

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: May 20, 2005

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

Subject: **Alternative Cigarette Tax Stamp Project Status Report**
(May 25, 2005 Executive Director's Report)

As you are aware, at the April 27, 2005 Board Meeting, you approved an extension of the 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. Since my April 25, 2005 status memorandum, following is an update on the Alternative Cigarette Tax Stamp (ACTS) Project:

Stamp Application Machine Installation Status

- *High-Volume Stamping Machines:* As of May 18, 2005, 58 out of 60 cigarette tax stamp application machines have been installed at 40 locations. These 58 stamp application machines 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.) One distributor location received their stamp application machine the week of April 25, 2005, but it was not installed because the facility had not been properly modified. There are two remaining distributor locations yet to receive cigarette stamp application machines. These two distributor locations were initially scheduled for installations the week of May 9, 2005, but elected to postpone their installations indefinitely. They have been notified, in writing, that unless they have new equipment installed and in operation by June 30, 2005, they will no longer be able to apply authorized California tax stamps to cigarette packages.
- *Low-Volume Stamping Machines:* To date, 137 low-volume, stamping applicator machines have been purchased and shipped.

Distributor Facility Modification Status

As stated in the section above, a stamp application machine has been delivered and has been on-site at a distributor location since the week of April 25, 2005. However, the distributor has not made the necessary facility modifications to allow the installation to be completed.

Of the two distributor locations that have not received equipment to date, neither has performed the necessary facility modifications and both have voluntarily postponed their installations until further notice.

Stamp Application Machine Operation Stabilization

With the exception of one, all of the machines ordered have been installed. However some locations have had difficulty meeting production levels due to ongoing problems with machine operations. The more significant recurring problems are in the label application and vision system areas. The vendor has identified these locations and is providing the necessary service to keep the distributors up and running. In addition, the vendor has identified certain machine modifications and is in the process of making the needed upgrades. It is anticipated these upgrades will significantly reduce the problems we are currently seeing and should be completed in early June 2005. With few exceptions, all high-volume stamping is being accomplished with the new machines that have been installed.

Training and Ongoing Technical Assistance Status

Because most of the stamp machine installations have been completed, more resources are being dedicated to ensure the distributors experience little or no machine downtime. There are currently eight technicians, two supervisors, and one vision support engineer assigned to the state.

In addition to the operator training provided at each location at the time of machine installation, the vendor has conducted follow-up training at distributor locations one week after machine installation to ensure that all operators at the location have been trained and that operators who were trained during the installation are comfortable handling the equipment. Also, the vendor is providing supplemental training to new operators and existing staff as required.

There is also a 24-hour technical support telephone line 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.

Compliance Timeframes

We are still looking at July 1, 2005 for full compliance.

Old Machine/Stamp Usage

At the end of April, of all the cigarette tax stamps sold, 85 percent were new stamps and 15 percent were still the old stamps. As of May 18th, 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.

For specific information related to the cigarette tax stamp machine installations, a matrix containing confidential information is being sent to you separately. If you have any questions regarding this report, or would like additional information, please call me at 916-445-1516.

cc: Ms. Marcy Jo Mandel
Mr. Ramon J. Hirsig
Ms. Kristine Cazadd
Ms. Monica Brisbane
Mr. Dennis Maciel