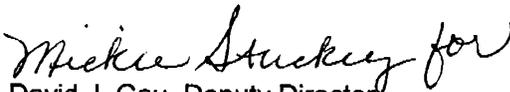


# Memorandum

To: Honorable John Chiang, Chair  
Honorable Claude Parrish, Vice-Chairman  
Ms. Betty T. Yee, Acting Board Member  
Honorable Bill Leonard  
Honorable Steve Westly

Date: June 24, 2005

From:   
David J. Gau, Deputy Director  
Property and Special Taxes Department

Subject: **Alternative Cigarette Tax Stamp Project Status Report**

As you are aware, at the April 27, 2005 Board Meeting, you approved an extension of Emergency Regulation 4056.1, *Expiration of Heat-Applied Decal Tax Stamps*, from April 30, 2005 to June 30, 2005. This allowed the vendor an extended timeframe to produce and install the necessary stamp application machines and provided additional time for them to ensure that all the machines were operating at desired efficiency levels. It also allowed the continued sale of the old cigarette tax stamp for those distributors that needed it. The following is an update on the Alternative Cigarette Tax Stamp (ACTS) Project since my May 20, 2005 status memorandum:

### ***Stamp Application Machine Installation Status***

#### ***High-Volume Stamping Machines:***

- The number of cigarette tax stamp application machines installed and in operation remains at 57, with one additional machine delivered and not installed at the distributor's request. No additional machines have been ordered at this time. These machine locations represent approximately 93 percent of the stamp volume that is normally applied by the high-volume stamping machines. (The balance of the cigarette tax stamping, approximately 7 percent, is done by low-volume, hand-stamping machines.)

#### ***Low-Volume Stamping Machines:***

- To date, 148 low-volume, stamping applicator machines have been purchased and shipped.
- In addition, the low-volume stamping scanners are in final acceptance testing and should be delivered to the distributors beginning in July. It is anticipated this process will be complete by August 15, 2005.

### ***Stamp Application Machine Operation Stabilization***

All of the installed machines are in operation. However, some locations are still having difficulty meeting production levels due to ongoing problems with machine performance. The more significant recurring problems since the last report are still in the label application and vision system areas. (Please see the attached chart of service calls and issues.) The vendor continues to provide the necessary service to try to keep the distributors up and running. The hardware and software upgrades discussed in my last report were installed on all machines by June 17<sup>th</sup>. In addition, the final production version of the stamp was released for general use at the end of May. Because of some subtle differences in this stamp from the interim stamp, there was an

increase in vision errors. The vendor identified the problem and a fix for it. Installation of this fix was also completed by June 17<sup>th</sup>. While these upgrades have proved to be helpful, they have not shown as significant a decrease in service issues as we had anticipated. While all high-volume stamping using the new stamp is being accomplished with the new machines that have been installed, consistent machine performance has not been fully achieved.

### ***Training and Ongoing Technical Assistance Status***

As I stated in my previous status report, the vendor provided operator training at each location at the time of machine installation. The vendor also conducted follow-up training at distributor locations one week after machine installation to ensure that all operators at the location were trained and comfortable handling the equipment. In addition, the vendor recently sent a notice to all the locations with high-volume stamping machines inquiring if additional training was needed. For those distributors that responded they did need additional training, this is being arranged. Board staff also conducted a recent survey that included a question on the need for additional training. The results are being compiled and will be sent to the vendor by June 27, 2005.

The vendor currently has ten technicians and two vision support engineers assigned to the state dedicated to providing service to the distributors. The 24-hour technical support telephone line is available to distributor staff seven days a week. If the telephone technical support staff cannot assist callers, the SICPA Field Service Manager will dispatch the closest available service technician to provide assistance at the distributor location. We have continued to ask that all service problems be reported to the 800 designated service number so they can be tracked and addressed in as timely a manner as possible.

### ***Compliance Timeframes***

For a 90-day period beginning July 15, 2005, staff will measure and evaluate machine performance levels pursuant to the Invitation For Bid (IFB), which provides that machines must be capable of applying a minimum of 750 stamps per minute and high-volume machines should be capable of running at a 95 percent operational level over a three-month period. Staff will provide the Board with a report describing the results of the 90-day evaluation at the October Board meeting.

### ***Old Machines/Stamp Usage***

At the end of April, 85 percent of all the cigarette tax stamps sold were new stamps and 15 percent were still the old stamps. In my May 20<sup>th</sup> status memorandum, we reported that approximately 95 percent of the stamps being applied to packages of cigarettes were the new stamps, and 5 percent of the stamps being applied were the old stamps. As of June 23<sup>rd</sup>, we are still at 95 percent.

For specific information related to the cigarette tax stamp machine installations, or if you have any questions regarding this report or would like additional information, please call me at 916-445-1516.

DJG:kn  
Attachment

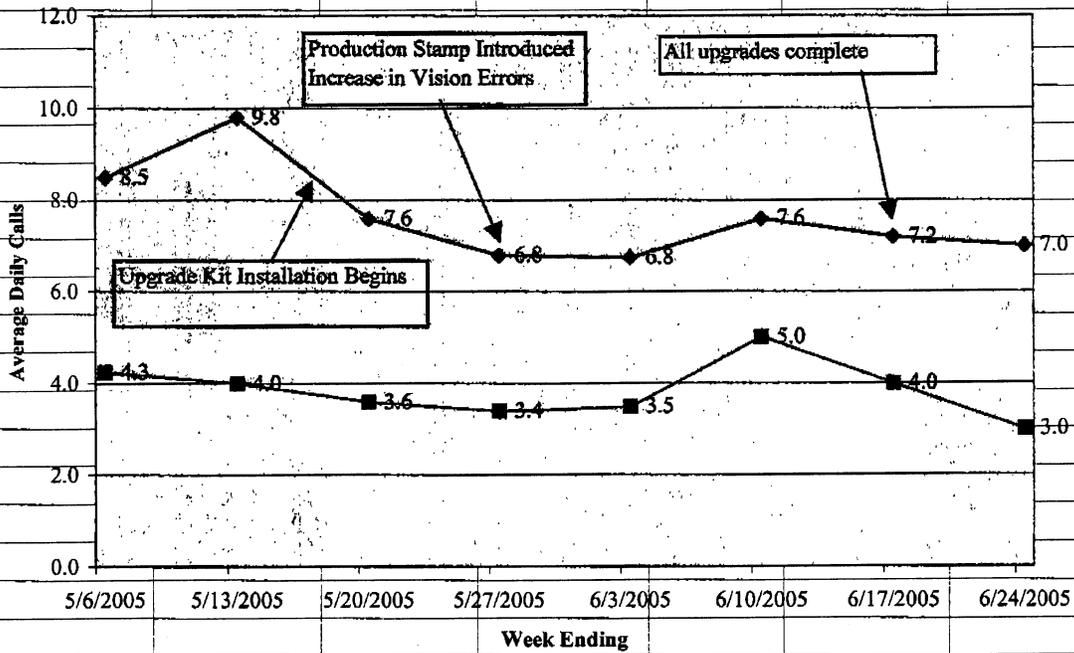
cc: Ms. Marcy Jo Mandel  
Mr. Ramon J. Hirsig  
Ms. Kristine Cazadd

Ms. Monica Brisbane  
Mr. Dennis Maciel

### Weekly Service Calls With Daliy Averages

	Week Ending	Total Service Call	Total Vision/App Errors	Days in Week	Average Calls Per Day	Average Vision/App Errors
	5/6/2005	34	17	4	8.5	4.3
	5/13/2005	49	20	5	9.8	4.0
	5/20/2005	38	18	5	7.6	3.6
	5/27/2005	34	17	5	6.8	3.4
	6/3/2005	27	14	4	6.8	3.5
	6/10/2005	38	25	5	7.6	5.0
	6/17/2005	36	20	5	7.2	4.0
	6/24/2005	21	9	3	7.0	3.0
	<b>Total</b>	<b>277</b>				

**Average Daily Service Calls Per Week**



◆ Average Total Service Calls  
 ■ Average Vision & Application Errors