TO: MEMBERS OF THE ENVIRONMENT COMMITTEE
FROM: ROSS HOLLANDER, CHAIRMAN & CEO
HARTFORD DISTRIBUTORS INC., MANCHESTER, CT -- HDI
DATE: MARCH 11, 2019

HDI respectfully opposes HB 7294 -- An Act Concerning Bottle Redemption in this State.

HDI is a family owned and operated business, operating in Manchester since Prohibition was repealed in the 1933. We directly employ more than 200 people with good wages, good pensions and good healthcare benefits. Most of our employees work with HDI for their entire careers; and more than fifty percent of our employees are members of the Teamsters Labor Union.

HDI employees have always prided ourselves on our commitment to the community. We help dozens of local nonprofit organizations each year through tens of thousands of dollars in charitable contributions.

HDI – like other wholesalers – is a good partner with the State of Connecticut Department of Revenue Services (CT DRS). We collect excise taxes on all of our beer sold in the state (under §12-435, we pay $7.25 for each barrel; $3.60 for each ½ barrel; $1.80 for each 1/4 barrel . . . ).

**HDI respectfully OPPOSES the Increase in the Container Deposit to 10¢ (Section 2)**

This proposal to double the container deposit amount will negatively impact many Connecticut businesses – including all beer wholesalers and retail stores that sell beer to directly to consumers, including packages stores, grocery stores and convenient stores – especially the stores that are located near our borders with Rhode Island, Massachusetts and New York:

**Rhode Island**

Rhode Island has no container deposit law for bottles and cans. This means that a case of beer sold in Connecticut will have a $2.40 extra expense for the container deposits at the point of purchase (currently $1.20) as compared to Rhode Island prices. Connecticut residents who live near Rhode Island would now have an even greater incentive to drive over to Rhode Island to buy beer to avoid the container deposits altogether.

This will be bad for Connecticut beer wholesalers and retail stores – and bad for CT DRS’s collection of excise tax and sales tax revenues because of more Connecticut residents buying in Rhode Island.
At the same time, because Rhode Island doesn’t have a container deposit law, there is currently a growing cottage industry in Rhode Island where people bring containers sold in Rhode Island (particularly near the Rhode Island beaches) over the border to Connecticut stores to redeem the containers. These Rhode Island cottage industry Redeemers currently get 5¢ per container from Connecticut beer wholesalers, and the Connecticut beer wholesalers must pay a 1 ½ ¢ handling fee per container to the redemption center or the store where the Rhode Island Redeemer returned the container – this is bad because the beers where not even sold here in Connecticut – money is going out of state improperly.

This problem of fraudulent redemptions from Rhode Island will only get worse for our Connecticut beer wholesalers if the container deposit is doubled to 10¢. More and more fraudulent containers will come in from Rhode Island – and for that matter, from other states that have lower container deposit amounts. All beverage manufacturers use the same UPC code for deposit and non-deposit SKU’s on beer containers, making it seamless for the redemption of out-of-state containers anywhere in Connecticut, including at redemption centers and the reverse vending machines at all supermarkets.

**Massachusetts**

For many years, it has been recognized at the State Capitol that Massachusetts alcohol pricing is more competitive than Connecticut. This is caused in part by the fact that Massachusetts has no sales tax on alcohol (Connecticut has a 6.35% sales tax). Now, if the Connecticut container deposit is doubled to 10¢ to add an additional $1.20 expense at the point of purchase (Massachusetts only has a 5¢ deposit), then even more Connecticut residents will cross the border into Massachusetts to buy beer. This too will be bad for Connecticut beer wholesalers and retail stores – and again, it will bad for CT DRS’s collection of excise tax and sales tax revenues because of the smaller sales volumes. In addition, as noted above for Rhode Island, because of the 10¢ deposit in Connecticut, more Massachusetts containers will be fraudulently redeemed here in Connecticut redemption centers and stores.

**New York**

New York currently has a 5¢ container deposit. Now, if the Connecticut container deposit is doubled to 10¢ to add an additional $1.20 expense at the point of purchase, then even more Connecticut residents will cross the border into New York to buy beer. This too will be bad for Connecticut Beer Wholesalers and Package Stores – and bad for Connecticut’s excise tax and sales tax revenues. In addition, as noted above for Rhode Island and Massachusetts, because of the 10¢ deposit in Connecticut, more New York containers will be fraudulently redeemed here in Connecticut redemption centers and stores.

Not only would the state of Connecticut lose tax revenues because of sales going across our borders; the state will also likely lose “escheat” funds because more people – both with respect to Connecticut containers and out-of-state containers – will return their empties and get the 10¢ back for each container.
HDI respectfully Opposes the Increase in the Container Handling Fee to 3½ ¢ (Section 3)

We recognize that the proposal in Section 3, at line 263, allows wholesalers (deposit initiators) to retain 20% of the funds collected for container deposits, we still respectfully believe that the large increase in the handling fee will hurt sales and will hurt DRS tax collections.

Along with a deposit on each container, the current Connecticut container law also requires that beer wholesalers pay a 1½ ¢ handling fee on each container returned for refund to redemption centers, food markets, etc. This proposal in HB 7294 would more than double that amount to 3½ ¢ per container. By the time this handling fee increase reaches the consumer, as a practical matter, it will amount to an additional cost of $1.00 per case (as with so many consumer products, beverages are driven by the rule of the 99’s – the cost to the consumer is rounded-up to the next .99, such as $24.99, etc.).

This proposal which will drive up costs will likely chase even more of our beer sales over the borders to our surrounding states – this will absolutely be true if the container deposit amount is also double to 10¢ per container.

Connecticut is a small state only 50 X 100 miles in size – so it is very easy for our residents to travel to buy alcohol in other states.

Additionally, as discussed above, the operation of the current Container law causes HDI and other wholesalers to be inundated with empties migrating into Connecticut from other states. Unfortunately, again, HDI pays handling fees for many containers that weren’t even sold in Connecticut.

Conclusion:

This session, the Executive Branch and the Legislature are both working towards policies that will help Connecticut businesses grow and succeed. We respectfully contend that the proposals in HB 7294 to double the container deposit to 10¢ and to more than double the handling fee on containers to 3½ ¢ will cause major harm and disruption to Connecticut beer sales and tax revenues. Connecticut consumers can easily buy beer in Rhode Island, Massachusetts and New York; and these increases in container deposits and handling fees will certainly push more consumers across the borders.