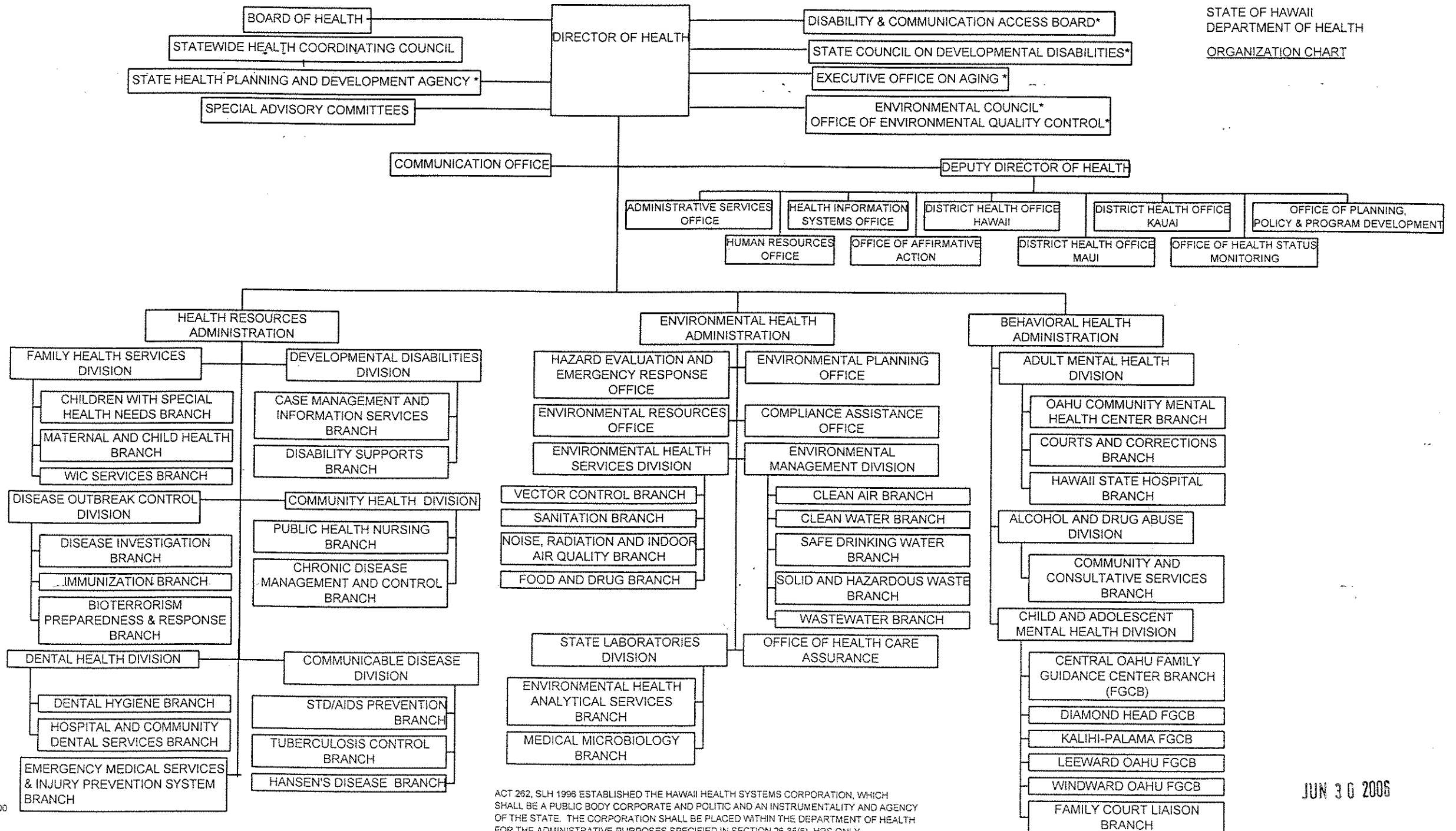
Legislative Proposals (see enclosed documents)

Closing Remarks

The program continued to make progress in FY 2006 and continues to work on improvements. We will focus on improved consumer convenience via an education program for certified redemption center employees, continue to improve customer convenience and satisfaction with the program, and seek more consistent and accurate verification of claims in FY 2007. Initiatives are already underway in these areas.

The administration continues to believe that government should continue to seek improvements to the deposit beverage container program, and that comprehensive recycling run by the counties would be a better approach. As many materials as possible should be recycled; and each county knows its needs best. However, if the

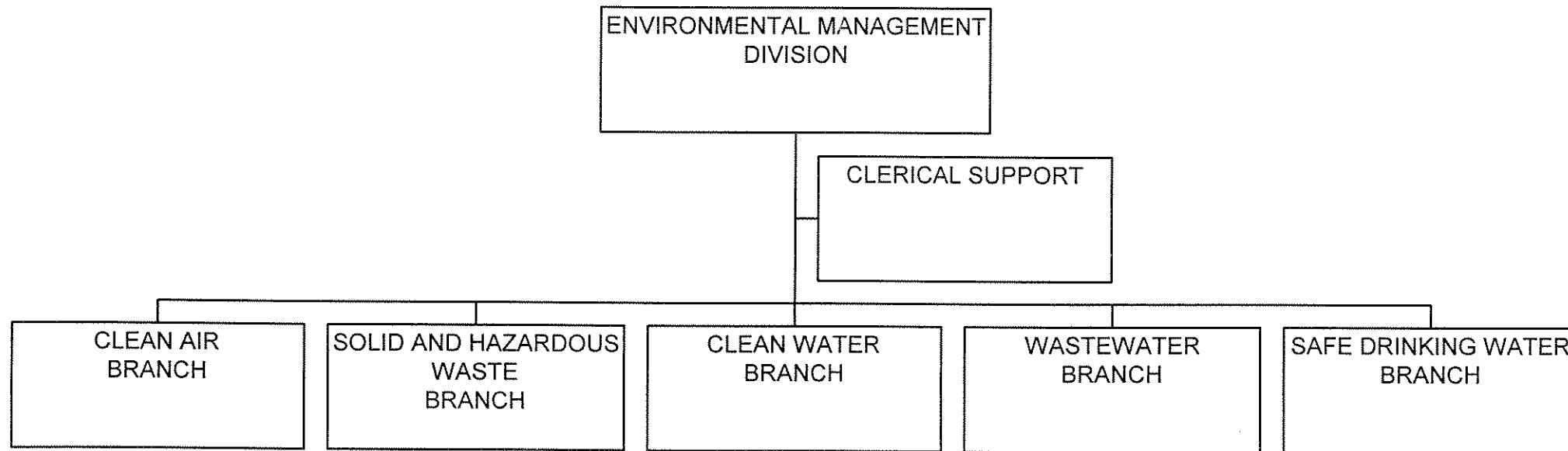
deposit beverage container program continues, the administration recommends that the legislature transform it into a system that retailers operate and deal directly with consumers, with a minimal governmental role. Such a system would greatly increase the number of locations at which consumers could redeem containers and would reduce the current government expenses. This system would also avoid the need for an increased container fee from the present 1¢ to 1.5¢ when redemption rates exceed 70%, as now required by law. There were administration bills submitted to the 2006 Legislature to accomplish these ends, i.e., repeal the automatic container fee increase and transform the system. They did not pass.



ACT 262, SLH 1996 ESTABLISHED THE HAWAII HEALTH SYSTEMS CORPORATION, WHICH SHALL BE A PUBLIC BODY CORPORATE AND POLITICAL AND AN INSTRUMENTALITY AND AGENCY OF THE STATE. THE CORPORATION SHALL BE PLACED WITHIN THE DEPARTMENT OF HEALTH FOR THE ADMINISTRATIVE PURPOSES SPECIFIED IN SECTION 26-35(5), HRS ONLY.

JUN 30 2006

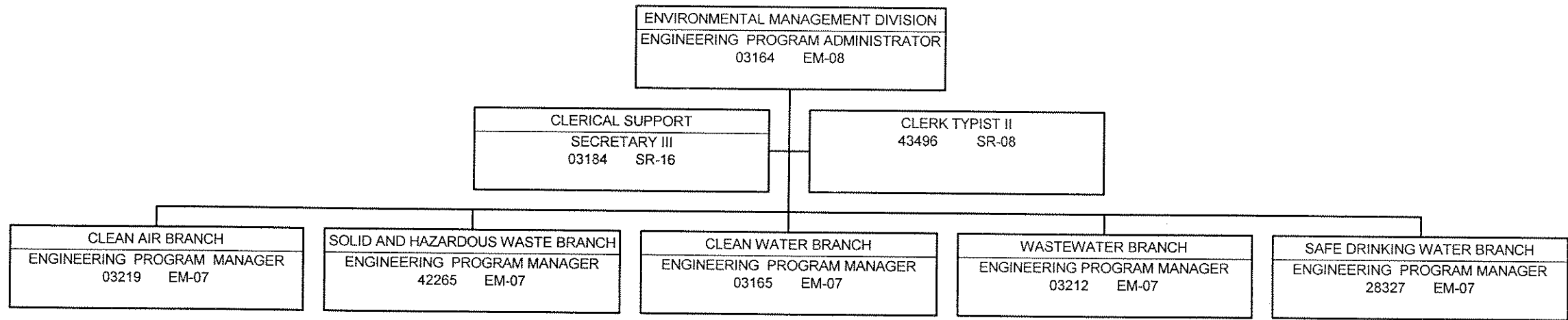
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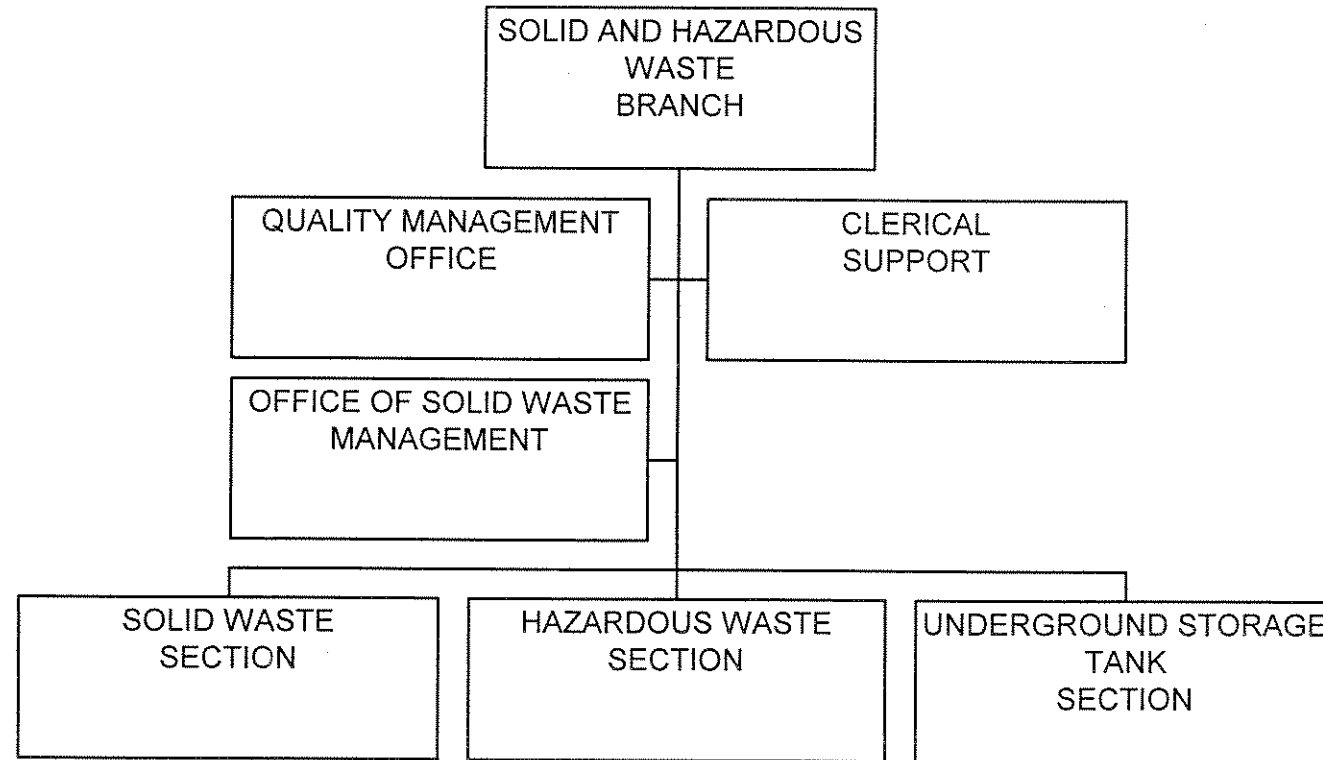


JUN 30 2006

STATE OF HAWAII
DEPARTMENT OF HEALTH
ENVIRONMENTAL HEALTH ADMINISTRATION
ENVIRONMENTAL MANAGEMENT DIVISION

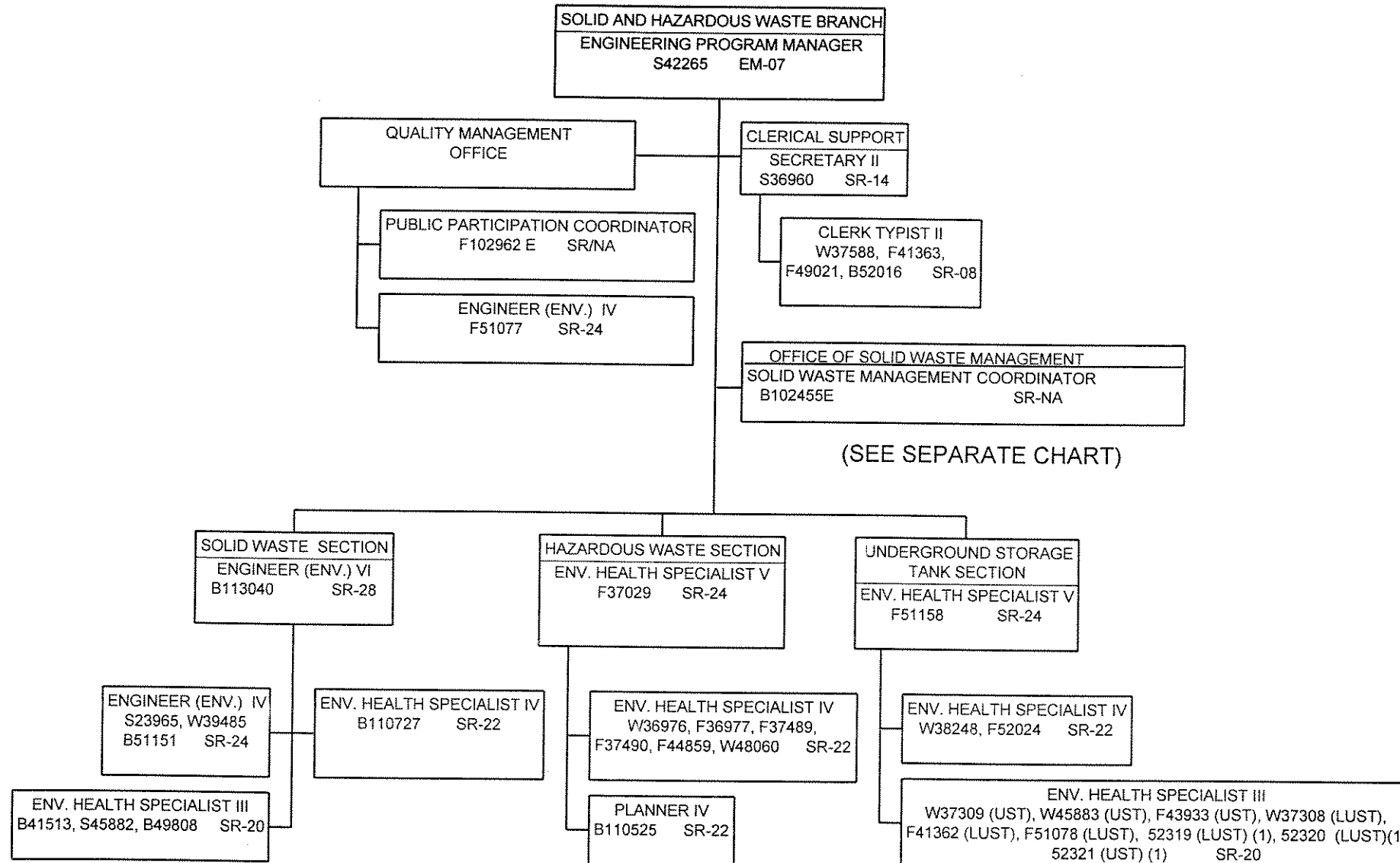
POSITION ORGANIZATION CHART





STATE OF HAWAII
 DEPARTMENT OF HEALTH
 ENVIRONMENTAL HEALTH ADMINISTRATION
 ENVIRONMENTAL MANAGEMENT DIVISION
 SOLID AND HAZARDOUS WASTE BRANCH

POSITION ORGANIZATION CHART



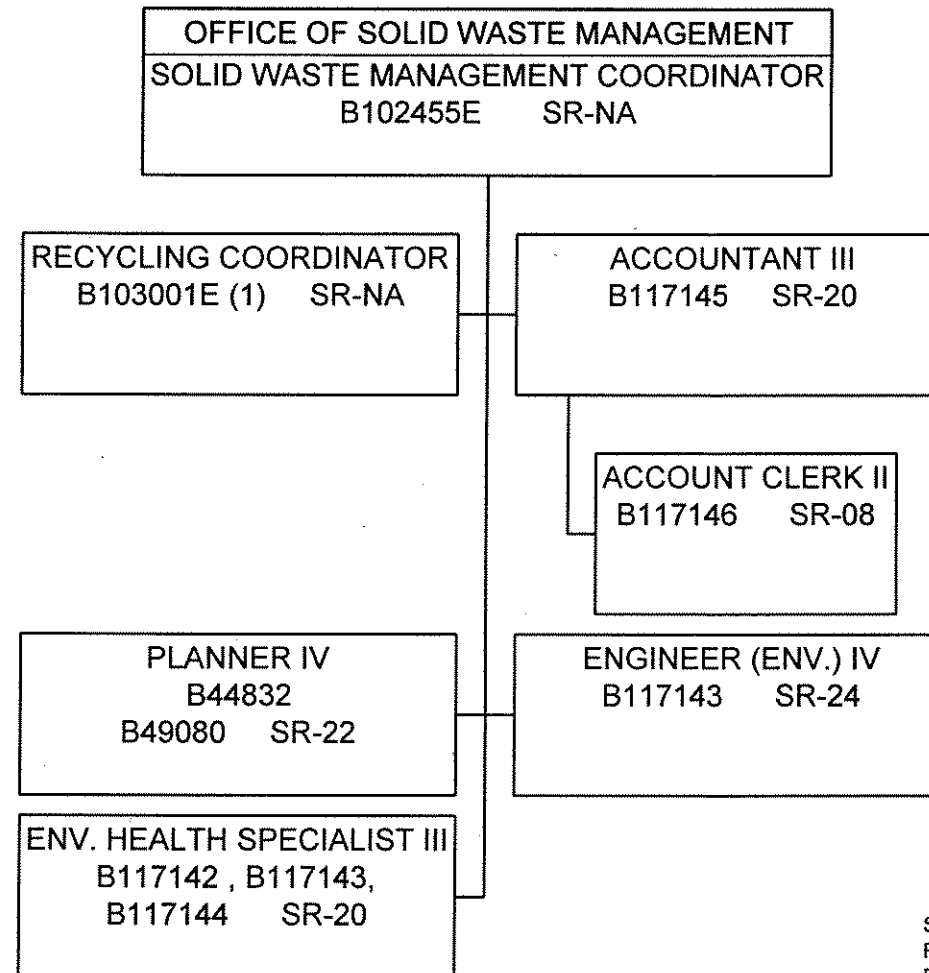
JUN 30 2006

S - STATE FUNDS
 F - FEDERAL FUNDS
 B - SPECIAL FUNDS
 W - REVOLVING FUNDS

(1) NTE 6/30/07.

STATE OF HAWAII
DEPARTMENT OF HEALTH
ENVIRONMENTAL HEALTH ADMINISTRATION
ENVIRONMENTAL MANAGEMENT DIVISION
SOLID AND HAZARDOUS WASTE BRANCH
OFFICE OF SOLID WASTE MANAGEMENT

POSITION ORGANIZATION CHART



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(1) NTE 6/30/07.

JUN 30 2006

ENCLOSURE

DBC Program FY 06 Annual Report to the Legislature, Section X. Legislative Proposals and Closing Remarks.

DBC Program FY 07 Legislative Proposals

The department is proposing three (3) legislative proposals to the FY2007 Legislature. The proposals include the following:

1. LEGISLATIVE PROPOSAL (BILL) TITLE: A BILL FOR AN ACT RELATING TO MAKING AN EMERGENCY APPROPRIATION FOR THE DEPOSIT BEVERAGE CONTAINER SPECIAL FUND.

PURPOSE: (see HTH-12) - The purpose of this Act is to make an emergency appropriation to and increase the spending ceiling of the deposit beverage container special fund by \$10 million to \$62,255,620. Act 160, Session Laws of Hawaii 2006, provided an appropriation and established a spending ceiling for the deposit beverage container special fund of \$52,255,620. The subject emergency appropriation would increase the existing special fund appropriation by \$10 million.

Based on the increased number of deposit beverage container products sold in the State, high redemption rates and increased program administrative costs, the department of health respectfully requests that the current deposit beverage container special fund expenditure ceiling be increased in FY07 by \$10 million, i.e., a total expenditure ceiling for FY07 of \$62,255,620. The increased special fund expenditure ceiling is necessary to ensure 100 percent reimbursement for all deposit beverage containers redeemed; appropriate recycling of all redeemed deposit beverage containers; continued enforcement of and compliance with program rules and requirements; proper support, promotion, maintenance and appropriate expansion of the deposit beverage container infrastructure; adequate financial support of program-related activities; and, overall, provide for continued improvement in redemption customer convenience and confidence.

2. LEGISLATIVE PROPOSAL (BILL) TITLE: A BILL FOR AN ACT RELATING TO THE DEPOSIT BEVERAGE CONTAINER PROGRAM

PURPOSE: (see HTH-20) - The main purpose of this bill is to convert to the Oregon style law by changing the deposit beverage container program to one where retailers will redeem deposit beverage containers with minimal government involvement. The second purpose of this measure is to eliminate the automatic container fee increases now in the deposit beverage container program law.