



STATE OF HAWAII
DEPARTMENT OF TAXATION
HONOLULU, HAWAII

July 29, 2020

REQUEST FOR QUOTES (RFQ)
No. DOTAX-RFQ-FY21-01

HEAT APPLIED CIGARETTE TAX STAMPS

WITH THE OPTION OF EXTENDING FOR NOT MORE THAN TWO (2) ADDITIONAL TWELVE
MONTH (12) PERIODS UPON MUTUAL AGREEMENT

The Department of Taxation, Administrative Services Office, would like to solicit offers for the Heat Applied Cigarette Tax Stamps through the electronic procurement system (HiePRO).

All offers must be made by 2:00 PM Hawaii Standard Time on August 13, 2020 and must be submitted in strict accordance with the instructions therein.

Questions relating to this solicitation may be directed to Mr. Emill Acosta, phone 587-1501.

The Department of Taxation reserves the right to reject any or all offers and to waive any defects when such rejection will be in the best interest of the public.

INSTRUCTIONS TO OFFERORS

1. All offers shall be made on the Offer Form furnished by the Department of Taxation (Department) and shall be signed by the offeror with the offeror's business address and telephone number. The offeror is requested to submit its offer using the offeror's exact legal name as registered with the Department of Commerce and Consumer Affairs, State of Hawaii. NO SUBSTITUTIONS OF MATERIALS OR ITEMS NOT EXPRESSLY PROVIDED FOR IN THE INSTRUCTIONS TO OFFERORS, SPECIAL PROVISIONS, REQUIREMENTS AND GENERAL CONDITIONS WILL BE CONSIDERED OR ACCEPTED.
2. Any offer that contains any erasures or alterations not properly initialed or that contains other irregularities may be rejected as not in the best interest of the public. Any offer which constitutes a conditional offer, or a counter proposal will be rejected outright.
3. The offer price shall include all applicable taxes and any other costs incurred per this RFQ.

Work to be performed under this solicitation is a business activity taxable under Chapter 237, Hawaii Revised Statutes (HRS), and vendors are advised that they are liable for the General Excise Tax (GET) and all other applicable taxes. If, however, the offeror is a person exempt by the HRS from paying the GET and therefore not liable for the taxes on this solicitation, the offeror shall state its tax exempt status and cite the HRS chapter or section allowing the exemption.

4. In case of error in extension of offer price, unit price shall govern.
5. Costs for developing the proposal are solely the responsibility of the offeror, whether any award results from this solicitation. The State of Hawaii shall not reimburse such costs.
6. All proposals become the property of the State of Hawaii.
7. The offeror is advised that in order to be awarded a contract under this solicitation, the offeror will be required to be compliant with all laws governing entities doing business in the State including the following chapters and pursuant to HRS §103D-310(c):
 - a. Chapter 237, General Excise Tax Law;
 - b. Chapter 383, Hawaii Employment Security Law;
 - c. Chapter 386, Worker's Compensation Law;
 - d. Chapter 392, Temporary Disability Insurance;
 - e. Chapter 393, Prepaid Health Care Act; and
 - f. §103D-310(c), Certificate of Good Standing (COGS) for entities doing business in the State.

The State will verify compliance on Hawaii Compliance Express (HCE).

Hawaii Compliance Express. The HCE is an electronic system that allows vendors/contractors/service providers doing business with the State to demonstrate compliance quickly and easily with applicable laws. It is an online system that replaces the necessity of obtaining paper compliance certificates from the Department of Taxation, Federal Internal Revenue Service, Department of Labor and Industrial Relations, and Department of Commerce and Consumer Affairs.

Vendors/contractors/service providers should register with (HCE) prior to submitting an offer

at <https://vendors.ehawaii.gov>. The annual registration fee is \$12.00 and the 'Certificate of Vendor Compliance' is accepted for the execution of contract and final payment.

Timely Registration on HCE. Vendors/contractors/service providers are advised to register on HCE soon as possible. If a vendor/contractor/service provider is not compliant on HCE at the time of award, an offeror will not receive the award.

SPECIAL PROVISIONS

SCOPE:

Work included shall consist of providing heat applied cigarette tax stamps and shall be performed in accordance with these Special Provisions, Requirements, and General Conditions.

CONTRACTOR:

The term "Contractor" means an individual, partnership, firm, corporation, joint venture or other legal entity undertaking the execution of work under the terms of the contract with the Department, and acting directly or through his, their or its agents, employees or sub-contractors.

TERM OF CONTRACT:

The Contractor shall enter into a contract for providing heat applied cigarette tax stamps that shall commence on September 1, 2020 and terminate on August 31, 2021 unless extended by mutual agreement. The State shall have the option to extend for not more than two (2) additional twelve (12) month periods without the necessity of re-bidding, provided that the contract price for the extended period remains the same or lower than the initial offer price with the exception of those price adjustments allowed by contract.

OFFER PREPARATION:

Any offer offering terms and conditions contradictory to those included herein shall be rejected without further consideration.

LEGAL NAME:

Offeror is requested to submit its offer under its exact legal name as registered at the Department of Commerce and Consumer Affairs. Failure to do so may delay proper execution of the contract.

OFFER QUOTATION:

All offers shall be submitted on the forms provided and shall be in accordance with the terms and conditions stated herein.

Offer price(s) quoted shall be in accordance with the Special Provisions, Requirements, and General Conditions and shall include all other costs and applicable taxes. Offers subject to any price increase other than as provided by these special provisions shall not be considered. Offeror's failure to meet this requirement shall result in the rejection of the offer.

SUBCONTRACTING:

No portion of the work shall be subcontracted without the prior written approval of the Department.

OFFER SUBMISSION:

Offers must be submitted through HiePRO no later than the date and time indicated in the solicitation.

OFFERS RECEIVED AFTER THE ABOVE DATE AND TIME SPECIFIED SHALL NOT BE ACCEPTED.

CONTRACT AWARD:

The Department will award this contract as a lot, all or none basis, to the lowest responsive, responsible offeror. When award to the lowest, responsive, responsible offeror is not practicable, award shall be made to the offeror whose quotation provides the best value to the State. The award should be determined to be in the best interest of the Department from a technical as well as lowest overall project cost, including document, handling, distribution costs, the effective unit offer price, reliability, accuracy, and level of services based upon past experience of prospective contractors.

FINAL PAYMENT REQUIREMENTS:

Except for any contract of less than \$25,000 or any contract entered pursuant to section 103D-307, HRS,

1. A tax clearance certificate from the Department of Taxation and the Internal Revenue Service, current within two months of issuance date; and a certification from the Contractor affirming that the Contractor has remained in compliance with all laws as required by section 3-122-112, HAR.

or

2. A current Certificate of Vendor Compliance obtained through Hawaii Compliance Express showing the status for Hawaii Department of Taxation, Internal Revenue Service, Hawaii Department of Commerce & Consumer Affairs and Hawaii Department of Labor & Industrial Relations as either compliant and/or exempt. See the General Conditions, item 17.

A "Certificate of Vendor Compliance," issued through the Hawaii Compliance Express system, shall also be acceptable for final payment requirement.

CONTRACT EXECUTION:

The successful offeror shall be required to enter a formal written contract.

The Department will issue a notice to proceed, which may be in the form of the contract specifying the commencement date. Any work performed by the successful offeror prior to receipt of a notice to proceed on a fully executed copy of the contract shall be at the successful offeror's own risk and expense. The Department is not and shall not be liable for any work, contract costs, expenses, loss of profits or damages whatsoever incurred by the successful offeror prior to the contract commencement date.

PERFORMANCE BOND:

No performance bond is required for this contract.

INVOICING AND PAYMENT:

The Contractor shall submit an original invoice to the Department. Section 103-10, HRS, provides that the Department shall have thirty (30) calendar days after receipt of invoice or satisfactory completion of contract to make payment. For this reason, the Department will reject any bid

submitted with a condition requiring payment within a shorter period. Further, the Department will reject any bid submitted with a condition requiring interest payments greater than that allowed by section 103-10, HRS.

DELIVERY EXTENSION:

If contractor fails to deliver within the time allowed, liquidated damages as specified in these Special Provisions shall apply. However, contractor shall not be held responsible for delay due to reasons beyond its control, provided he notifies the Administrative Services Officer (ASO) of such delay and the reasons for such delay, as soon as practicable, and requests extension prior to the delivery deadline. Requests for extensions shall not be considered without documentation substantiating that the causes for delay were, in fact, beyond the control of contractor. The Department shall be the sole judge of whether such delay is truly beyond the control of the contractor and whether extension will be granted.

TERMINATION FOR CAUSE:

If contractor:

1. Fails to begin the work or services under the contract within or by the time specified.
2. Fails to perform the work with sufficient workmen, equipment, or materials to ensure prompt completion of the work.
3. Performs the work or services negligently or neglects or refuses to remove materials or to perform anew, such work or services that may be rejected as unacceptable.
4. Discontinues the prosecution of the work or services.
5. Otherwise breaches any term of the contract.
6. Allows any final judgment to stand against him unsatisfied for a period of ten (10) days.
7. Makes an assignment for the benefit of creditors.
8. For any other cause whatsoever, fails to carry out the work or services in an acceptable manner, the Department will give notice to contractor of such delay, neglect, or default. If contractor within a period of ten (10) days after the date of such notice, shall not proceed in accordance therewith, then the Department will have full power and authority, without violating the contract, to take the prosecution of the work or services out of the hands of contractor, and to use such methods as deemed necessary to complete the contract in an acceptable manner.

All costs and charges incurred by the Department, together with the cost of completing the work or services under the contract, will be offset from any monies due or that would or might have become due to contractor had contractor completed the work under the contract. If such expense exceeds the sum which would have been payable under the contract, the contractor shall be liable and shall pay to the Department the amount of such excess within ten (10) days after demand thereof.

9. See also paragraph 14 of the General Conditions.

TIMELY RESPONSE TO ALL CONTACTS BY THE DEPARTMENT:

If vendor is contacted and is not immediately available, call back to the Department should occur by the end of the same business day or early the following business day.

LIQUIDATED DAMAGES:

Refer to section 7.1 of the Requirements. In the event of any conflict or variation between the provisions of the document entitled Special Provisions and the General Conditions, the provisions of the document entitled Special Provisions shall control.

INTERPRETATION OF PROVISIONS:

Notwithstanding any other provisions, if there is any doubt as to the interpretation of any of the provisions of the contract, the interpretation given and made by the ASO, shall govern and control. In addition, the parties hereto agree that said ASO shall have the sole power to decide and resolve matters that may come up in the future and that are not covered by the contract.

CONFLICTS AND VARIATIONS:

In the event of any conflict or variation between the provisions of the document entitled Special Provisions and the General Conditions, the provisions of the document entitled Special Provisions shall control.

CAMPAIGN CONTRIBUTIONS BY STATE AND COUNTY CONTRACTORS

It has been determined that funds for this contract have been appropriated by a legislative body.

Therefore, Offeror, if awarded a contract in response to this solicitation, agrees to comply with Section 11-205.5, HRS, which states that campaign contributions are prohibited from a state and county government contractor during the term of the contract if the contractor is paid with funds appropriated by a legislative body.

OFFER FORM
REQUEST FOR QUOTES
TO PROVIDE HEAT APPLIED CIGARETTE TAX STAMPS TO THE
DEPARTMENT OF TAXATION, STATE OF HAWAII

Offeror: _____
Honolulu, Hawaii
_____ 2020

Damien Elefante
Acting Director of Taxation
830 Punchbowl Street
Honolulu, Hawaii 96813

Dear Mr. Elefante:

The following offer is made to provide the goods and services indicated in the following proposal schedule to the Department of Taxation, State of Hawaii, at the location required in the specifications, all according to the true intent and meaning of the specifications hereinafter contained.

The undersigned states that he/she/it has carefully read and understands the terms and conditions specified in the Instructions to Offerors, Special Provisions and Requirements attached hereto, and in the General Conditions, by reference made a part hereof and available upon request, for this contract, and that the Administrative Services Officer reserves the right to reject any or all offers and to waive any defects when in his opinion such rejection or waiver will be in the best interest of the Department of Taxation.

The undersigned further understands and agrees that by submitting this offer, 1) he/she/it is declaring his/her/its offer is not in violation of Chapter 84, Hawaii Revised Statutes, concerning prohibited state contracts, and 2) he/she/it is certifying that the price(s) submitted was (were) independently arrived at without collusion.

The undersigned hereby proposes to HEAT APPLIED CIGARETTE TAX STAMPS, in strict compliance with the Instructions to Offerors, Special Provisions, Requirements and General Conditions, for the Unit Price of:

_____ PER 1000 STAMPS

The Total Offer Price for an estimated amount of **32.4 MILLION STAMPS** below shall include all applicable taxes and any other costs incurred per this RFQ:

_____ Dollars
(\$ _____)

The undersigned represents: (Check one only)

- A Hawaii Business incorporated or organized under the State of Hawaii, OR
- A Compliant Non-Hawaii business not incorporated or organized under the laws of the State of Hawaii, but registered at the State of Hawaii, Department of Commerce and Consumer Affairs, Business Registration Division to do business in the State of Hawaii and has a separate branch or division in the State that is capable of fully performing under the contract.

State of incorporation _____

Offeror is:

- Sole Proprietor Partnership Corporation Joint Venture
- Other _____

If Offeror is a "dba" or a "division" of a corporation, please furnish the exact legal name of the corporation under which the contract, if awarded, will be executed:

Federal I.D. No. _____

Hawaii General Excise Tax License I.D. No. _____

Payment address (other than street address below): _____

City, State, Zip Code

Business address (Hawaii street address): _____

City, State, Zip

Respectfully Submitted,

(x) _____
Authorized Original Signature

Date: _____

Name and Title (Please Type or Print)

Telephone No.: _____

Fax No.: _____

Email Address: _____

DEPARTMENT OF TAXATION
Heat Applied Cigarette Tax Stamps
REQUIREMENTS
July 29, 2020

1.0 SCOPE:

- A. These requirements cover cigarette tax stamps designed for application with automated machines, manual machines, and hand-held devices to cigarette packages before their sale in Hawaii. It also states the requirements for application machinery, ancillary equipment, service, and training.
- B. These requirements cover the Fusion Stamp LaserTAGIT process, which is a hidden security feature (Section 3.2 C)

2.0 DEFINITIONS:

- A. The following definitions will apply:
 - 1. "**Stamp**" means a stamp printed, manufactured, or made by authority of the department, as provided in chapter 245, Hawaii Revised Statutes (HRS), that is issued, sold, or circulated by the Department, that is placed on a cigarette package, and by the use of which the tax levied under chapter 245, HRS, is paid.
 - 2. "**Proposed stamp**" means any sample stamp that the offeror submits with their offer.
 - 3. "**Heat-applied Stamp**" means any stamp that requires heat as the method of application to a package of cigarettes.
 - 4. "**Package of cigarettes**" means an individual sealed package of 20 cigarettes originating from the manufacturer and bearing the health warning required by law.
 - 5. "**Carton of cigarettes**" means the container that encloses packages of cigarettes. The standard number of packages in a carton is 10 packages.
 - 6. "**Case of cigarettes**" means the shipping container that encloses cartons of cigarettes. The standard number of cartons in a case is 60 cartons.
 - 7. "**License**" means a license granted under chapter 245, HRS, that authorizes the holder to engage in the business of a wholesaler or dealer of cigarettes or tobacco products in the state.
 - 8. "**Licensee**" means the holder of a license granted under chapter 245, HRS or its designee that has been authorized to purchase or apply Cigarette Tax stamps from the State of Hawaii, Department of Taxation.
 - 9. "**Unaided visual inspection**" means without the use of a scanner or similar device.

10. **"Fusion Stamp LaserTAGIT"** means a special tagant, or comparable security feature, incorporated into the stamp chemistry that is illuminated by a laser beam.
11. **"State"** means the State of Hawaii.
12. **"Department"** means the Department of Taxation.
13. **"Authorized"** means permission from the Department to manufacture (print) and store stamps as inventory.
14. **"Order"** means a request from the Department to deliver stamps from the inventory.

3.0 REQUIREMENTS:

3.1 DENOMINATIONS AND CONFIGURATIONS OF STAMPS:

- A. Stamps shall be furnished in denominations for packages containing 20 cigarettes.
- B. Stamps in denominations of 20 shall be configured for application with either high-speed, automated machines, manual machines, or hand-held devices.

3.2 DESIGN OF STAMPS:

- A. Stamps shall measure not less than 3/8" by 3/8" or more than 5/8" by 5/8" outside dimension.
- B. Stamps shall be designed so that the state of issuance and denomination can quickly be determined upon unaided visual inspection of stamps affixed to packages of cigarettes. An icon symbol designating state and denomination must be used in conjunction with any type of machine-readable code, including a bar code.
- C. Stamps shall contain hidden security features that will allow qualified staff of both the Department and the Contractor to determine their authenticity. It is permissible if some, but not all, of these features require analysis by the contractor in its lab or other testing facility.
- D. Heat-applied stamps shall be constructed in layers consisting of at least five impressions, including safety-tint lettering, applied to a release type carrier using a gravure process.
 1. Each stamp shall contain not less than three different distinctive colors. Half tones, Ben-Day effects, shades, tints, or tones of a color or colors will not be acceptable or considered as separate and distinctive colors. The safety-tint lettering will not be considered as one of the colors.
- E. All stamps on rolls shall be numbered to provide a means to trace both affixed and unaffixed stamps in the case of fraud, theft, or loss. The stamps on one roll shall all bear the same number. The number may not be repeated sooner than every three

years. The numeric or alphanumeric system should provide for at least 576,000 unique combinations (24 x 24 x 10 x 10 x 10). All stamps on sheets shall be numbered with the date of the press run. All sheets shall be consecutively numbered and there shall be no duplicate sheet numbers.

3.3 PERFORMANCE OF STAMPS:

- A. Pursuant to HAR §18-245-4, stamps shall be affixed in such manner as to adhere securely to each cigarette package. If the cigarette packages are wrapped in or covered by some substance to which the stamps do not readily adhere, such wrapper or covering must be roughened or treated so that stamps will adhere securely.
- B. Pursuant to HAR §18-245-3, stamps shall be securely affixed to each cigarette package in such a manner that the stamps are clearly visible, legible and complete.
- C. Stamps shall be designed so that they cannot be altered before or after they are affixed or be removed from packages after they are affixed without destroying them.
- D. The Contractor shall demonstrate that stamps meet all specification requirements.

3.4 SECURITY:

- A. The Contractor shall maintain a secure depository approved by the Department for storage of photographs, films, plates, cylinders, drawings, stamps, and related manufacturing equipment when not in use, and in the case of stamps, while awaiting shipment.
- B. Plates, designs, patterns, films, negatives, cylinders, and the like shall be used solely in the manufacture of stamps for the State. At any time, if the Department so desires, all such plates, designs, films, and related manufacturing equipment shall be either destroyed or disposed of as directed and witnessed by a representative of the Department. At the end of the contract period, the Department, at its option, shall receive in good order all photos, etchings, plates, films, cylinders, and related manufacturing equipment used for the manufacture of the Hawaii cigarette tax stamps.
- C. All equipment, computers, software, hardware, materials, and technologies used to manufacture the stamps shall be kept in a secure area that is continually monitored.
- D. Stamps awaiting shipment shall be stored in a secure depository approved by the Department.
- E. Upon request of the Department, the Contractor shall provide a complete and accurate accounting for each stamp and increment of stamps. Also upon request, the Contractor shall allow representatives of the Department to inspect its manufacturing facility and all books and records of account. Inspection shall include the production area and any area relating to the storage and security of the stamps.

- F. Any paper or substance that is a release-type carrier for stamps, if it is spoiled and bears printed stamps, shall be destroyed only under the direction of the Department. The aforementioned destruction shall be either in the presence of a representative of the Department or attested to through an affidavit of a representative of the Contractor.
- G. The Contractor shall notify the Department and the Department of the Attorney General within twenty-four hours via e-mail or fax of discovery of any loss, misappropriation, or theft of stamps from its facilities, of anything used to make the stamps, and the quantities lost, misappropriated, or stolen. The Contractor will be responsible for any loss, misappropriation, or theft from its facilities, of the stamps or anything used to make the stamps. The Contractor will reimburse the Department for the tax value, including the administrative and enforcement costs associated with the stamps, of any stamps lost, misappropriated, or stolen.
- H. No assignment of the contract, in whole or in part, may be made without the written consent of the Department as provided in Section 6 of the General Conditions.

3.5 INVENTORY SYSTEM:

- A. The Contractor shall provide a simple, easy-to-use inventory system. Licensees must be able to inventory unaffixed stamps without counting each stamp. The Department's consignee of stamps must be able to account for stamps in shipments received, stamps sold, and stamps remaining.
 - 1. Any release-type carrier, such as transfer paper, bearing stamps designed for automated application or for manual machines, must be numbered on both margins at regular intervals corresponding to rows of stamps. The numbers in one margin must show the number of stamps in the preceding rows to the beginning of the increment. The numbers in the opposite margin must show the number of stamps in the row plus subsequently rows to the end of the increment. Each purchase increment shall be serially and consecutively numbered.
 - 2. Any release-type carrier bearing stamps designed for application by hand-held devices must be numbered as described in the previous paragraph unless the number of stamps on one sheet can be easily counted by rows and the sheet is no longer than 10 rows. Each sheet shall be serially and consecutively numbered.

3.6 STAMPING MACHINES AND HAND-HELD DEVICES:

- A. The Contractor shall make stamping machines available for licensees to lease or purchase at a reasonable price. Automated components must open the flap on a standard carton of cigarettes, apply stamps to standard packages while in the opened carton and glue the carton flap closed. Conveyors must move the cartons through opener, stamper, and gluer components. The feed onto the conveyor must be automated. The Contractor may offer options to licensees. These include manual feeds to the conveyor and manual machines that automate the stamping component only.

- B. The Contractor shall make ancillary equipment available for licensees to lease or purchase at a reasonable price. Ancillary equipment must be compatible with the machines and fully automate the stamping process. Ancillary equipment must cut and split open standard cases of cigarettes, feed cartons from the case onto the conveyor, and pack cartons into split cases at the end.
- C. The contractor shall make manual machines available for licensees to lease or purchase at a reasonable price.
- D. Machines and ancillary equipment shall be capable of giving reliable and reasonably trouble-free service.

3.7 MACHINE MAINTENANCE AND TRAINING:

- A. The Contractor shall establish replacement, repair, and maintenance servicing arrangements with licensees who lease or purchase equipment from the Contractor.
 - 1. The Contractor must give rapid and efficient repair service at any location where machines, ancillary equipment, and hand-held devices are in use. Repair services must be available 24 hours a day. Labor costs for repair services may be priced based on repairs required during normal business hours, after-business hours, Saturdays, Sundays, and holidays.
 - 2. The Contractor shall provide regular preventive maintenance on automated equipment, manual machines, and any hand-held devices that incorporate electronics or moving parts at all locations where they are in use.
 - 3. The Contractor shall exchange worn equipment based on a replacement schedule for wear and tear. If a licensee's equipment has a major mechanical failure, the Contractor shall deliver replacement equipment within 48 hours of notification.
- B. The Contractor shall provide ongoing training to the employees of licensees in the proper use of machines, ancillary equipment, and hand-held stamping devices.

4.0 QUALITY ASSURANCE:

4.1 INSPECTION:

- A. The Department or its designee may inspect and test stamps for compliance to this specification, as it deems necessary.

5.0 LAYOUT MARKINGS, PACKING, SHIPPING, AND DELIVERY:

5.1 MARKING AND PACKAGING STAMPS:

- A. The Contractor will furnish machine, heat-applied stamps in denominations of 20 in rolls containing 15,000 stamps, 15 stamps across and 1000 stamps long.

1. Each roll shall be numbered with the serial number of the stamps it bears. Additionally, each roll shall bear ascending numbers printed on one side margin of the roll and descending numbers printed on the opposite margin, starting with zero on one margin and 15,000 in the other. Numbers on the side margins shall appear at 300-stamp intervals.
2. Each roll shall be packed in a cardboard box and securely sealed and labeled to show the quantity and denomination of stamps contained in the roll. Each box will be labeled on the top to show the quantity of stamps in the box and the serial numbers of the rolls therein. These boxes, in turn, in quantities of thirty-six for 15,000 rolls, shall be packed in a shipping carton. The carton shall be sealed and labeled on the top and on one side to show the quantity of stamps in the carton and the serial numbers of the thirty-six rolls therein.

5.2 DELIVERY:

- A. Stamps ordered by the Department shall be delivered to the consignee as designated by the Department. Title shall not pass until the consignee receives and accepts the stamps. The Contractor shall be responsible for transportation and handling charges until the stamps arrive at the consignee's location and the title passes to the consignee. The Contractor shall bear full responsibility, at the sum of their full face value, for the security of the stamps until such time as title passes to the consignee. Shipments shall be made within three days of receipt by the Contractor of a written order from the Department. The Department will designate the consignee for each shipment and the quantity and type of stamps to be shipped to each consignee. The Contractor shall be responsible for safe and proper delivery to each consignee. All shipments of cigarette tax stamps shall be by bonded carrier.
- B. The shipping carton shall have no slack space that will allow crushing or distortion from palletizing or stacking. The shipping carton shall be durable in construction so that it may be reshipped without further reinforcement. The shipping carton shall comply with National Motor Freight Classification 100-Y, items 220 and 222 to 222-6 and shall be stamped with the Certificate of Box Maker, the gross weight of the shipping carton shall not exceed that weight indicated by the Certificate. The shipping carton, while in transit, shall be stored in a secured area and segregated from the general cargo.
- C. Each box placed in the shipping carton shall be sealed, numbered, and labeled on the top to show the quantity and denomination of stamps container in the box. The stamps in one box shall be of the same denomination. The arrangement of boxes in the shipping carton shall be such that either the top or side label is visible when the top and sides of the carton is removed.
- D. The bill of lading accompanying the shipment shall show the total number of boxes. The packing slip shall list by box number the serial numbers of each increment of stamps in the box and the denomination and the quantity of stamps in the box.

6.0 ORDERS:

6.1 BASED ON NEED:

- A. The Contractor shall make stamps available according to the purchase needs of the licensees. It is estimated that 32.4 million stamps will be ordered during the initial year of the contract. Actual amount ordered will be based on need and may be more or less than the estimation. An option shall exist for the Department to order more stamps at the price that is established at the time the contract is signed.

6.2 AUTHORIZATION:

- A. The Contractor shall manufacture and store stamps as the Department authorizes their production in writing. The authorized amount will depend on the Contractor's manufacturing, storing and delivery capabilities.

6.3 ORDERS FROM INVENTORY:

- A. From the supply of stamps that the Department has authorized the Contractor to print, the Department will order and have delivered on an as-needed basis sufficient stamps to meet the purchasing needs of licensees.

6.4 STAMP DESIGN CHANGES:

- A. With exception of machine-readable code, the Department reserves the right to change the colors and visible features of its stamps. Each time the Department changes colors or features, the Contractor shall supply the Department with 50 samples of each stamp that was changed.

6.5 DISPOSITION OF PRINTED STAMPS AT THE END OF THE CONTRACT PERIOD:

- A. The Contractor may invoice the State for any stamps it printed pursuant to authorization by the Department but which the Department did not order prior to the end of the contract period. Payment will be made in accordance with customary State payment procedures and the Contractor shall deliver the stamps as directed by the Department.
- B. The contractor may not invoice stamps that the Department authorized the Contractor to print if the Contractor did not print them by the end of the contract period.

7.0 PROTECTION OF THE STATE'S INTERESTS:

7.1 LIQUIDATED DAMAGES:

- A. It is agreed by the parties to the contract that if the Contractor breaches its promise under the contract to deliver all printed stamps required by any order made under the terms of the contract for any reason and that breach results in the loss of stamps not recovered by the Contractor within 30 calendar days, then that loss will interfere with the proper implementation of the State's programs to the loss and damage to the State. From the nature of the case, it would be impracticable or extremely difficult to determine the actual damages sustained in the event of any such loss. Because of the difficulty in determining the damages resulting from the

loss stamps, the Contractor shall pay to the Department, within 30 days of demand, the full sum of the face value of any and all stamps lost as a result of the Contractor's breach, as liquidated damages and not as a penalty. Amounts due the State as liquidated damages may be deducted by the State from any money payable to the Contractor. The State shall notify the Contractor in writing of any claim for liquidated damages pursuant to this paragraph on or before the date the State deducts such sums from money payable to the Contractor. If, after payment of the liquidated damages, the State recovers the lost stamps, the sum of the full face value of the recovered stamps shall be refunded to the Contractor after subtracting expenses incurred in the recovery of the stamps.

7.2 TERMINATION:

- A. The State may terminate the contract with the Contractor for any of the reasons given in this Subsection:
 - 1. Act 249, Session Laws of Hawaii 2000, is repealed or amended so that cigarette tax stamps, meter impressions, or any other forms or types of tax indicia are no longer required by law to be affixed to packages of cigarettes to indicate payment of tax.
 - 2. The Contractor defaults. The State may terminate the contract as set forth in Section 13 of the General Conditions of the contract.
 - 3. If it is in the interest of the State to terminate or partially terminate the contract, the State may terminate or partially terminate the contract as set forth in Section 14 of the General Conditions of the contract.
- B. Should the State terminate the contract for reason 1 of Subsection 7.2 A, the Contractor and the Department shall have the following rights:
 - 1. The State will be liable either for stamps already printed pursuant to the Department's authorization or for one-half of a year's supply of each denomination and configuration of stamps according to estimated usage as shown in Section 6.1 A, whichever is greater.
 - 2. Should termination occur within the last six months of the life of the contract, the State will be liable for stamps already printed.
 - 3. The Department reserves the right to place orders at the purchase order price until it has ordered six month's supply of each denomination and configuration of stamps or until the date when the contract would have normally ended. With the exception of State's liability under this Subsection 7.2.B, the State will be liable only for the quantity ordered.

7.3 ABILITY TO PERFORM:

- A. Before the State awards the contract, the Department reserves the right to summon the Contractor to appear before it to establish to its satisfaction the acceptability of the Contractor's stamps and the effectiveness of any and all protective features. It

may also determine whether the contractor can meet the requirements of this contract specification.

7.4 EXCLUSIVE USE:

- A. The Contractor shall guarantee exclusive use of any distinguishing mark, symbol, icon or design for stamps purchased by the State which shall be the sole property of the State.

8.0 REQUIRED ATTACHMENTS:

- A. The *awarded* offeror shall submit documentation ~~uploaded via HiPRO~~ with the contract to fully satisfy requirements 1 through 7 listed below.
 1. The offeror shall submit with the contract, marked "**Attachment No. 1**", samples of each proposed stamp. The Contractor shall expressly warrant that the stamps shall apply as specified in Subsections 3.3 A-D. The Contractor shall also list States now using the Contractor's stamps and application machines and businesses currently using Contractor's technology and machines for purposes of product identification, tracking, and inventory.
 2. The offeror shall submit with the contract, marked "**Attachment No. 2**", the name of the manufacturer of the release-type carrier and identify the blend of substances used in its manufacture.
 3. The offeror shall submit with the contract, marked "**Attachment No. 3**", a separate description marked "**Confidential**" and addressed to the Tax Services Administrator, Department of Taxation. The description shall fully explain the Contractor's system for protecting the State from unlawful stamp reproduction and the method by which the Department's inspectors could detect such counterfeit reproduction.
 4. The offeror shall submit with the contract, marked "**Attachment No. 4**", evidence satisfactory to the Department that the Contractor can provide the machines and ancillary equipment as described in Subsection 3.6 and in quantities sufficient to meet the needs of licensees. The successful offeror must assure the Department that there will be no lapse in cigarette stamping production during the transition from an existing contract to a new contract.
 5. The offeror shall submit with the contract, marked "**Attachment No. 5**", a full explanation of the security precautions which the contractor proposes using to avoid misappropriation of the stamps. The proposed precautions must include the plant where the stamps will be manufactured, units of the organization involved in the processing, handling, and storage of stamps.

6. The offeror shall submit with the contract, marked "**Attachment No. 6**", evidence satisfactory to the Department that possesses the facilities, tool, machinery, equipment; and resources needed to carry out the terms of this contract specification efficiently and promptly and with adequate security.
7. The offeror shall submit with the contract, marked "**Attachment No. 7**", a copy of the operator guide it will provide to employees of licensees. The training package shall include videos and instruction booklets showing the method of affixing hand-applied stamps and the qualifications of instructors who will do the training.

Attachments shall be mailed to the following address:

*State of Hawaii Department of Taxation
Administrative Services Office
830 Punchbowl St. #217
Honolulu, HI 96813*

9.0 DEPARTMENT OF THE ATTORNEY GENERAL:

The following services shall be provided to the ***Department of the Attorney General*** (Attorney General) to support their compliance efforts.

- A. Provide adequate training and educational materials to the staff of the Attorney General or its designee such that they are qualified to determine the authenticity of the stamps. The successful offeror, at their expense, will cover one training session per year in Hawaii. The Attorney General will cover the airfare and hotel expenses for the Contractor's instructors for any subsequent training sessions. Upon request of the Attorney General or its designee, the successful offeror shall receive stamps from the Attorney General or its designee, and subject them to laboratory analysis to determine its authenticity or lack thereof. Any analysis of stamps requested by the Attorney General or its designee shall have a turn around time of not more than forty-eight hours measured from the time stamps are received by the Contractor to the time that the analysis report regarding the stamps Authenticity is received by the Attorney General or its designee.
- B. Upon request of the Attorney General or its designee, the successful offeror shall provide a complete and accurate accounting for each stamp and increment of stamps. Also upon request, the successful offeror shall allow representatives of the Attorney General to inspect its manufacturing facility and all books and record of account. Inspection shall include the production area and any area relating to the storage and security of the stamps.
- C. The successful offeror shall submit a copy of the "Attachment No. 6" specified in Section 8(A)(6) of Exhibit A to the Attorney General.
- D. The successful offeror, at its expense, will provide a witness to testify and any necessary documents or materials to aid the Attorney General or its designee in the first criminal prosecution of a case relating to stamp authenticity. In any subsequent criminal prosecutions where the successful offeror provides a witness to testify, the

Attorney General is responsible for the airfare and hotel expenses of the successful offeror's witness.

- E. The successful offeror shall provide the Attorney General or its designee with a list of contact persons who will respond to inquiries relating to stamp authenticity within forty-eight hours of receiving the inquiry.