

Questions arose about the redemption center contracts that show contract costs increasing as much as seven-fold (see #446-447, #455, #471-475, 480-487, 491-492, 503-504, 506). Provide justification for increases and extensions:

The Hawaii State Department of Health (DOH), Office of Solid Waste Management (OSWM) administers the Deposit Beverage Container (DBC) Program. OSWM contracts with recycling operators to collect and redeem eligible deposit containers at redemption centers throughout the State. Contracts are awarded on a non-competitive basis: any individual, organization, or business may obtain a contract with OSWM to collect eligible deposit containers, provided that the contractor obtains a solid waste permit from DOH's Solid & Hazardous Waste Branch and certification from OSWM (and meets other State contractor requirements, such as adequate insurance limits). The permit and certification ensure that the contractor can demonstrate proper materials collection, handling, storage, and transportation of the materials collected and can demonstrate the ability to reimburse the public for eligible deposit containers. Per determination from the State Procurement Office, OSWM's procurement process to solicit redemption center contracts is exempted from 103D under 103D-102(b)(2)(C).

Contracted amounts are on a rate basis: every eligible container collected from the public is 5¢, plus a pre-determined handling fee per container to account for the recycling operator's personnel, operating, transportation, equipment, and other associated costs for collecting the containers. The handling fee is developed by a third-party consultant hired by OSWM via a competitive bid process. Some factors used to ascertain the handling fees include prevailing minimum wage, insurance premiums, diesel and other shipping costs, and the consumer price index (CPI). For FY22, the handling fee for aluminum and bi-metal containers is 3.4¢/container, the handling fee for glass containers is 8.1¢/container, and the handling fee for plastic containers is 4¢/container.

The contract award amount is assessed by OSWM using historical redemption data from each individual recycling operator, handling fee adjustments, and other business factors (like increasing or decreasing the number of redemption centers operated by a recycling operator, which impacts the estimated number of containers that will be redeemed by the public). For contract purposes, the award amount is the contractor's spending limit and the funds paid to the contractors cannot exceed that limit. However, every contract contains standard boilerplate language allowing OSWM to modify the contract and adjust the spending limit, as retaining the opportunity to modify contracts is in the best interest of the State. Except in rare instances, the amount contracted and encumbered is greater than the total amount expended at the end of the fiscal year – almost every contract period ends with a balance that reverts to the DBC special fund. OSWM overestimates contract amounts to reduce the need for modifications during the contract year, to prevent breaks in service while modifications are being administratively processed.

Some OSWM recycling operator contracts saw significant increases in contract amounts between FY19 and FY20. This was primarily due to two factors implemented by OSWM: 1) an increase in the FY20 handling fees; and 2) OSWM extended all its recycling operator contracts by an additional three months to end on September 30, 2020, from the previous end date of June 30, 2020.

In 2019 OSWM completed an analysis of its handling fees paid to recycling operators. OSWM's third-party consultant recommended that OSWM increase its handling fee payments by approximately \$6.7m for FY20, due to keeping handling fees static since 2008. This is reflected in the increase in contract prices from approximately \$60.6m in FY19 to approximately \$67.4m in FY20. Concurrently, OSWM elected to modify all its recycling operator contracts by an additional three months in FY20. Previously, all contracts expired on June 30. Due to issues encumbering funds for the next fiscal year before funding allocations

were posted, contract payments were sometimes delayed, and these delays led to occasional redemption center closures due to insufficient funds. Most of OSWM's contracts had a sufficient balance to extend the contracts with no budgetary adjustments (i.e., no-cost extensions), but some contracts had insufficient funds to extend the contract period for three months without an increase in the contract price. In FY21, all recycling operator contracts reverted to twelve-month contracts, but start on October 1 and end on September 30 the following year.

Extending OSWM's contracts by an additional three months and the increased handling fees are the main reasons for the increases in contract prices, specifically in FY20 and FY21. The sum of recycling operator contract limits in FY19 was approximately \$60.6m. In FY22 the sum of recycling operator contracted funds is approximately \$63.4m.

In addition, several other factors impacted OSWM's FY20 contracts. At the start of FY20, due to the impact of COVID-19 on the State's economy, OSWM expected a significant increase in redemption rates by the public whose employment was affected by shutdowns, and increased contract amounts accordingly. Historically, OSWM has observed increases in redemption rates during economic slowdowns, as consumers can less afford to forgo the 5¢ redemption value. OSWM's expectations were borne out early in the pandemic, as redemption rates soared from 48.5% at the start of the pandemic lockdowns to 72.5% between May and October 2020. However, the economy recovered sufficiently that these rates reverted to average by the end of the fiscal year.

Changes in individual contract amounts can also be attributed to various market impacts. Recycling operators may open or close redemption centers as demand from the public changes, landowners decline to renew leases, or staffing shortages affect redemption center hours. For example, Monster HI-5 & Tires, Inc., located on Waialae Avenue on Oahu, saw a competing redemption center located a block away close. This significantly increased the number of customers and amount of eligible beverage containers collected at their location. Reynolds Recycling, Inc., had planned on opening additional redemption centers on Oahu, and OSWM adjusted the contract with the expectation of an increase in redeemed containers. Due to COVID-19, these new redemption centers are only now coming online. K&C Metal LLC's increase is primarily due to reincorporation from its previous company, Depot Metal Inc. and combined FY19 funds are approximately \$4.6m for the two entities.

Further questions arose regarding the oversight and management of the recycling program, specifically:

A. What is the cost or profit of recycled products after shipping costs?

Glass, aluminum, and PET/PETE plastic materials from recycled deposit beverage containers are subject to volatile international commodity demand and prices. Concurrently, shipping costs vary significantly due to oil prices. Because handling fees are a statewide average for all recycling operators, profits are also impacted by personnel, health care, equipment, and other costs that exceed the handling fee payments. The recycling operators bear these additional costs as part of their business.

Commodity prices have varied widely throughout the history of the DBC Program. Below are commodity prices (per pound, and per individual deposit beverage container) ranging from the lowest to highest historically, and what local recycling operators can approximately expect today:

Glass

Low: \$0.0035/pound	High: \$0.0070/pound	Current: \$0.0045/pound
Low: \$0.00146/container	High: \$0.00292/container	Current: \$0.00188/container

Aluminum

Low: \$0.33/pound	High: \$1.15/pound	Current: \$0.70/pound
Low: \$0.01031/container	High: \$0.03594/container	Current: \$0.02188/container

PET/PETE Plastic (Mixed Sizes)

Low: \$0.04/pound	High: \$0.38/pound	Current: \$0.12/pound
Low: \$0.00213/container	High: \$0.02021/container	Current: \$0.00638/container

B. How many recycling companies does the state contract with? Based on the table of contracts, there are as many as 17. Are there more? And how many companies at the time the program first started?

OSWM currently has contracts with 16 recycling operators:

1. Aloha Glass Recycling, Inc. dba Aloha Recycling (Maui)
2. Atlas Recycling Centers, LLC (Big Island)
3. CM Recycling, LLC (Oahu)
4. Hanada & Son, Inc. dba Aloha Shell Service (Maui)
5. HMP, Inc. dba Business Services Hawaii (Big Island)
6. Honolulu Recovery Systems, Inc. (Oahu)
7. Island Container Redemption, LLC (Oahu)
8. K&C Metal LLC (Oahu)
9. Kauai Community Recycling Services, LLC (Kauai)
10. Lahaina International Market, LLC (Maui)
11. Maui Disposal Co., Inc. (Lanai, Maui, & Molokai)
12. Monster HI-5 & Tires, Inc. (Oahu)
13. Mr. K's Recycle & Redemption Center, Inc. (Big Island)
14. NKH Construction, Inc. (Maui)
15. Reynolds Recycling, Inc. (Kauai & Oahu)
16. Reduce Reuse Recyclers Services Hawaii LLC dba RRR Recycling Services Hawaii (Oahu)

NKH Construction, Inc., included in OSWM's list of 16 contracted recycling operators above, is a small recycling operator in Hana, Maui and was not included in the original table of contracts due to its initial contract amount of \$45,000.00, under the \$100,000.00 reporting threshold.

In addition, after the original table of contracts was submitted to the State Legislature, OSWM executed a multi-year contract with Maui Disposal Co., Inc. for the operating costs to facilitate a redemption center on the island of Lanai for five years. This contract was awarded by a competitive bid process (request for proposals), and covers the additional overhead, equipment, lease, and transportation costs necessary to collect deposit beverage containers on Lanai. The total cost of the contract is \$273,600.00 per year, starting in FY22, for a total budget of \$1,368,000.00.

Three recycling operators have ceased operations but were included in the table of contracts because the contracts were initially executed in FY19:

1. Depot Metal Inc. ended in 2019 and subsequently reincorporated as K&C Metal LLC

2. Honolulu Disposal Service, Inc. ended January 2021
3. T. Okamura Inc. dba Aiea Shell ended June 2020

In 2005, OSWM partnered with fourteen recycling operators:

1. Aloha Glass Recycling, Inc. dba Aloha Recycling
2. The ARC of Hilo
3. Atlas Recycling Centers, LLC
4. CM Recycling, LLC
5. Garden Island Disposal, Inc.
6. Goodwill Hawaii
7. Island Recycling Inc.
8. Kauai Community Recycling Services, LLC
9. Maui Disposal Co., Inc.
10. Reynolds Recycling, Inc.
11. Reduce Reuse Recyclers Services Hawaii LLC dba RRR Recycling Services Hawaii
12. Rolloffs Hawaii LLC
13. T. Okamura Inc. dba Aiea Shell
14. Tri-Isle Resource Conservation & Development Council

C. What is the cost now as compared to when it originally started?

In FY21, approximately \$65m was expended and/or encumbered for redemption center contracts.

In 2005, approximately \$47m was expended and/or encumbered for redemption center contracts. An additional \$3m was also reserved for redemption center infrastructure improvements.

Much of the increase in contract costs are attributed to operating cost increases, such as payroll, insurance, transportation, and other inflationary factors (the cumulative CPI price increase from 2005 to 2021 is approximately 40%).

D. How many bottles/cans go into the City's blue bins? And how does the city dispose/recycle the bottles/cans?

The City and County of Honolulu contracts with RRR Recycling Services Hawaii to manage the county's recycling collections (blue bins). In FY21, RRR collected the following deposit beverage containers:

- 332,896.10 pounds of aluminum deposit beverage containers
- 18,748.50 pounds of bi-metal deposit beverage containers
- 404,167.90 pounds of glass deposit beverage containers
- 407,295.80 pounds of plastic deposit beverage containers

The City's contractor is responsible for processing the collected recyclables, which includes baling and transporting the materials to an approved recycling facility. The collected recyclables are claimed through the DBC Program to offset the costs of sorting the collected materials and to process other recyclables that are worth less than the transportation costs to end users.

E. Who is monitoring the department's program and does he/she report annually on its progress?

OSWM is supervised by Mr. Michael Burke, Solid Waste Coordinator. Key metrics are reported to the Hawaii State Legislature annually in OSWM's Annual Report to the Legislature. Here is a link to

the 2021 report, which covered fiscal year 2020: <https://health.hawaii.gov/shwb/files/2021/03/2021-OSWM-Annual-Report-Amended.pdf>. The 2022 report (covering fiscal year 2021) will be submitted to the Legislature prior to the convening of the upcoming legislative session. Going forward, OSWM will also be submitting reports in accordance with the special fund reporting requirement recently enacted.

F. The March 2019 audit required the program to audit the redemption center. Please provide the status of what's been done and oversight over the redemption program.

Since the publication of the most recent program audit, OSWM has conducted the following activities to address issues identified in the audit:

Staffing

In March 2019, only six of eighteen positions were filled in OSWM, and the supervisor would depart shortly after. Since then, OSWM has made a concerted effort to address staffing shortfalls. In the past two years, OSWM onboarded an account clerk, two accountants, two planners, a senior inspector, and the program supervisor. OSWM is currently recruiting for a third accountant.

Unfortunately, Act 88, SLH 2021 defunded two inspector positions and eliminated a third vacant inspector position that was being redescribed into a supervising inspector to lead the enforcement section. OSWM has submitted a budget request to add funding back to the two defunded position salaries and will request the addition of a supervising inspector position in the future.

Filling OSWM's vacant positions, particularly the vacant inspector positions, is foundational to meeting the audit recommendations. A fully-staffed enforcement program can perform significantly more inspections at redemption centers, expeditiously resolve complaints, and conduct enforcement actions where wrongdoing is observed.

Receipt Review

In July 2020 OSWM began a pilot project to review all customer receipts and cross-reference with redemption center logs and reimbursement requests. Amidst the COVID-19 pandemic, and with an uncertain economic outlook from the impact of COVID-19, OSWM felt that this approach could address the auditor's concerns internally without the need and cost to solicit the services of a third party. Per discussion with the State Auditor in May 2021, the value of the findings from this review were outweighed by the effort and manpower and OSWM has reduced the frequency of its receipt reviews.

Fraud Prevention Plans

Arising from its discussion with the State Auditor in May 2021, OSWM has revised its redemption center certification applications to require all applicants to submit an operational plan to ensure that all customer receipts correlate with collected deposit containers to prevent fraud. This requirement will apply to all new applications, and current certified redemption centers will be required to submit these plans when renewing existing certifications. OSWM will be responsible for enforcing the implementation of these plans.

Data Management and Reporting

OSWM is currently updating its data management and reporting functions. The first phase was to develop a foundational "warehouse" to store all OSWM program data and implement mapping

functions. The second phase will be to develop a mobile application for inspectors to streamline operations and reduce inefficiencies. OSWM anticipates implementing a future phase to digitize the redemption center operations, from recording individual transactions to reporting those transactions to OSWM. When implemented successfully, this will reduce extra data reporting and transcription work in OSWM and prevent manipulation of data from the point of redemption through DOH payment.