

SUBJECT: Regulation and licensing of salvage vehicle dealers

COMMITTEE: Transportation — committee substitute recommended

VOTE: 5 ayes — Alexander, Bosse, Alonzo, Edwards, Price
1 nay — Siebert
3 absent — Clemons, Moreno, Uher

WITNESSES: For — Paul Dugger; Wanda Lindeman, Owner Auto Dismantler
Against — Robert Grube, Farmers Insurance Group; Eugene Palmer, Allstate Insurance Company; Bill Tallas, State Farm Insurance Company; Milford Pat Smith, Farm Bureau Insurance Companies; Charles Wirth, State Farm Insurance Company; Jonna Kay Hogeland, National Association of Independent Insurers; Marcia McAllister, Insurance Auto Auctions, Inc.

DIGEST: CSHB 2599 would require licensing of automobile recyclers and salvage vehicle dealers by the Texas Department of Transportation (TxDOT) and subject them to certain requirements and penalties.

A licensed salvage vehicle dealer who dismantled, scrapped or destroyed a late model salvage vehicle would be required to send the department the certificate of title.

The bill would prohibit the sale, transfer or release of a late model salvage or nonrepairable vehicle to anyone other than a governmental entity, the vehicle's former owner or a licensed salvage vehicle dealer.

TxDOT could offer permits in the following classifications: new automobile dealer, used automobile dealer, used vehicle parts dealer, salvage vehicle pool dealer, salvage vehicle broker and salvage vehicle rebuilder. Out-of-state salvage vehicle dealers could become certified to conduct business in the state.

Licensees who acquired a late model salvage vehicle or nonrepairable vehicle would have to send to TxDOT for the appropriate certificate of

title. Nonrepairable vehicle would include any vehicle that was damaged or missing a major component part to the extent that the total estimated cost of repairs to rebuild or reconstruct the vehicle, including parts and labor, was at least 95 percent of the actual cash value of the vehicle in its predamaged condition.

A salvage vehicle would include a motor vehicle with a major component part that was damaged or missing to the extent that the total estimated cost of repairs to rebuild or reconstruct the vehicle was at least 75 percent of the actual cash value of the vehicle in its predamaged condition.

Late model salvage vehicle would be defined to include a salvage vehicle manufactured during the preceding six years, including the current model year.

Anyone acting as a salvage vehicle dealer or agent without the proper license issued by the department would commit a Class A misdemeanor (current maximum penalty of one year in jail and a \$4,000 fine).

The effective date of the bill would be March 1, 1995, but licensing would not be required until March 1, 1996. The transportation commission would be required to adopt rules regulating dealers by December 1, 1995.

**SUPPORTERS
SAY:**

HB 2599 would establish licensing of salvage dealers and limit transfer of vehicles and vehicle titles to those individuals and companies licensed by TxDOT, creating important tools in the battle against rising vehicle theft. Currently, vehicle salvage dealers and rebuilders are not registered with any state agency, which means there is no paper trail to identify auto parts coming from an illegal source.

Auto theft is a major problem for the state of Texas. More than 145,000 auto thefts were recorded in Texas in 1992, and the monetary losses were staggering. The theft problem soaks up law enforcement resources and contributes to rising insurance premiums to cover the cost of stolen cars. This legislation would significantly decrease the business opportunities for underground "chop shops" that deal in parts of stolen vehicles. The state needs to act to reduce the profit potential for auto thieves and unscrupulous

merchants of auto parts. Licensing of legitimate salvage dealers would assure that only honest business people stay in business.

Representatives of the auto salvage industry have come forward to ask that their industry be regulated in the hope that it will be harder for individuals to sell stolen auto parts. Because of the high cost of replacement parts from automobile manufacturers and aftermarket sources, the temptation is strong for shops to use stolen parts to make repairs. In addition, some shops turn to illegal parts from people on the street, and may actually sell them to the same people from whom they were stolen.

Licensing auto salvage dealers would assure that insurance companies and salvage pools would be able to sell only to licensed dealers, preventing the transfer of titles and vehicle identification numbers from non-repairable vehicles.

The bill would define as a nonrepairable vehicle any vehicle damaged or missing a major component part to the extent that the total estimated cost of repairs to rebuild or reconstruct the vehicle, including parts and labor, was 95 percent or more of the cash value of the vehicle in its predamaged condition. The 95-percent requirement is a reasonable requirement for a car to be declared nonrepairable. Oklahoma and Florida have imposed an 80-percent damage requirement, and Virginia and Michigan have 90-percent damage requirements. Industry representatives believe 95 percent would create an equitable standard for Texas.

**OPPONENTS
SAY:**

While this bill is being presented as a way to reduce the number of auto thefts, it fails to address the fact that auto thieves and their helpers are unlikely to ever seek licenses and would continue to operate regardless of any state licensing provisions.

Defining nonrepairable vehicle with a 95-percent of value threshold on repairs would prohibit the repair of many potentially usable vehicles. The designation nonrepairable on a car's title means that the car cannot be repaired and legally retitled. Thus, the vehicle is available only for parts or scrap. This bill would declare as nonrepairable many vehicles that, under current law, can be safely repaired.

There is a significant market for rebuilt cars in Texas to provide safe, reliable, affordable transportation. Given the relatively low book value of most older cars, damage that is almost totally cosmetic and, in many cases, quite minor, would cause a vehicle to be declared nonrepairable. The bill would also unfairly treat all components of a repair estimate equally in balancing repairs against value, which means many older vehicles that could be driven again but needed paint and other cosmetic repairs would be declared nonrepairable. A far better standard, and one supported by the International Association of Auto Theft Investigators, would be a vehicle incapable of safe operation on public roads and that has no resale value except as a source of parts or scrap.

Cars designated nonrepairable are worth much less than cars with a regular salvage certificate, and using this designation would mean an insurance company in possession of a car would recoup less — a loss that would be passed on to policyholders through higher premiums.

The bill would restrict sales of salvage vehicles under the newly created licensing structure. This licensing structure would decrease the competitive nature of the auto salvage business, further deflating the prices the vehicles will bring, again leading to higher insurance costs.

NOTES:

The substitute excluded scrap metal merchants from the definitions, exempted insurance agents from licensing requirements, classified salvage vehicle dealers according to activity performed by the dealer and established requirements for transfer of vehicles and vehicle titles.

Rep. Kubiak has prefiled two floor amendments that would allow for the granting of salvage dealer licenses by reciprocity and for an occasional sale of one nonrepairable or salvage vehicle per year to an individual without a license.

The companion bill, SB 1035 by Cain, is pending in a Senate Economic Development subcommittee.

Also on today's calendar is HB 2151 by Bosse, relating to the issuance of titles for nonrepairable and salvage motor vehicles. HB 2151 would take effect only if HB 2599 is enacted.