

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

WRITTEN
TESTIMONY ONLY

**Testimony in SUPPORT of SB3138 SD1
RELATING TO INDEPENDENT AUDITS OF DEPOSIT BEVERAGE DISTRIBUTORS.**

SENATOR DONOVAN M. DELA CRUZ, CHAIR
SENATE COMMITTEE ON WAYS AND MEANS

Hearing Date, Time, and Room Number: 02/25/2026, 10:55 AM, 211

1 **Fiscal Implications:** A majority of the deposit beverage container (DBC) distributors would save
2 on independent audit costs. The financial impact on the Department of Health (Department)
3 would be negligible.

4 **Department Position:** The Department supports this measure.

5 **Department Testimony:** The Environmental Management Division, Solid and Hazardous Waste
6 Branch provides the following testimony on behalf of the Department.

7 This measure limits the independent audit requirement to DBC distributors who each
8 annually import or distribute 5,000,000 or more DBCs in a calendar year.

9 Hawai'i Revised Statutes, Chapter 342G-121.5(c)(2) currently requires all DBC
10 distributors to obtain independent audits every year ending in an odd number. This
11 requirement was directly adopted from recommendation 3 of the Office of the Auditor's 2019
12 Financial and Program Audit of the Department of Health's Deposit Beverage Container
13 Program. The Auditor wrote that independent audit recommendation was made to increase
14 distributors' accountability for information provided to the DBC Program.

1 However, the Department recognizes that this requirement caused hardship to small
2 businesses. For many distributors, the cost of each audit is incongruent to the amount of
3 deposits and container fees paid to the Department; and in some cases, costs more than the
4 amount paid to the Department.

5 The Department believes that SB3138 SD1 strikes a balance between addressing the
6 Auditor's concerns and alleviating the financial burden of our small business community. Based
7 on FY2025 data, there are about 322 DBC distributors. Using the tiered system described in the
8 measure and FY2025 data, the uppermost tier is represented by about five distributors, who
9 each sell 75 million or more DBCs per year. They would be required to conduct independent
10 audits every two years (the same as the current requirement). The middle tier is represented by
11 about 12 distributors, who each sell at least five million but less than 75 million DBCs per year.
12 They would be required to obtain an independent audit every five years. The remaining 305
13 distributors would be exempt from obtaining independent audits. Based on FY2025 data, the
14 independent audits will cover about 94% of the funds that are collected into the DBC program.
15 SB3138 SD1 also clarifies independent audit requirements, addressing a concern raised by the
16 regulated community.

17 **Offered Amendments:** None.

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



23 February 2026

COMMITTEE ON WAYS AND MEANS

Senator Donovan M. Dela Cruz, Chair
Senator Sharon Y. Moriwaki, Vice Chair

Re: Support for SB3138 additional considerations

Aloha Chair, Vice Chair, and Members of the Committee:

My name is Garrett W. Marrero, I am the CEO and Co-Founder of Maui Brewing Co., operating locations in Lahaina, Kaanapali, and Kihei on Maui, and Waikiki and Kailua on Oahu. Made in Hawai'i and sold in 6 States and 2 Countries, employing more than 400 teammates across Hawai'i. I am submitting this testimony in **SUPPORT** of SB3138.

We appreciate the Legislature's and the Department of Health's willingness to engage with small businesses and industry stakeholders to address issues within the Deposit Beverage Container Program. We share the goal of improving transparency and program integrity.

Maui Brewing stands ready as an engaged manufacturer to support the crafting of these programs as they apply to small beverage producers in the State.

With that context, we are in **support of SB3138**. We appreciate the amendments made in SD1 that focus oversight where actual risk exists, modernize reporting, and protect small local producers from undue burden.

Mahalo for the opportunity to provide comments and for your consideration.

Sincerely,

Garrett W. Marrero
CEO and Co-Founder

Garrett@MauiBrewing.com

808.213.3007 office

Handcrafted Ales & Lagers Brewed with Aloha
605 Lipoa Parkway, Kihei, HI 96753
808.213.3002

Testimony to the Senate Committee on Ways and Means

Senator Donovan M. Dela Cruz, Chair

Senator Sharon Y. Moriwaki, Vice Chair

Wednesday, February 25, 2026, at 10:55AM

Conference Room 211 & Videoconference

RE: SB3138 SD1 Relating to Independent Audits of Deposit Beverage Distributors

Aloha e Chair Dela Cruz, Vice Chair Moriwaki, and Members of the Committee:

My name is Sherry Menor, President and CEO of the Chamber of Commerce Hawaii ("The Chamber"). The Chamber supports Senate Bill 3138 SD1 (SB3138 SD1), which limits the independent audit requirement under the State's Deposit Beverage Container Program to deposit beverage distributors who distribute 5,000,000 or more deposit beverage containers a year. Identifies frequency of obtaining and submitting independent audits based on quantities of deposit beverage containers imported, manufactured, or distributed. Creates minimum requirements for independent audits.

SB3138 SD1 aligns with our 2030 Blueprint for Hawaii: An Economic Action Plan, specifically under the policy pillar for Small Business. Key aspects of this policy pillar are reducing regulatory burden, improving access to capital, and supporting small business growth. This bill promotes a revised auditing system that segments by deposit beverage distribution volume.

This system is far more suitable for businesses of all scale, rather than one universal requirement that ignores a business's scale. With auditing frequency being the focal point of this legislation, the state can sensibly maintain auditing standards and procedures without overburdening small businesses that cannot pay for these audits at high frequency like larger distributors and that contribute less to the Deposit Beverage Container Program than larger distributors. The Chamber stands in strong support of legislation that extends equitable treatment to Hawaii's small businesses.

The Chamber of Commerce Hawaii is the state's leading business advocacy organization, dedicated to improving Hawaii's economy and securing Hawaii's future for growth and opportunity. Our mission is to foster a vibrant economic climate. As such, we support initiatives and policies that align with the 2030 Blueprint for Hawaii that create opportunities to strengthen overall competitiveness, improve the quantity and skills of available workforce, diversify the economy, and build greater local wealth.

We respectfully ask to pass Senate Bill 3138 SD1. Thank you for the opportunity to testify.



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

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Eddie Asato, Pint Size Hawaii, *Advisor*
Gary Okimoto, Safeway, *Advisor*
Maile Miyashiro, C&S Wholesale, *Immediate Past Chair*

TO: Committee on Ways and Means
FROM: HAWAII FOOD INDUSTRY ASSOCIATION
Lauren Zirbel, Executive Director

DATE: February 25, 2026
TIME: 10:55am

RE: SB3138 SD1 Relating to Independent Audits of Deposit Beverage Distributors
Position: Support

The Hawaii Food Industry Association is comprised of two hundred member companies representing retailers, suppliers, producers, manufacturers and distributors of food and beverage related products in the State of Hawaii.

HFIA is in support of this measure. We'd like to thank the Governor for including this important measure in his package and the Committee for hearing it. As the measure notes, the way the independent audit requirement was implemented has caused extreme hardship for many beverage distributors, especially smaller local businesses. Some local businesses that manufacture and sell beverages locally have paid thousands of dollars for audits, sometimes paying more for audits than they contribute to the deposit beverage container program. Put simply this is untenable for these businesses.

We think it is important to note that no other state imposes a fixed, universal requirement that every distributor obtain an independent audit on a set biennial schedule regardless of risk; instead, other states rely on reporting, compliance oversight, and targeted enforcement mechanisms to maintain program integrity.

We believe the optimal solution would be to repeal unnecessary and disproportionate administrative burdens on deposit beverage distributors and redemption centers in the State, including the universal biennial independent audit requirement, while preserving the deposit beverage container program's existing risk-based accountability verification



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

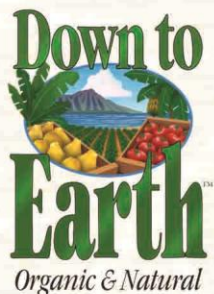
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Joe Carter, Coca-Cola Bottling of Hawaii, Odom, *Advisor*
Eddie Asato, Pint Size Hawaii, *Advisor*
Gary Okimoto, Safeway, *Advisor*
Maile Miyashiro, C&S Wholesale, *Immediate Past Chair*

framework. SB2105 includes language for a repeal and we encourage the Committee to consider amending this measure to include that language.

We are in strong support of making the necessary changes to ensure that arbitrary audit requirements do not unnecessarily damage the local businesses that manufacture, distribute, supply, and sell beverages for Hawaii consumers. We thank you for the opportunity to testify.

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Corporate Office
P.O. Box 1166
Kailua, HI 96734
Phone: (808) 484-5890
Fax: (808) 484-5896
corporate@downtoearth.org

Oahu Locations

Honolulu
2525 South King Street
Honolulu, HI 96826
Phone: (808) 947-7678
Fax: (808) 943-8491
honolulu@downtoearth.org

Kailua
573 Kailua Road
Suite 101
Kailua, HI 96734
Phone: (808) 262-3838
Fax: (808) 263-3788
kailua@downtoearth.org

Pearlridge
98-211 Pali Momi Street
Suite 950
Aiea, Hawaii 96701
Phone: (808) 488-1375
Fax: (808) 488-4549
pearlridge@downtoearth.org

Kapolei
4460 Kapolei Parkway
Kapolei, Hawaii 96707
Phone: (808) 675-2300
Fax: (808) 675-2323
kapolei@downtoearth.org

Kakaako
500 Keawe St.
Honolulu, HI 96813
Phone: (808) 465-2512
Fax: (808) 465-2305
kakaako@downtoearth.org

Maui Location

Kahului
305 Dairy Road
Kahului, HI 96732
Phone: (808) 877-2661
Fax: (808) 877-7548
kahului@downtoearth.org

SB3138 SD1 Relating to Independent Audits of Deposit Beverage Distributors Senate Committee on Ways and Means February 25, 2026, 10:55am

Aloha Chair Senator Donovan Dela Cruz, Vice Chair Sharon Moriwaki, and committee members,

Down to Earth Organic & Natural **supports SB3138 SD1.**

Down to Earth Organic & Natural is a Hawai'i-based natural and organic foods retailer that has served local communities for more than 45 years. Our six stores focus on organic and natural foods, local products, and values-based business practices. As part of our operations, we distribute deposit beverage containers and are a "distributor" in the Deposit Beverage Container (DBC) Program.

We appreciate the intent of SB3138 SD1 and the Legislature's recognition that the current independent audit requirement created serious hardship for beverage distributors, particularly small and local businesses. We support efforts to improve proportionality and fairness in program oversight, and we agree that the existing one-size-fits-all audit mandate is unreasonable, does not create benefits proportionate to its cost, was enacted without discussion with auditors as to their ability to conduct the audits, and is thus unworkable.

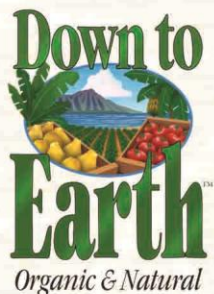
As implemented, the universal biennial independent audit requirement has imposed extreme and unnecessary financial burdens on distributors without a clear corresponding benefit to program integrity. Our audit quote from a local accounting firm was \$25,000—nearly half of the roughly \$60,000 we remit annually to the State in beverage deposits. We had paid \$15,000 of this fee before the audit requirement was put on hold. Audit firms were not consulted prior to its enactment and in practice it turned out that very few audit firms in Hawai'i were willing or able to perform these specialized audits that auditors had never done before, thus driving up audit costs, limited the availability of professionals to conduct the audits, and left some distributors unable to comply at all.

This requirement is layered on top of the Department of Health's existing authority to conduct audits when there is a specific concern (i.e., risk-based audits). Historically, fraud risk within the DBC Program has primarily been associated with redemption centers rather than distributors, yet the current law places substantial cost and administrative burden on compliant retailers and manufacturers. Even state and federal tax agencies do not require independent audits for income taxes and general excise taxes, which involve the collection of far larger revenues. In short, the cost of the audit requirement imposed on distributors was out of proportion to the revenue involved.

We are also concerned that the Department of Health does not have sufficient staffing or systems in place to meaningfully review and use these audits. DOH has acknowledged these challenges and suspended enforcement through Executive Order 25-04, and cancelled the September 30, 2025 audit deadline due to financial hardship for distributors. Unfortunately, some businesses, including ours, had already incurred significant audit expenses (in our case \$15,000 as mentioned above plus internal administrative cost) before enforcement was paused.

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Corporate Office
P.O. Box 1166
Kailua, HI 96734
Phone: (808) 484-5890
Fax: (808) 484-5896
corporate@downtoearth.org

Oahu Locations

Honolulu
2525 South King Street
Honolulu, HI 96826
Phone: (808) 947-7678
Fax: (808) 943-8491
honolulu@downtoearth.org

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Suite 101
Kailua, HI 96734
Phone: (808) 262-3838
Fax: (808) 263-3788
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98-211 Pali Momi Street
Suite 950
Aiea, Hawaii 96701
Phone: (808) 488-1375
Fax: (808) 488-4549
pearlridge@downtoearth.org

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4460 Kapolei Parkway
Kapolei, Hawaii 96707
Phone: (808) 675-2300
Fax: (808) 675-2323
kapolei@downtoearth.org

Kakaako
500 Keawe St.
Honolulu, HI 96813
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kakaako@downtoearth.org

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Phone: (808) 877-2661
Fax: (808) 877-7548
kahului@downtoearth.org

While SB3138 SD1 takes an important step by narrowing and scaling audit requirements, we believe the most effective and equitable solution is to fully repeal the universal independent audit mandate and preserve the program's existing risk-based oversight framework. This approach is consistent with other states, which rely on reporting, targeted enforcement, and selective audits rather than fixed, universal audit schedules.

Accordingly, we respectfully request that the Committee consider amending SB3138 SD1 to include repeal language similar to SB2105, permanently removing the mandatory independent audit requirement while maintaining DOH's authority to conduct audits when warranted. This would protect local businesses, help contain food and beverage costs for Hawai'i consumers, and allow state resources to be focused where they can do the most good.

Down to Earth supports thoughtful, practical policies that maintain accountability while being workable for local businesses and affordable for our communities. We appreciate the opportunity to testify and look forward to working with the Legislature on this important issue.

Mahalo for the opportunity to testify.

Alison E Riggs

Alison Riggs
Public Policy & Government Relations Manager
Down to Earth

2525 S. King St., Suite 309
Honolulu, HI 96826
Phone (808) 824-3240
Fax (808) 951-8283/ E-mail: alison.riggs@downtoearth.org

www.downtoearth.org

SB-3138-SD-1

Submitted on: 2/23/2026 11:48:32 AM

Testimony for WAM on 2/25/2026 10:55:00 AM

Submitted By	Organization	Testifier Position	Testify
Steve Haumschild	Testifying for Lanikai Brewing Company	Support	Written Testimony Only

Comments:

In Support of SB3138 SD1

Senate Committee on Commerce and Consumer Protection / Senate Committee on Economic Development & Tourism
Hawai‘i State Legislature

Aloha Chair, Vice Chair, and Members of the Committee,

My name is Steve Haumschild and I am writing on behalf of **Lanikai Brewing Company**, a locally owned and operated small manufacturer and taproom based on O‘ahu. We respectfully offer **strong support for SB3138 SD1**.

Small, independent breweries are not only manufacturers — we are agricultural partners, tourism ambassadors, and neighborhood gathering spaces. Bills such as SB3138 SD1 help modernize Hawai‘i’s regulatory framework so that it better reflects how today’s craft manufacturing businesses actually operate. Hawai‘i’s liquor laws were largely designed around a 20th-century distribution system that did not anticipate small production breweries and tasting rooms, that now form an important part of the state’s visitor economy and local business ecosystem.

For a small producer in Hawai‘i, operating costs are uniquely high. We face elevated shipping expenses for raw materials and packaging, high electricity costs, and some of the highest commercial rents in the nation. Because of these structural costs, modest regulatory flexibility can make the difference between a viable local manufacturer and a business that cannot sustainably operate.

SB3138 SD1 helps address these realities. By allowing small breweries to avoid unnecessary audit expenses that would otherwise be burdensome to many of us.



64-1066 Mamalahoa Highway
Kamuela, Hawaii, 96743

T 808-887-1717
F 808-885-0653
BigIslandBrewHaus@yahoo.Com

BigIslandBrewHaus.Com

Thomas Kerns
President / Brewmaster
Big Island Brewhaus

Aloha Ways & Means Committee members,

Thank-you for taking my testimony into consideration. A required official audit and its cost would be an undue burden on small manufacturers or distributors that sell less than 5,000,000 packages annually.

I am Thomas Kerns, owner and brewmaster at Big Island Brewhaus. We are an independent craft brewery and restaurant producing 100% of our beer in Hawaii. Big Island Brewhaus is united with other members of the Hawaiian Craft Brewers Guild in our pursuit to promote economic activity and growth for Hawaii's beer manufacturers and enhance opportunities in our communities.

Our brewery along with other local liquor manufacturers in Hawaii embrace the responsible consumption of alcohol.

We are in full compliance of all legal and taxation requirements as a liquor manufacturer and business in Hawaii. If the government were to add an audit requirement as proposed it could cost as much as \$30,000 annually for an audit from a valid accounting firm. This is an expense that would be very difficult to absorb or justify. Proof of quantity we sell as a retailer and wholesaler of deposit containers can be easily checked through submitted existing records from the department of taxation on the M-18 form and of course through our own accounting and point of sale systems. These records could be added as layers of accounting proof for submission of forms to show compliance with the DBC Program.

Thank-you for your support of small manufacturers in Hawaii by supporting this bill.

Thomas Kerns
President / Brewmaster
Big Island Brewhaus
T 808-887-1717
F 808-885-0653
BigIslandBrewHaus@yahoo.Com

BigIslandBrewHaus.Com

TAX FOUNDATION OF HAWAII

735 Bishop Street, Suite 417

Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: MISCELLANEOUS, Limit Independent Audits of Deposit Beverage Distributors

BILL NUMBER: SB 3138 SD1

INTRODUCED BY: HHS

EXECUTIVE SUMMARY: Limits the independent audit requirement to deposit beverage distributors who distribute 2,000,000 or more deposit beverage containers a year. Identifies frequency of obtaining and submitting independent audits based on quantities of deposit beverage containers imported, manufactured, or distributed. Creates minimum requirements for independent audits.

SYNOPSIS: Adds a new section to chapter 342G, HRS, to require an independent audit of deposit beverage distributors as follows:

Number of containers distributed	Independent audit is required in...
More than 75 million	An even numbered year.
Between 5 million and 75 million	A year ending in 4 or 9
Less than 5 million	Audit not required

Provides criteria for the audit.

Amends section 342G-121.5, HRS, to delete the requirement for obtaining independent audits for years ending in an odd number. Additionally, requires the development of a web-based system to allow for online submissions of distributor's reports.

Makes other technical and conforming changes.

EFFECTIVE DATE: January 30, 2050.

STAFF COMMENTS: This is an Administration measure sponsored by the Department of Health and designated HTH-10 (26).

We urge that serious attention be given to fraud risk and the buildup of the fund balance, as described in [this article the Foundation published on Jan. 27, 2025](#):

Those Nickels Add Up!

By Tom Yamachika, President

By now, most of us who go to the grocery store are used to seeing a bunch of little charges whenever we buy bottled or canned beverages. We get nicked for a nickel per container as a “deposit,” which theoretically is refundable if you bring the container back to the store or to a

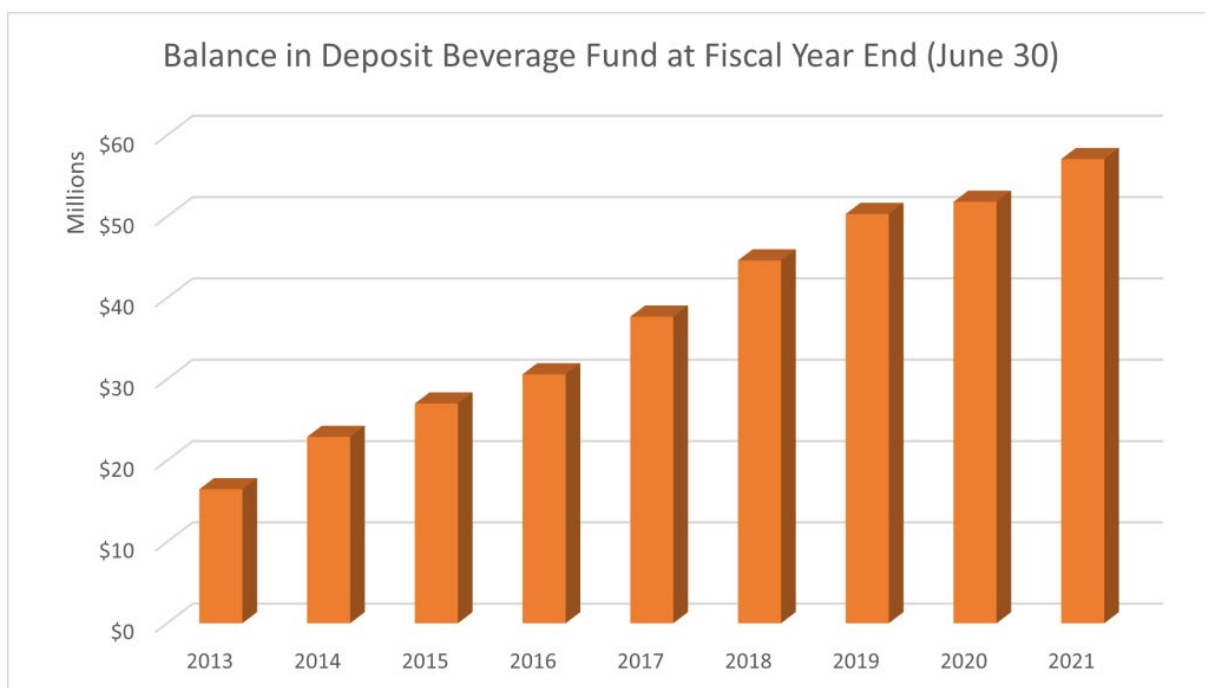
recycling center; and for a penny per container as a “fee,” which seems to disappear into a black hole.

The nickels and the pennies get collected by the Department of Health. The Department’s Solid Waste Branch runs the deposit beverage container program. The program collects a certain amount per container, like similar programs in other states, to promote container recycling. So, the pennies and the nickels go into a special fund, called the Deposit Beverage Container Deposit Special Fund (am I the only one who is bugged by the word “Deposit” appearing twice in that fund name?), established by HRS section 342G-104. The special fund is there to provide the money to run the program, making it self-sufficient, but there is a wrinkle. Section 342G-104(c) says, “Any funds that accumulate in the deposit beverage container deposit special fund shall be retained in the fund unless determined by the legislature to be in excess.” Meaning that the legislature expected that there would be extra money at some point, at which time the fund would be ripe for raiding.

But that assumes that the State doesn’t get raided first. We have written about this program and this fund before. The State Auditor’s Report No. 19-08 told the story of a staff worker for the accounting firm hired to do the fund’s financial audit. He dropped off a few bottles at the redemption center and received a whole 61 cents for his trouble. But the redemption center altered the log and claimed against the fund for reimbursement of 69 DOLLARS. And that wasn’t the only instance of fraud found.

The Department of Health also complained that fraud was a serious and real risk for the program, but we heard no stories of folks going to the hoosegow over this.

In the meantime, even with the fraud risk, the nickels in the fund started to pile up. Here is what the fund contained at the end of each fiscal year from 2013 to 2021:



Source: Office of the Auditor, Reports No. 15-02, 17-02, 19-08, 21-13, 23-07.

As of the end of 2021, there was more than fifty million bucks in the fund apparently sitting around doing nothing.

Now that our legislative session has started, therefore, we have an important message to lawmakers: “Hey! Those of you numbskulls who want to raise taxes! Shut up, take this \$50 million, and leave us taxpayers alone! And, by the way, try not to spend it all in one place!”

Digested: 2/23/2026

SB-3138-SD-1

Submitted on: 2/24/2026 10:56:14 AM

Testimony for WAM on 2/25/2026 10:55:00 AM

Submitted By	Organization	Testifier Position	Testify
Kenneth G. K. Hoo	Testifying for Hawaii Liquor Wholesalers Association	Support	Written Testimony Only

Comments:

Senate Committee on Ways and Means

Senator Donovan M. Dela Cruz, Chair

Senator Sharon Y. Moriwaki, Vice Chair

Hawaii State Capitol

415 South King Street

Honolulu, Hawaii 96813

Re: S.B. No. 3138 S.D. 1 - Relating To Independent Audits Of Deposit Beverage Distributors

DATE: Wednesday, February 25, 2026

TIME: 10:55 AM

Dear Chair Dela Cruz, Vice Chair Moriwaki and Committee Members:

The Hawaii Liquor Wholesalers Association (“HLWA”), respectfully submits the following written testimony in support of S.B. No. 3138 S.D.1, relating to independent audits of deposit beverage distributors.

S.B. No. 3138 S.D.1 amends the deposit beverage distributor independent audit requirement by limiting the independent audit requirement to even years for deposit beverage distributors who

distribute 75,000,000 or more deposit beverage containers a year, and years ending in four or nine for distributors who distribute at least 5,000,000 but fewer than 75,000,000 deposit beverage containers.

This would lessen the burden on small distributors and not have them incur the cost of independent audits. Additional consideration should be given to lessening the audit requirements and the requirement for distributors to submit an internal control process for approval since the Department of Health already has an existing risk-based program in place to conduct audits of the deposit beverage program. Having to submit an internal control process only adds to the expenses that will drive the price of beverages higher and adversely impact Hawaii residents.

There are other current bills which would repeal the requirements for submission and approval of an internal control process and independent audits. These bills should be seriously considered.

For the foregoing reasons, we respectfully support S.B. No. 3138 S.D.1. Thank you for your consideration of the foregoing.

Very truly yours,

Hawaii Liquor Wholesalers Association

Kenneth G. K. Hoo

Its Secretary

SB-3138-SD-1

Submitted on: 2/24/2026 8:20:56 PM

Testimony for WAM on 2/25/2026 10:55:00 AM

Submitted By	Organization	Testifier Position	Testify
Vindi Wells	Testifying for Hanalei Spirits Distillery Corp	Support	Written Testimony Only

Comments:

Thank you for your time taking our testimony regarding SB3138SD1, relating to the independent audits of deposit beverage distributors or manufacturers. The current law adds a prohibitive cost to our manufacturing process and makes our future expansion of our beverage line unattainable. The addition of a volume threshold would reduce the burden on smaller businesses like ours, so we can continue to make Hawaii made products.

As owners of Hanalei Spirits Distillery on the island of Kaua'i, we recently invested in a mobile canning line to grow our operations and support local agriculture by using Hawaiian-sourced ingredients and employing local residents. This expansion was planned before the audit requirement was implemented. We project producing around 60,000 RTD canned cocktails over the next two years, which would generate only about \$3,600 in container fees for the HI-5 program (at \$0.06 per can). However, the mandated third-party audit costs \$15,000-\$20,000 every other year-- an amount far exceeding our expected contributions and one that threatens the viability of this new part of our business.

As a small, local operation, we simply cannot absorb this expense without severely impacting our pricing (potentially adding ~\$1.50 per can if passed to consumers), which would make our products non-competitive compared to larger out-of-state producers. We've already hired dedicated employees to run this canning operation, and their jobs are now at serious risk if we're forced to delay or abandon the project. This feels particularly unfair given that the audit appears designed to address issues primarily caused by larger entities or past system abuses, while disproportionately burdening small Hawaii-based manufacturers who are contributing to local sustainability, jobs, and farm-to-table production.

Local manufacturing and small businesses are vital to making Hawaii more self-sufficient and economically resilient – especially on Kauai. We support SB3138SD1 as it limits the audit requirement for beverage distributors and manufacturers to a threshold of 5,000,000 units or more.

Thank you again for your advocacy on behalf of Kauai and Hawaii's small businesses.

Sincerely,

Vindi & Grant Wells

Hanalei Spirits Distillery Corp.

4340 Kaikala St.

Kilauea, HI 96754

(808)346-2839

hanaleispirits@gmail.com