

MINUTES OF THE SENATE TRANSPORTATION COMMITTEE

The meeting was called to order by Chairman Les Donovan at 8:30 A.M. on February 14, 2007 in Room 527-S of the Capitol.

All members were present.

Committee staff present:

Hank Avila, Kansas Legislative Research Department
Mike Corrigan, Revisor of Statutes
Maggie Breen, Committee Assistant

Conferees appearing before the committee:

Nancy Weeks, Haskell County Treasurer
Judy Moler, Kansas Association of Counties
Carmen Alldritt, Director of Motor Vehicles
Cindy Lash, Legislative Post Audit
Paul Davis, A-Plus Parts & Salvage, Inc.
John Morse, Kansas Dealer Review Board Member
Ken Halphen, President, Oklahoma Auto Recyclers Association
Brad Smoot, Copart Auto Auction
Shawn Yadon, Copart Auto Auction
Lee Wright, Farmers Insurance Group
Mark Binder, Farmers Insurance Group - Oklahoma

Others attending:

See attached list.

Chairman Donovan opened the hearing on **SB 210—County Treasurers shall be deemed agents of the state for certain purposes.**

Nancy Weeks, Haskell County Treasurer and Legislative Committee Chair for Kansas County Treasurers, appeared to present the written testimony of Mark Schemm. (Attachment 1) The bill would enable the treasurer's offices to retain drivers licenses after the Real ID Act rules and regulations are finished. As a practical matter, they are agents of the state for motor vehicle and drivers licences services and they want to get the language formalized in the statutes.

Judy Moler, Kansas Association of Counties, said her organizations supports the legislation. They know the issue of Real ID and "homeland security" has been raised as an argument not to have the treasurers issue the licenses. But the organization believes that the people who live in these home counties are in the best position to know their citizens. They support the bill and urge the committee to do so also. (Attachment 2)

Carmen Alldritt, Director of Motor Vehicles, presented a balloon amendment. She said the department works hand in hand with the county treasurers. Count treasurers are agents of the state for motor vehicle business and also for drivers licenses issue. The bill just clarifies this and the balloon simply makes the language more consistent. (Attachment 3)

Chairman Donovan closed the hearing on **SB 210** and opened the hearing on **SB 295—Salvage vehicle pool dealer; bid cards.**

Neutral:

Cindy Lash, Legislative Post Audit, presented an overview of the audit. The regulation of the sale of vehicles at insurance salvage auctions was looked at. One of the recommendations of the audit was that the Department of Revenue propose some legislation this session that would increase their oversight of the auctions. The department supported the audit but the bill being presented comes from the industry. A couple of suggestions were made in the audit; the department might increase the oversight of the auctions through a BID card process or several other things. The BID card process is what's in **SB 295**. Salvage vehicles are vehicles that have been damaged or wrecked to such an extent that they can't be driven safely on the highway; or their value has been reduced by 75% or more of the pre-damaged value; or their insurer has declared them

CONTINUATION SHEET

MINUTES OF THE Senate Transportation Committee at 8:30 A.M. on February 14, 2007 in Room 527-S of the Capitol.

a total loss. Typically, they end up at salvage vehicle pools and the pools hold auctions to sell the cars. In the past, bidders came to the physical site of auction. There is an increasing trend towards holding the auctions on the internet which increases the pool of bidders. These bidders can be from anywhere. The sale of salvaged vehicles has been associated with a couple of problems relating to criminal activity and consumer protection. The two most commonly identified things are VIN cloning and title washing. Cindy's testimony included a chart showing how several states are regulating the sale of these vehicles. ([Attachment 4](#))

Proponents:

Paul Davis, A-Plus Parts & Salvage, and member of Kansas Automobile Recyclers Association (KARA) said the primary purpose of the membership is to purchase distressed, damaged or end-of-life vehicles (ELV's) and recover from them good reusable parts, valuable recyclable materials and to dispose of potentially environmentally damaged or undesirable fluids and scrap materials in a legal and responsible manner. Their facilities are registered, licensed, permitted, and regulated by multiple public agencies. Automobiles and trucks are the most completely recycled manufactured commodities in America. The internet has become a hideout of choice for today's criminals. The internet buyers' and sellers' identities are hidden from view. His industry finds themselves, as licensed Salvage Dealers, competing with all manner of unsavory, shadowy characters, including buyers from nations known to be harboring drug dealers, money launderers, etc. His testimony included copies of news items, notifications to register, press releases, and various articles of interest. ([Attachment 5](#))

John Morse, Kansas Dealer Review Board Member and Auto Recycler by trade, said the need for the bill has been indicated by the results of the post audit. In addition, the passage of the legislation will benefit citizens by making our highways and roads safer to travel. Currently, with no regulations, he has observed, almost on a weekly basis, what appears to be foreign nationals purchasing these damaged salvaged vehicles and driving them down our highways and roads towards Mexico. They drive one and tow one and usually drive in packs of 3 or 5. It appears to him that the vehicles are not road worthy and he questions why this practice is being allowed to continue. He questions if they could pass any safety inspection. He believes **SB 295** will help insure the identity and legitimacy of the purchaser of auto salvage. ([Attachment 6](#))

Ken Halphen, President, Oklahoma Automotive Dismantlers and Recyclers Association (ADRA), said he was testifying to represent a state that has what Kansas is thinking of implementing with this bill. He also holds a certificate to sell cars in Oklahoma and owns a salvage yard there. Oklahoma has a used motor vehicle division, with a parts and sales commission, that is in total control of what dealers and what salvage yards can and cannot do. His written testimony includes a copy of the requirements that need to be met in order to become a dealer or salvage yard operator. All applications are reviewed and must be authorized by the board. Monthly commission board meetings open to the public and consumer complaints are handled by them. ([Attachment 7](#))

Steve Kearney, representing Kansas Automobile Recyclers Association, provided a copy of the results of the entire audit that was conducted. ([Attachment 8](#))

Opponents:

Brad Smoot, representing Copart Auto Exchange and some members of the insurance industry, stated that due to the limited scope of the audit it doesn't get into the law enforcement effectiveness of the type of legislation being looked at. It doesn't get into the issue of the impact that it has on insurance issues. In addition to that, the audit doesn't disclose that, even though there are several states they did look at, only 16 states have legislation like this. And only 2 have adopted this kind of legislation in the past 20 years. The post audit did mention three different options, this bill addresses one of them. They are fine with the other two options proposed by the audit committee. This is the only one the insurance industry has a problem with. Finally, he said the BID card bill has a disparity in the BID card fee. It's \$10 in-state and \$250 out-of-state. There was a problem a couple of years ago regarding the constitutionality of having different fees or taxes for those in-state and out-of-state. It's an equal protection problem. ([Attachment 9](#))

Shawn Yadon, Assistant V. P. Government Affairs for Copart, Inc., said Copart is the largest operator of automotive salvage pools in the U.S. They have 123 salvage pools across the country plus one located in Canada. They are a public traded company traded on the NASDAQ under CPRT. He's here today to state

CONTINUATION SHEET

MINUTES OF THE Senate Transportation Committee at 8:30 A.M. on February 14, 2007 in Room 527-S of the Capitol.

their opposition to **SB 295**. At its core, the bill seeks fundamental changes to the insurance auto auction industry. The primary opposition focuses around the provisions that seek to establish a Buyer Identification Card. Kansas now has an open and competitive market place for salvage. The buyer base for salvage today is huge. It's interstate commerce at its best and it's international commerce. About 75 countries are in the buyer base for salvaged vehicles around the world. These buyers pay top dollar for the privilege of moving salvage out of the state. Insurance companies can get the best return to offset the claims so rates for Kansas consumers are kept low. Proponents of BID cards say they will reduce fraud but there is no data to confirm this. BID cards reduced the buyer base by 95% and in essence create a monopolistic situation. (Attachment 10)

Mark Binder, Farmers Insurance Group - Oklahoma, said he is the National Total Loss and Salvage Manager for Farmers. The implementation of buyer's restrictions like this bill proposes will have an overall negative impact for Farmers Insurance as well as other insurance companies. Last year, comparing four states with buyer restrictions and four without, the gross returns were 3.65% lower in the states with restrictions. The bill will reduce the number of buyers. With buyer restrictions, insurance policy premiums may very well rise. The claim that consumers will be better protected is simply not true. The true protection for buyers is not with who bought the vehicle, it's with the title. Buyers are protected due to state titling laws. Katrina cars have been mentioned. The majority of Katrina vehicles that were sold were sold in Louisiana. Ironically, Louisiana is a BID card state. (Attachment 11)

Lee Wright, Farmers Insurance Group (Attachment 12)

Bill Sneed, State Farm (Attachment 13)

Rick Welborn, Farmers Alliance, Written Only (Attachment 14)

Tony Kimmi Farm Bureau, Written Only (Attachment 15)

John Peterson, Insurance Auto Auctions, Written Only (Attachment 16)

The meeting was adjourned at 9:30 a.m. The next meeting is scheduled for February 15, 2007.

**SENATE TRANSPORTATION COMMITTEE
GUEST LIST**

DATE: February 14, 2007

NAME	REPRESENTING
Joe Wight	Farmers Ins.
Jeff Gill	Farmers Insurance
Mark Binder	Farmers Ins.
NANCY WEEKS	HASKELL CO TREASURER
MICKEY BILLINGER	ELLIS CO. TREASURER
Joe Grisolano	Crawford Co. Treasurer
Judy Moler	KAC
Jim Keller	KDOR
Bill Vogt	Insurance Auto Auctions
KAREN GARVEY	SHELTER INSURANCE COS
STEVE KEARNY	KEARNY & ASSOC.
Bill Sneed	State Farm
LARRY MAGILL	KAIA
KERRI SPIELMAN	KAIA
JOHN POWELL	COPART AUTO AUCTIONS
SHAWN YADON	Copart
Bud Smoot	Copart
Beth Francis	Copart

Nancy Weeks
gave presentation
of testimony

TESTIMONY PRESENTED BY MARK E. SCHEMM,
SMITH COUNTY TREASURER
SUPPORTING SENATE BILL 210
IN THE SENATE TRANSPORTATION COMMITTEE
FEBRUARY 14, 2007

Chairman Donovan and members of this committee, my name is Mark Schemm, Smith County Treasurer and member of the Kansas County Treasurers Association Legislative Committee. I sincerely appreciate the opportunity you've given me to testify on behalf of Kansas County Treasurers in support of Senate Bill 210.

In 2005, Congress passed the Real ID Act as a part of a 2005 emergency Iraq war funding bill, the Department of Homeland Security will soon set national standards for state driver's license across the nation. The report released in September of 2006 by the National Governors Association and two other state-government groups has sparked a coast-to coast rebellion against REAL ID. Estimating the program's cost to state government at a shocking \$11 billion over the first five years, the report concluded that "the difficulties of complying with yet unpublished regulations by the statutory deadline of May 2008 are insurmountable.

The Real ID Act states that agencies issuing driver's license must require from applicants a photo ID, birth certificate, "proof of the person's Social Security number" evidence of lawful status. The driver's license issuing agent must verify all of those documents with the agencies that issued them keep digital copies of everything and store the copies on the card's electronic chip, which will probably be linked to a national database. Whether your license is valid thru 2008 or 2016, you'll have to get a new one in the next couple of years to comply with REAL ID and you will be required to make a trip to the licensing office every time you move even with in your own town. With all the new requirements that visit promises to be longer and more painful than ever.

And licenses will undoubtedly become more expensive as well. The states' estimate of \$11 billion amounts to \$55 per driver in additional costs. The yet unpublished report also indicated that to comply with REAL ID you will have to drive to a state licensing agency. That is why SB 210 is so important to the motoring public of Kansas. At the present time 72 county treasurers renew driver's license for Kansas drivers. REAL ID threatens that privilege because county treasurers are not "State Licensing Agencies" or even "agents of the State. Passage of SB 210 would make county Treasurers Agents of the State for Motor Vehicle and Driver's License renewal services.

Over the past several months county Treasurers conducted a petition to determine if the motoring public would like to keep driver's license and commercial driver's license renewal services at their local courthouse. The result was an overwhelming 80,467 signatures.

In the event the REAL ID Act becomes a reality Kansas will be in a better position to comply with the Federal Government policies and not lose federal funding which will undoubtedly be connected to the Act to insure compliance by states.

Implementation of the Real ID Act requires all individuals working in the driver's license application process to undergo appropriate security clearances. County Treasurers are prepared to bear the costs of the security clearance for their employees performing driver's license renewal services.

In conclusion Senate Bill 210 will keep driver's license and commercial driver's license renewal services locally for the states older and working drivers and will keep a part of homeland security at home.

At this time I would be happy to address any questions or concerns you might have. If not, I respectfully request your serious consideration and support of Senate Bill 210. Thank you for your time and attention to this very important issue.

RESOLUTIONS/KANSAS DRIVERS LICENSE RENEWAL AT THE LOCAL LEVEL--2007

County	Received	County	Received
Allen County	X	Marion County	X
Anderson County	X	Marshall County	X
Atchison County	X	McPherson County	
Barber County		Meade County	
Barton County	X	Miami County	
Bourbon County	X	Mitchell County	X
Brown County	X	Montgomery County	X
Butler County		Morris County	X
Chase County	X	Morton County	
Chautauqua County	X	Nemaha County	
Cherokee County		Neosho County	
Cheyenne County	X	Ness County	X
Clark County		Norton County	X
Clay County	X	Osage County	
Cloud County		Osborne County	
Coffey County	X	Ottawa County	X
Comanche County	X	Pawnee County	
Cowley County		Phillips County	X
Crawford County	X	Pottawatomie County	X
Decatur County	X	Pratt County	
Dickinson County		Rawlins County	X
Doniphan County		Reno County	X
Douglas County		Republic County	X
Edwards County	X	Rice County	X
Elk County	X	Riley County	X
Ellis County	X	Rooks County	
Ellsworth County	X	Rush County	
Finney County		Russell County	
Ford County		Saline County	X
Franklin County		Scott County	
Geary County	X	Sedgwick County	
Gove County	X	Seward County	X
Graham County		Shawnee County	
Grant County	X	Sheridan County	X
Gray County	X	Sherman County	X
Greeley County	X	Smith County	X
Greenwood County		Stafford County	X
Hamilton County	X	Stanton County	X
Harper County		Stevens County	X
Harvey County		Sumner County	X
Haskell County	X	Thomas County	X
Hodgeman County		Trego County	X
Jackson County	X	Wabaunsee County	X
Jefferson County		Wallace County	X
Jewell County	X	Washington County	
Johnson County		Wichita County	
Kearny County		Wilson County	
Kingman County		Woodson County	X
Kiowa County	X	Wyandotte County	
Labette County	X		
Lane County	X		
Leavenworth County			
Lincoln County	X		
Linn County	X		
Logan County	X	TOTAL RESOLUTIONS:	63
Lyon County	X		
excel/ resolution report/dar			

RESOLUTION NO. 2007-02

A resolution urging the federal and state governments to retain drivers' license renewals at the local level.

WHEREAS, Chautauqua County, Kansas is a municipal government pursuant to Kansas law; and

WHEREAS, the County Treasurer's office in Chautauqua County, Kansas has served citizens of the county by issuing renewal Kansas drivers licenses since 1994; and

WHEREAS, the convenience afforded county residents is best served by affording them the ability to renew their drivers licenses or change their names or addresses on drivers licenses in a county office without having to travel a greater distance, and such service can be provided without adding much if any operational costs to taxpayers in the County; and

WHEREAS, the citizens of Chautauqua County, Kansas believe that the best kind of homeland security is the type that is kept at home where citizens are more apt to know their fellow citizens for the purpose of renewing Driver's Licenses and Commercial Driver's Licenses; and

THEREFORE, BE IT HEREBY RESOLVED BY THE BOARD OF CHAUTAUQUA COUNTY COMMISSIONERS that the citizens of Kansas should be allowed the convenience and courtesy of renewal of drivers licenses in their home county and petition the Congress of the United States to ensure that this basic service to citizens can continue to be provided at the county level.

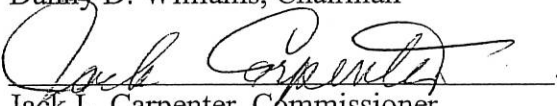
BE IT FURTHER RESOLVED that a copy of this resolution be sent to Senators Pat Roberts and Sam Brownback of Kansas; Congressman Todd Tiahrt; Governor Kathleen Sebelius; Kansas Secretary of Revenue Joan Wagnon; State Senator Derek Schmidt; and State Representatives Kasha Kelley and Jeff King.

RESOLVED THIS 31st DAY OF JANUARY, 2007.

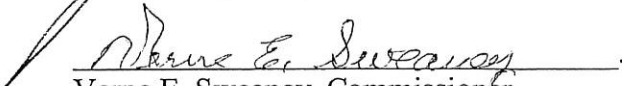
BOARD OF CHAUTAUQUA
COUNTY COMMISSIONERS



Danny D. Williams, Chairman

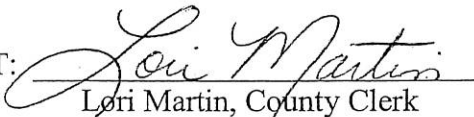


Jack L. Carpenter, Commissioner



Verne E. Sweaney, Commissioner

ATTEST:



Lori Martin, County Clerk

Resolution No. 2007-4

A RESOLUTION URGING THIS FEDERAL AND STATE GOVERNMENTS TO RETAIN DRIVERS' LICENSE RENEWALS AT THE LOCAL LEVEL.

Whereas, all counties in Kansas are a municipal government pursuant to Kansas Law; and

Whereas, the County Treasurer's offices in rural counties across Kansas have served citizens of their county by renewing Kansas drivers licenses for many year.

Whereas, the convenience afforded county residents is best served by affording them the ability to renew their drivers' license or change their names or addresses on drivers' licenses in a county office without having to travel a greater distance, and such service can be provided without adding much if any operational costs to taxpayers in the rural counties; and

Whereas, the citizens of rural counties across Kansas believe that the best kind of homeland security is the type that is kept at home where citizens are more apt to know their fellow citizens for the purpose of renewing drivers' licenses and commercial drivers' licenses; and

THEREFORE, BE IT HEREBY RESOLVED BY THE BOARD OF Ellis County COMMISSIONERS that the citizens of Kansas should be allowed the convenience and courtesy of drivers' license renewal services in their home county and petition the Congress of the United States to ensure that this basic service to citizens can continue to be provided at the county level.

BE IT FURTHER RESOLEVED that a copy of this resolution be sent to Senators Pat Roberts and Sam Brownback of Kansas; Congress(wo)man Jerry Moran; Governor Kathleen Sebelius; Kansas Secretary of Revenue Joan Wagon; State Senator Janis Lee; and State Representatives Eber Phelps and Dan Johnson.

RESOLVED THIS 5th DAY OF February, 2007.



BOARD OF Ellis COUNTY COMMISSIONERS

Vernon L. Berens
Vernon L. Berens, Chairman

Dennis J. Pfannenstiel
Dennis J. Pfannenstiel, Commissioner

Perry S. Henman
Perry S. Henman, Commissioner

ATTEST: Alberta Klaus
Alberta Klaus, Ellis County Clerk

KANSAS COUNTIES

County	Population	% of Signatures	#'s of Signatures	County	Population	% of Signatures	#'s of Signatures
Allen County	13,949	0.00000%		Marion County	13,010	23.46656%	3,053
Anderson County	8,191	35.18496%	2,882	Marshall County	10,402	20.53451%	2,136
Atchison County	16,848	15.82977%	2,667	McPherson County	29,413	0.03060%	9
Barber County	4,999	17.20344%	860	Meade County	4,592	12.65244%	581
Barton County	27,367	1.04505%	286	Miami County	29,712	0.00000%	
Bourbon County	15,066	0.00000%		Mitchell County	6,564	30.91103%	2,029
Brown County	10,362	14.27331%	1,479	Montgomery County	34,975	0.00000%	
Butler County	61,828	2.08643%	1,290	Morris County	5,977	8.81713%	527
Chase County	3,068	5.21512%	160	Morton County	3,269	22.85102%	747
Chautauqua County	4,178	28.43466%	1,188	Nemaha County	10,458	0.00000%	
Cherokee County	21,950	0.00000%		Neosho County	16,555	0.00000%	
Cheyenne County	2,979	39.14065%	1,166	Ness County	3,080	32.82468%	1,011
Clark County	2,343	30.72983%	720	Norton County	5,799	32.83325%	1,904
Clay County	8,597	6.45574%	555	Osage County	17,091	0.00000%	
Cloud County	9,779	0.00000%		Osborne County	4,100	10.92683%	448
Coffey County	8,759	0.00000%		Ottawa County	6,175	15.98381%	987
Comanche County	1,903	22.85864%	435	Pawnee County	6,795	4.16483%	283
Cowley County	35,772	0.00000%		Phillips County	5,583	0.00000%	
Crawford County	38,060	0.34682%	132	Pottawatomie County	18,871	3.84187%	725
Decatur County	3,274	44.92975%	1,471	Pratt County	9,417	22.48062%	2,117
Dickinson County	19,132	0.98787%	189	Rawlins County	2,765	22.35081%	618

KANSAS COUNTIES

County	Population	% of Signatures	#'s of Signatures	County	Population	% of Signatures	#'s of Signatures
Doniphan County	8,062	0.42173%	34	Reno County	63,676	0.00000%	
Douglas County	102,786	0.00000%		Republic County	5,224	0.00000%	
Edwards County	3,308	4.38331%	145	Rice County	10,497	8.49767%	892
Elk County	3,117	0.00000%		Riley County	63,069	0.00000%	
Ellis County	27,060	7.65336%	2,071	Rooks County	5,386	16.19012%	872
Ellsworth County	6,350	2.66142%	169	Rush County	3,466	18.58050%	644
Finney County	39,271	0.00000%		Russell County	6,978	2.85182%	199
Ford County	33,278	0.59799%	199	Saline County	53,943	0.00000%	
Franklin County	26,049	0.00000%		Scott County	4,691	2.36623%	111
Geary County	25,111	0.00000%		Sedgwick County	463,802	0.00431%	20
Gove County	2,845	68.40070%	1,946	Seward County	23,237	0.00000%	
Graham County	2,745	8.77960%	241	Shawnee County	171,716	0.00000%	
Grant County	7,685	11.97137%	920	Sheridan County	2,614	22.11171%	578
Gray County	5,980	10.76923%	644	Sherman County	6,218	8.37890%	521
Greeley County	1,415	22.54417%	319	Smith County	4,179	39.81814%	1,664
Greenwood County	7,538	0.00000%		Stafford County	4,512	27.63741%	1,247
Hamilton County	2,654	21.59005%	573	Stanton County	2,374	11.75232%	279
Harper County	6,238	34.53030%	2,154	Stevens County	5,520	7.71739%	426
Harvey County	33,769	30.39178%	10,263	Sumner County	25,272	25.05144%	6,331
Haskell County	4,272	38.29588%	1,636	Thomas County	7,801	1.25625%	98
Hodgeman County	2,089	43.89660%	917	Trego County	3,158	36.63711%	1,157

(PLEASE RETURN WITH YOUR TAX PAYMENT AFTER SIGNING IF YOU SUPPORT THE BELOW "STATEMENT")

"STATEMENT"

THE SIGNERS OF THIS DOCUMENT SUPPORT THE RIGHT OF KANSANS TO RENEW A DRIVERS LICENSE AT THE COUNTY TREASURER'S OFFICE.

I AM CONCERNED THE "REAL ID ACT" PASSED BY THE US CONGRESS WILL THREATEN THE QUALITY OF LIFE OF MANY KANSANS BY REQUIRING RURAL COUNTY RESIDENTS TO TRAVEL LONG DISTANCES TO STATE OF KANSAS REGIONAL OFFICES TO CONDUCT DRIVER'S LICENSE BUSINESS. MY SIGNATURE ON THIS DOCUMENT IS MY EXPRESSION OF SUPPORT TO ALLOW KANSANS THE OPTION OF RENEWING THEIR DRIVER'S LICENSE AT A COUNTY TREASURER'S OFFICE. RENEWAL SERVICES PROVIDED BY COUNTY TREASURERS ENSURE SENIOR CITIZENS, DISABLED DRIVERS AND THE WORKING PUBLIC WILL HAVE CONVENIENT AND TIMELY ACCESS TO DRIVER LICENSE SERVICES AT THE COUNTY COURTHOUSE.

NAME	ADDRESS	CITY	COUNTY
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ADDITIONAL SIGNERS MAY USE BACKSIDE



KANSAS
ASSOCIATION OF
COUNTIES

Testimony on SB 210
Before the Senate Transportation Committee
By Judy A. Moler
General Counsel/Legislative Services Director
February 14, 2007

The Kansas Association of Counties thanks the Committee for the opportunity to speak in favor of SB 210.

We believe that this bill allows for the renewal of Kansas drivers licenses to continue to be a service offered at the county treasurers office. The convenience of this service is afforded to county citizens so that they can renew their drivers licenses, change names and addresses on drivers licenses without having to travel a greater distance. This is a service that can be provided without adding much, if any, additional costs to taxpayers in the county.

We are aware that the issue of "homeland security" has been raised but we believe that the best kind of homeland security is that afforded at home where citizens are more likely to know their fellow citizens.

We urge you to vote "yes" on SB 210.

The Kansas Association of Counties, an instrumentality of member counties under K.S.A. 19-2690, provides legislative representation, educational and technical services and a wide range of informational services to its member counties. Inquiries concerning this testimony should be directed to Randy Allen or Judy Moler by calling (785) 272-2585.

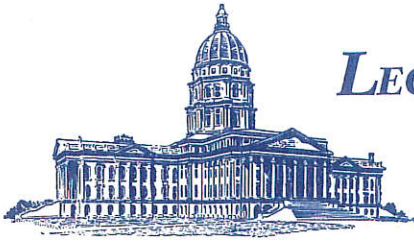
300 SW 8th Avenue
3rd Floor
Topeka, KS 66603-3912
785•272•2585
Fax 785•272•3585

Senate Transportation Committee
2-14-07
Attachment 2

Carmen Alldred
Director of Motor
Vehicles

1 act, to accept applications for drivers' licenses and administer the exam-
2 inations required for the issuance or renewal of drivers' licenses. ~~Any~~
3 ~~county treasurer authorized to accept applications for drivers' licenses or~~
4 ~~administer drivers' license examinations shall be deemed to be acting as~~
5 ~~an agent of the state of Kansas to the same extent as the employees of the~~
6 ~~division of vehicles of the department of revenue performing such~~
7 ~~functions;~~
8 (2) "nonresident" means every person who is not a resident of this
9 state. For the purposes of the motor vehicle drivers' license act any person
10 who owns, rents or leases real estate in Kansas as such person's residence
11 and engages in a trade, business or profession within Kansas or registers
12 to vote in Kansas or enrolls such person's children in a school in this state
13 or purchases Kansas registration for a motor vehicle, shall be deemed a
14 resident of the state of Kansas 90 days after the conditions stated in this
15 subsection commence, except that military personnel on active duty and
16 their military dependents who are residents of another state, shall not be
17 considered residents of the state of Kansas for the purpose of this act;
18 and
19 (3) "patrol" means the state highway patrol.
20 (b) As used in this act, the words and phrases defined by the sections
21 in article 14 of chapter 8 of the Kansas Statutes Annotated shall have the
22 meanings respectively ascribed to them therein, unless a different mean-
23 ing is ascribed to any such word or phrase by subsection (a) of this section.
24 Sec. 3. K.S.A. 8-234a and K.S.A. 2006 Supp. 8-126 are hereby
25 repealed.
26 Sec. 4. This act shall take effect and be in force from and after its
27 publication in the statute book.

Any person authorized to accept applications for drivers' licenses or administer drivers' license examinations shall be deemed to be acting as an agent of the state of Kansas to the extent that such actions are authorized by the director of vehicles;



LEGISLATURE OF KANSAS
LEGISLATIVE DIVISION OF POST AUDIT

800 SOUTHWEST JACKSON STREET, SUITE 1200
TOPEKA, KANSAS 66612-2212
TELEPHONE (785) 296-3792
FAX (785) 296-4482
E-MAIL: lpa@lpa.state.ks.us
www.kslegislature.org/postaudit

Information for the Senate Transportation Committee Regarding SB295

Cindy Lash, Audit Manager

February 14, 2007

Mr. Chairman and members of the Committee, thank you for allowing me to appear before you to provide some background related to this bill. In July 2006 we issued an audit that looked at the current level of regulation for the sale of vehicles at insurance auto salvage auctions in Kansas. One of our recommendations in that audit was that the Department of Revenue propose legislation this session that would give the agency more oversight of the salvage pools, and we suggested that one way they might get more meaningful oversight would be to implement a Buyer Identification, or BID, card system.

I want to tell you a bit about what we learned in that audit that caused us to make that recommendation:

Salvage vehicles are vehicles that have been wrecked or damaged to such an extent that they can't be driven safely on State highways, or the cost of repairing them is 75% or more of their pre-damaged value, or they've been declared a total loss by the insurer.

Salvage vehicles often end up at salvage vehicle pools, which hold auctions to sell them. In the past, bidders came to the pool's physical location; in recent years there's been a trend toward conducting those auctions on the Internet. This means a bidder could be anywhere, which increases the number of bidders.

The sale of salvage vehicles has been associated with problems related to criminal activity and consumer protection. The most commonly identified problems are:

- VIN Cloning – this involves removing the VIN number from a stolen car and replacing it with the VIN from a salvage vehicle of the same make and model.
- Title Washing – this is done by repeatedly re-titling a salvage vehicle in other states until the “salvage” brand has been eliminated from the title.

We found several other states that have addressed these problems by regulating the salvage pools to some extent, and by controlling who can purchase salvage vehicles from the pools.

We identified 4 states that were reported to have good systems for overseeing salvage vehicle pools. Those states, and their oversight activities, are shown in the table below, along with Kansas.

Comparison of Salvage Pool Oversight					
Oversight Activity	Kansas	Oklahoma	Missouri	Wisconsin	Ohio
Require salvage pools or their operators to be licensed		√	√	√	√
Require background checks for operators of salvage pools			√	√	√
Allow state officials to request and review sales records		√	√	√	√
Require bidders to have a state-issued buyer identification (BID) card, available only to certain types of licensees.		√	√	√	√
Source: LPA analysis of sample states					

Because the bill before you today addresses BID cards, I want to talk about what the other states require in this area:

- Oklahoma BID card holders must have an automobile dismantles license or a rebuilder certificate
- Missouri limits BID cards to people with a salvage dealer and dismantler license who are actively engaged in the business
- Ohio limits BID cards to people with a salvage motor vehicle dealer license, who are in good financial standing and who have not been convicted of a felony
- Wisconsin issues BID cards to licensed motor vehicle dealers, salvage dealers, or wholesale dealers. BID card holders have to be at least 18 years old, can't have a conviction for a crime related to the sale of motor vehicles, and must renew the card annually or biannually.

Based on these findings, we recommended that the Department of Revenue propose legislation that would give it greater oversight of salvage vehicle pools, and in doing so should consider the following options:

- Implementing a BID card system
- Seeking authority to review titles and other records maintained by salvage pools
- Creating sanctions for pools that fail to maintain vehicle titles as required by current State law



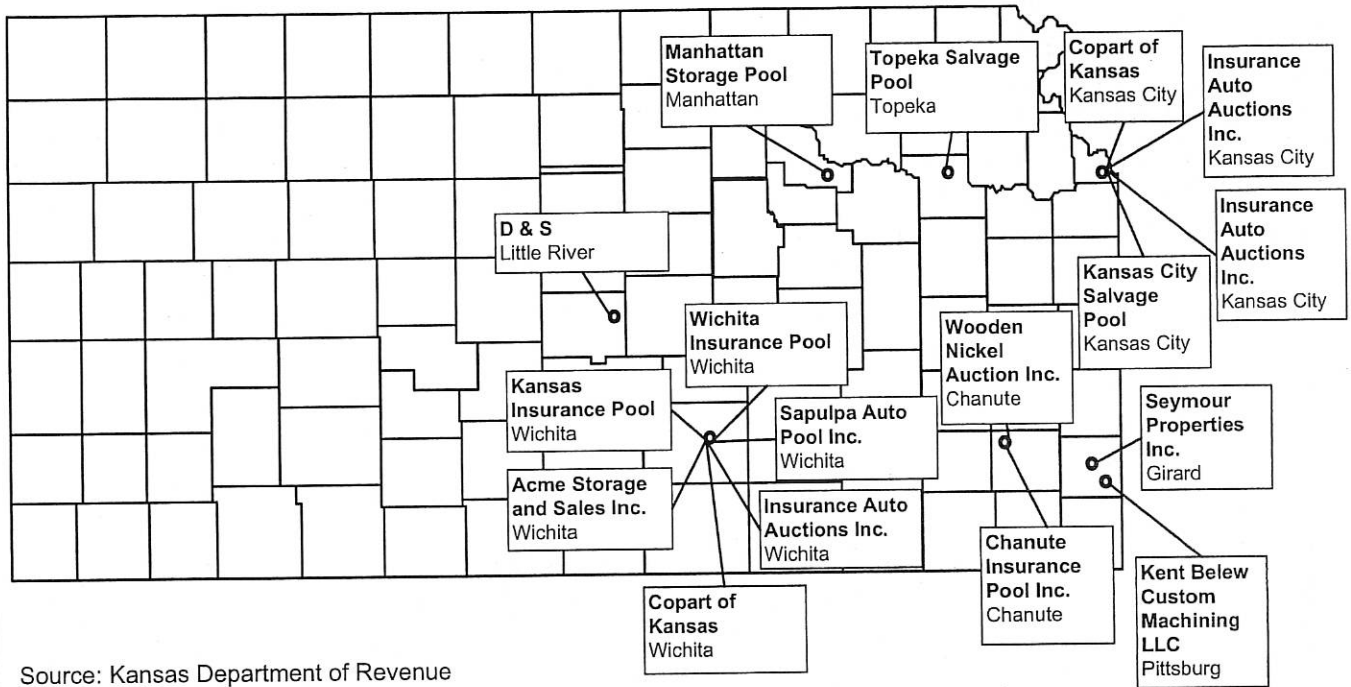
PERFORMANCE AUDIT REPORT

Limited-Scope Audit

**Insurance Auto Salvage Auctions in Kansas:
Reviewing the System for Regulating the Sale of
Vehicles Acquired Through These Auctions**

**A Report to the Legislative Post Audit Committee
By the Legislative Division of Post Audit
State of Kansas
July 2006**

Registered Insurance Auto Salvage Auction Pools in Kansas



Source: Kansas Department of Revenue

As of April 2006, Kansas had 17 registered salvage pools. Most of the salvage pools are located in the eastern half of the State; the largest concentrations are in Wichita and Kansas City. The map shows the name and location of registered salvage pools in Kansas.

The sale of salvage vehicles has been associated with problems related to criminal activity and consumer protection. The criminal activities most often associated with salvage vehicles are vehicle identification number (VIN) cloning and “title washing,” or otherwise obscuring a vehicle’s damage history with a clean title.

VIN cloning occurs when a vehicle is purchased at a salvage auction for the sole purpose of removing its VIN and placing it on a stolen vehicle of the same make and model. This makes it nearly impossible for the vehicle to be identified as stolen. It’s then sold to a buyer who has no way of knowing its true history.

Title washing involves re-titling a salvage vehicle in another state for the purpose of eliminating the salvage “brand” on the title, because a vehicle with a clean title is worth far more than that same vehicle with a salvage title. (“Brands” are qualifiers attached to a title that indicate some imperfection in the vehicle;

for example, salvage, rebuilt, lemon, non-highway, and so on.) The variation between states in the brands they use and the way they identify those brands on the title make it possible to hide a vehicle's history. Here's an example of how a title can be "washed" of its salvage brand:

A vehicle with a salvage title is purchased in Kansas. It's retitled in Arkansas, which doesn't use the term "salvage." Instead, the new title will say "damaged." When the vehicle is retitled in yet another state, the owner may explain that the damage has been repaired, and the vehicle receives a clean title.

Once a vehicle has a clean title, buyers typically have no way to know of the previous damage. At a minimum, buyers overpay for these vehicles; at worst, they end up with unsafe vehicles they would not have bought at any price had they known the true history.

Although services such as Carfax can be used to obtain a vehicle's history, the databases those services use may be incomplete. Some states reportedly withhold information from the databases, and information that is reported may not be timely enough to identify vehicles that are quickly rebuilt and sold. In addition, there have been cases nationwide where vehicles that were declared a total loss by an insurer were sold without being retitled.

In Kansas, application for a salvage title must be made within 30 days after an insurance company declares a vehicle a total loss. Failure to do so is a Class C non-person misdemeanor. However, in 2005, State Farm Insurance Company settled with the attorneys general of 49 states for \$40 million, admitting that it resold between 30,000 and 50,000 vehicles which it had declared a total loss, and for which it should have--but did not--obtain salvage titles. As a result, buyers purchased these vehicles with clean titles and had no way of knowing their safety, reliability, or true value.

Although salvage pools aren't the root cause of these problems, increased regulation of the pools can provide a way to address some of these issues simply because so many salvage vehicles will pass through a pool.

***Compared to Four
Other States We
Contacted, Kansas
Had the Weakest Level
Of Oversight of Salvage
Vehicle Pools***

During this audit we talked to vehicle officials in four states reported to have relatively good systems for overseeing salvage vehicle pools--Missouri, Ohio, Oklahoma, and Wisconsin. **Figure I-2** shows how Kansas compares to those four states on several measures related to the regulation of salvage pools.

Figure I-2 Comparison of Salvage Pool Oversight					
	Kansas	Oklahoma	Missouri	Wisconsin	Ohio
Require salvage pools or their operators to be licensed		✓	✓	✓	✓
Require background checks for operators of salvage pools			✓	✓	✓
Allow state officials to request and review sales records		✓	✓	✓	✓
Require bidders to have a state-issued buyer identification (BID) card, available only to certain types of licensees.		✓	✓	✓	✓
Source: LPA analysis of sample states					

Salvage pools in Kansas are registered, rather than licensed, and there are no requirements for pool operators. Kansas' only requirement for salvage vehicle pools is that they register with the Department of Revenue's Division of Vehicles and pay a one-time fee of \$50. Registration simply helps ensure the State is aware of a business' existence. Licensing typically involves setting some level of standards for operation of the business. By contrast:

- Ohio licenses salvage vehicle pools, and requires applicants for a license to demonstrate fiscal viability (by submitting financial statements showing the business has a net worth of at least \$20,000). Ohio officials are allowed to inspect the businesses' premises and records. License fees are \$100, and licenses must be renewed every two years.
- Missouri, Oklahoma, and Wisconsin require operators of salvage pools to hold a license as a salvage business, a used car dealer, or a wholesale dealer. Each type of license has criteria that must be met before a license is issued.

Kansas doesn't know as much about the backgrounds of the people operating auto salvage pools as some other states do. Because of opportunities for illegal activity associated with salvage vehicles, it's important to ensure that individuals with past criminal histories aren't involved in acquiring and selling salvage vehicles.

Kansas doesn't conduct background checks on salvage pool operators when they register. In Ohio, however, applicants must submit a police report form showing criminal history, and a conviction for a felony or misdemeanor crime related to salvage vehicles is grounds for denial of a license. Wisconsin runs a background check on applicants to see if they've been convicted of a felony.

Kansas doesn't have the authority to review the records of salvage pools. By looking at titles contained in sales records,

it's easy to tell whether vehicles that were declared a total loss actually had salvage titles, as required by law. In addition, sales records identifying the buyer are important in spotting patterns of suspicious purchases.

In Kansas, salvage vehicle pools are required to keep a copy of the title of vehicles they sell, but State law makes no provision for the Division of Vehicles to see these titles or any other records of the salvage pool. (Copies of the titles would be available to law enforcement officials with probable cause and a search warrant.) State law doesn't specify how long copies of titles must be maintained.

The four states we reviewed all give state regulatory officials access to sales records from salvage pools whenever necessary.

Kansas is less restrictive about who can purchase a vehicle from a salvage pool. Salvage vehicles pose physical and financial risks to the public when unscrupulous individuals buy them. A salvage vehicle that is rebuilt poorly, with structural flaws that aren't readily apparent and a new coat of paint and its title "washed" to disguise its history, can end up in the hands of an unsuspecting consumer. In Kansas, any individual who creates a user ID and password and pays a registration fee to the salvage pool is able to bid on vehicles at the salvage pool auctions.

Each of the four states we contacted require individuals to have a State-issued BID card in order to participate in salvage auctions, and only issue BID cards to individuals who are involved with the automotive or salvage business and who meet certain criteria, as follows:

- Oklahoma BID card holders must have an automobile dismantler license or a rebuilder certificate
- Missouri limits BID cards to people with a salvage dealer and dismantler license who are actively engaged in the business
- Ohio limits BID cards to people with a salvage motor vehicle dealer license, who are in good financial standing and who have not been convicted of a felony
- Wisconsin issues BID cards to licensed motor vehicle dealers, salvage dealers, or wholesale dealers. BID card holders have to be at least 18 years old, can't have a conviction for a crime related to the sale of motor vehicles, and must renew the card annually or biannually.

14 FEB 2007

Senate Transportation Committee hearing, SB 295

My name is Paul Davis. Since 1981 my wife Darlene and I have owned and operated A-Plus Parts & Salvage, Inc. in Wichita. We have been members of the Kansas Automotive Recyclers Association (KARA) for over 20 years, having hopefully served the association in various capacities over the years.

I come before you today to represent the legitimate automotive dismantling industry. The primary business of our membership is to purchase distressed, damaged or end-of-life vehicles (ELV's) and recover from them good reusable parts, valuable recyclable materials and dispose of potentially environmentally damaging or undesirable fluids and scrap materials in a legal and responsible manner. Our facilities are registered, licensed, permitted and regulated by multiple public agencies, including US EPA, KDHE, KDOT, KDOR-Division of Vehicles, Department of Labor (work comp) plus local zoning and other as may apply. Our members have committed substantial resources to the industry, our employees and our communities. Ours is not a part-time diversion, nor is it to supplement income from our chosen profession. It is not meant to take up the slack while we are laid off from a factory or seasonal job. This is what defines us. We do it to the best of our abilities. Without the services automotive dismantlers and recyclers offer to our communities, there would no doubt be a financial burden placed on our communities to do poorly out of necessity, that which we have done best since the invention of the automobile. Automobiles and trucks are the most completely recycled manufactured commodities in America. The US-EPA mantra of "reduce-reuse-recycle" was invented and continues to be perfected here within our membership.

During our time in this business we have witnessed and learned many things. One of the things I learned about on a trip to Topeka, much like this one, for a transportation committee hearing on a bill, was the term "sun setting" in reference to a statute that had outlived its usefulness.

What I propose is for this committee to consider the adoption of a new term to utilize and spread throughout the legislative & regulatory process for all Kansans.

That term would be "day lighting"

I am certain that you are all familiar with the Legislative Post Audit Report entitled Insurance Auto Salvage Auctions in Kansas. This report has certainly shed some day light on the recent state of the insurance automotive salvage distribution system. I say recent, because of fact that even though this report was very professionally researched, prepared and presented in July 2006, yet it has been rendered somewhat outdated by events in the industry since its publication. It also contains at least one technically misleading statement, which alone by it's inclusion in the report indicates that the time for day lighting may well be now.

Please refer to page 5 of the report which states that there are 17 registered salvage pools in Kansas. That statement is true. This would lead a reasonable person to conclude that there are 17 salvage pools operating in Kansas. However natural that conclusion might be, it is erroneous.

Three of the six registered in Wichita have ceased operation, having been purchased by two of the other three so registered, and will likely never see daylight again. I believe there are a minimum of three, possibly as many as seven of the remaining 14 with a similar status. Had these pools been licensed, rather than registered a simple check of current licenses would have brought the correct number into the day light.

While this may be is a simplistic approach to make a minor point, when you apply the concept to larger issues where the questions are far more weighty, it becomes difficult to determine accurate answers.

Viewed from a historical perspective we surely will all agree that those who are involved in deception, fraud, theft and other unsavory enterprises can collectively be referred to as shady characters. Gangs and other criminals such as the Daltons, the James gang, Bonnie & Clyde and the like had hide-outs where the sun could not shine on them and they felt more secure with those places available to them as they went about their chosen endeavors.

A significant point I hope to make here today is that the internet has become the hide-out of choice for today's criminals, petty or otherwise. Every day the sun comes up, another internet strategy, brilliant or shady, often both, is concocted.

For roughly the first 15 years that my wife and I were in business, licensed salvage vehicle dealers obtained much of their inventory by direct insurance company contracts, bids to claims adjusters or going to either sealed bid or live auction sales at salvage pools. It did not take long for sellers of salvage, including dealers, financial institutions, rental car companies and insurance companies to learn that the live auction format generated higher returns with the buyers competing against each other in broad daylight. It also did not take the sharper buyers long to figure out who the shady sellers and buyers were, and at one time two Wichita dealers were able to accurately predict to law enforcement officials the make, model and in some cases color, of vehicles that would be stolen soon in the Wichita area based on what vehicles certain buyers had recently purchased at salvage auctions as far away as Dallas.

Now we live in the age of the internet where buyers and sellers identities are hidden from view, guarded as zealously as any military or trade secret.

Online listings by salvage pools typically will vehicle identification numbers omitted, truncated or cleverly hidden on sale listings or web pages. Vehicle mileage is frequently not available or grossly misstated, particularly on vehicles with digital odometers which may have had odometers disabled either by the collision or other damaging event, or by someone simply pulling a fuse, unhooking or removing the battery or losing or hiding

(there is that word again) the vehicle's key. In some cases the pool selling the vehicle is in fact the owner of the vehicle. Sellers, often other dealers, are allowed to bid their own vehicles up without even the need for a shill bidder. Vehicle damage or condition is blatantly misrepresented. Buyers are barred from the sale preview area of at least two Kansas salvage pools one hour before the start of the virtual internet sale, plus the keys to the vehicles advertised as "ride & drive certified" are taken from those vehicles during the short buyers' preview period to prevent buyers or paid guests from starting the vehicles or stealing or hiding the keys themselves. At another, buyers are barred from the area where vehicles incapable of dragging themselves across the "run & drive" block are staged while the run & drive portion of the sale is conducted. In this case the pool hires armed security guards to police the sale lot on sale day, so it seems they know the caliber of customers they now attract.

When the Kansas legislature, with the support of KARA, saw fit to separate the Salvage vehicle dealer licenses from the Used & Salvage vehicle dealer licenses to more clearly define our industry, the response of the pools that had required Salvage vehicle dealer licenses to purchase salvage or non-repairable titled vehicles was to throw their internet portals open to anyone anywhere that had any type of vehicle dealers license, if required at the location of their alleged business, and in the case of two Kansas pools, the public. Now we find ourselves as licensed Salvage Dealers competing with all manner of unsavory, shadowy characters including buyers from nations know to be harboring drug dealers, money launderers, traffickers in persons, or terrorists. Is it any wonder then that all but one of these is located in close proximity to I35?

Hopefully at this point you will be considering asking "Who are these buyers to whom you refer?"

I cannot answer that question, as they are hiding behind the internet, sometimes identified by nation or state, at others only by buyer number. At the sales which simulcast a live auction with an internet auction, the live buyers onsite have no idea whom they are bidding against, which may frequently be the pool company which actually owns the vehicle, nor do internet bidders have any idea whom they are bidding against when the screen says onsite rather than city & state or nation. It becomes clear where the vehicle is bound when an item is sold to an onsite bidder and the auctioneer says "Gracias, Amigo".

It is also an increasingly common practice to sell "on approval" or "on a call", which may be frequently an indication that the vehicle's true owner is a dealer or the pool company.

Another recent development is that one of the two giant, nationwide auction pool companies is merging with a large national auto auction house, both of which are being bought by a privately held investment company. As a result they will now be safely hidden from public scrutiny, as they will no longer be accountable to investors and securities regulators as a publicly held stock company.

These are in no way small or petty problems. They are symptoms and manifestations of major problems which are growing exponentially. In addition, we have internet brokers

selling Kansas insurance salvage directly to the public on eBay. We have internet salvage brokers specializing in selling wrecked rental cars online. We have eBay members offering their access to the pools for a price, others offering title laundering instructions or services also at a price.

The only way to stem this tide, to reverse and prevent further damage being done to Kansas dealers and consumers, as well as to recover lost tax revenue to the State is to bring the entire industry out into the open and shine a perpetual light on it. We can only do this by empowering the Division of Vehicles, the Insurance Commissioner, consumer protection and law enforcement to deal with these shady practices in an appropriately firm manner.

You have been provided with copies of various news items, notifications to registered or potential buyers, press releases and such. With your indulgence I would like to refer to few of them at this time.

Neither time nor your patience will likely permit an attempt to speak to all the shady practices in play at this time in the salvage vehicle sales arena, including insurance salvage and salvage pools, which are the focus of the LPA study and thusly the bill under consideration here today.

In summation, we feel that the bill under consideration today is an excellent foundation, and well worthy of your consideration and passage.

I will gladly stand for questions.

Thank you

WICHITA COPART VIRTUAL SALE, JANUARY 2007

145 ITEMS LISTED

142 OBSERVED

STATE OR COUNTRY	RUN & DRIVE	STATIONARY	TOTAL
KANSAS	16	51	67
OKLAHOMA	6	7	13
TEXAS	0	9	9
IOWA	3	0	3
NEBRASKA	0	1	1
CALIFORNIA	1	0	1
NEW JERSEY	0	1	1
S. DAKOTA	0	1	1
FLORIDA	0	1	1
MISSOURI	0	2	2
GEORGIA	0	1	1
USA SUB TOTAL	26	74	100
CHIHUAHUA	10	12	22
MEXICO	4	7	11
TAMAULIPAS	3	4	7
MEXICO SUB TOTAL	17	23	40
BELIZE	0	1	1
LITHUANIA	0	1	1
TOTAL	43	99	142

From the CIA World fact book page on Mexico;

GDP - per capita (PPP):




\$10,600 (2006 est.)


**Transnational
Issues**

Mexico


[Top of Page](#)

Disputes - international: 

Abundant rainfall in recent years along much of the Mexico-US border region has ameliorated periodically strained water-sharing arrangements; the US has intensified security measures to monitor and control legal and illegal personnel, transport, and commodities across its border with Mexico; Mexico must deal with thousands of impoverished Guatemalans and other Central Americans who cross the porous border looking for work in Mexico and the United States


Refugees and internally displaced persons: 

IDPs: 10,000-12,000 (government's quashing of Zapatista uprising in 1994 in eastern Chiapas Region) (2006)

Trafficking in persons: 

current situation: Mexico is a source, transit, and destination country for persons trafficked for sexual exploitation and labor; while the vast majority of victims are Central Americans trafficked along Mexico's southern border, other source regions include South America, the Caribbean, Eastern Europe, Africa, and Asia; women and children are trafficked from rural regions to urban centers and tourist areas for sexual exploitation, often through fraudulent offers of employment or through threats of physical violence; the Mexican trafficking problem is often conflated with alien smuggling, and frequently the same criminal networks are involved; pervasive corruption among state and local law enforcement often impedes investigations

tier rating: Tier 2 Watch List - Mexico remains on the Tier 2 Watch List for the third consecutive year based on future commitments to undertake additional efforts in prosecution, protection, and prevention of trafficking in persons, and the failure of the government to provide critical law enforcement data

Illicit drugs: 

major drug-producing nation; cultivation of opium poppy in 2004 amounted to 3,500 hectares, but opium cultivation stayed within the range - between 3,500 and 5,500 hectares - observed in nine of the last 12 years; potential production of 9 metric tons of pure heroin, or 23 metric tons of "black tar" heroin, the dominant form of Mexican heroin in the western United States; marijuana cultivation decreased 23% to 5,800 hectares in 2004 after decade-high cultivation peak in 2003; potential production of 10,400 metric tons of marijuana in 2004; government conducts the largest independent illicit-crop eradication program in the world; major supplier of heroin and largest foreign supplier of marijuana and methamphetamine to the US market; continues as the primary transshipment country for US-bound cocaine from South America, accounting for about 90% of estimated annual cocaine movement to the US; major drug syndicates control majority of drug trafficking throughout the country; producer and distributor of ecstasy; significant money-laundering center

This page was last updated on 8 February, 2007

From the same source on the United States:

GDP - per capita (PPP):





\$43,500 (2006 est.)



**Transnational
Issues**

United States



[Top of Page](#)

Disputes -  
international:

the U.S. has intensified domestic security measures and is collaborating closely with its neighbors, Canada and Mexico, to monitor and control legal and illegal personnel, transport, and commodities across the international borders; abundant rainfall in recent years along much of the Mexico-US border region has ameliorated periodically strained water-sharing arrangements; 1990 Maritime Boundary Agreement in the Bering Sea still awaits Russian Duma ratification; managed maritime boundary disputes with Canada at Dixon Entrance, Beaufort Sea, Strait of Juan de Fuca, and around the disputed Machias Seal Island and North Rock; The Bahamas and US have not been able to agree on a maritime boundary; US Naval Base at Guantanamo Bay is leased from Cuba and only mutual agreement or US abandonment of the area can terminate the lease; Haiti claims US-administered Navassa Island; US has made no territorial claim in Antarctica (but has reserved the right to do so) and does not recognize the claims of any other states; Marshall Islands claims Wake Island; Tokelau included American Samoa's Swains Island among the islands listed in its 2006 draft constitution

Refugees and  
internally displaced
persons:

refugees (country of origin): the US admitted 62,643 refugees during FY04/05 including, 10,586 (Somalia), 8,549 (Laos), 6,666 (Russia), 6,479 (Cuba), 3,100 (Haiti), 2,136 (Iran) (2006)

Illicit drugs:  

world's largest consumer of cocaine, shipped from Colombia through Mexico and the Caribbean; consumer of heroin, marijuana, and increasingly methamphetamine from Mexico; consumer of high-quality Southeast Asian heroin; illicit producer of cannabis, marijuana, depressants, stimulants, hallucinogens, and methamphetamine; money-laundering center

This page was last updated on 8 February, 2007

"Tide Rising for Junk Vehicles"

Kodiak Daily Mirror (01/24/07) Christiansen, Scott

Kodiak Island, Alaska, wants to get more involved in the removal of abandoned vehicles, which borough assemblyman Reed Oswald says is a growing issue. Borough manager Rick Gifford is working with Alaska state troopers, the Kodiak police department, and officials with the Alaska Department of Transportation to solve the problem. Trooper Sgt. Maurice Hughes says that although they already enforce the state's abandoned vehicle law, the law doesn't cover towing the vehicles. Oswald says vehicle tax revenue the borough collects could be used to pay for removing abandoned vehicles. "When they get abandoned and junked, then people want to vandalize them and set fire to them," Gifford says. "That's why you want to get them off the road as soon as possible." Although the local landfill charges a \$475 tipping fee to dispose of vehicles, Nick's Auto Salvage and Wrecking charges just \$300 to crush a car and ship its parts to recycling companies. Owner Nick Troxel says his salvage yard receives more than 90 percent of the legally retired cars in Kodiak. Troxel says, "Basically, for the last year and a half, all of the cars have been coming here."

"Backlog of Junked Cars Removed"

Maui News (HI) (01/17/07) Eagar, Harry

When abandoned cars began piling up along roadsides in Maui County back in March 2004, the county began taking them to the nearby Waikapu landfill. However, it did not have a permit to do so, and in August 2004 the county was ordered to stop. However, obsolete cars continued to pile up in the county, and in August 2005 Hawaii Gov. Linda Lingle declared Maui a "disaster area" due to the abandoned vehicle problem. The county was allowed to use another landfill site to temporarily store abandoned vehicles and eventually contracted with SOS Metal Recycling to handle the cars towed there for a little over \$100 each. Meanwhile, the county contracted with Mike Kitagawa and his son Wade to process the 6,000 cars in the Waikapu landfill. Kitagawa bought a crusher from Romania that was rated at 200 BAR. That pressure allowed the crusher to reduce a Lincoln Continental to a block 2 feet high, 3 feet wide, and about 7 1/2 feet long, which fit easily into an 8-foot-wide shipping container. Hoping to get more cubes into a container, Kitagawa increased the crusher's pressure to 250 BAR, which made it possible to squeeze a Continental into a block only 6 feet long. Twenty-three of those blocks fit into one 45-foot container. With the help of his crusher, Kitagawa was able to clear the Waikapu dump by Sept. 30. Now that the job of crushing cars is finished, Kitagawa has moved into buying nonferrous metals such as aluminum, brass, and copper. Kitagawa said he is now making a lot more money with less effort than he did in recycling cars.



Auction GM: Flood Cars Highlight Need for Uniform Title Code

NEW ORLEANS -- In early December Louisiana Gov. Kathleen Blanco signed a bill requiring the destruction of vehicles with flood-damaged powertrains, computers or electrical systems, which are declared a total loss in the state. While the legislation was designed to protect consumers by preventing these damaged units from being resold, General Manager of Manheim's Greater New Orleans Auto Auction Mike Browning said that the bill has caused companies to send such vehicles to out-of-state auctions, allegedly where more money can be recouped.

Tuesday 03/28/06

Gallagher Announces Arrests Of Car Dealers Accused Of Selling Dangerous Cars To Unsuspecting Floridians

Tom Gallagher, Florida's chief financial officer, announced the arrests of two Central Florida men accused of defrauding auto insurers and reselling dangerous cars to unsuspecting buyers. Gallagher is seeking more than \$1 million in restitution. *

"This is a growing and troubling problem in Florida—we saw similar scams like this appear in the wake of recent hurricanes, as flooded and hurricane-damaged vehicles began appearing on used car lots," said Gallagher, who oversees the Department of Financial Services' Division of Insurance Fraud (DIF), which led the investigation. "These schemes endanger the lives of the unsuspecting citizens who buy these cars, put dangerous and unsafe vehicles on our roads and highways, and cause increases in the auto insurance premiums Floridians pay."

Hanford Andrew Sutter, owner and operator of Orlando-based Total Fleet Solution (TFS), along with Andrew Dinda, a TFS employee, are charged with engaging in a scheme to defraud in addition to numerous counts of filing false and fraudulent insurance claims, grand theft, and uttering forged documents. TFS was operating as an unlicensed third-party administrator and was contracted to appraise damage on some rental cars and file claims for the damage with auto insurance companies.

Sutter and Dinda billed auto insurers nearly \$800,000 in inflated damage estimates on wrecked rental car vehicles that they billed as a total loss to collect higher payments from the insurance companies. Then, to avoid the branding of "salvage" or "rebuilt" on the cars' titles, the men sold the damaged cars to car dealers who resold the cars to unsuspecting buyers. Detectives found that most of the appraisals of the wrecked rental vehicles were completed by viewing photographs of the damaged vehicles, with no on-site inspections by TFS adjusters.

The charges stem from a joint investigation by DIF, the National Insurance Crime Bureau (NICB), and the Department of Highway Safety and Motor Vehicles (DHSMV). The charges are being prosecuted by the Ninth Judicial Circuit's Office of the State Attorney. Additional arrests are anticipated.

Gallagher is urging Floridians to check if the Vehicle Identification Number (VIN) on their vehicle matches any of the estimated 120 vehicles re-sold as part of this scheme. The VIN, a multi-digit, 17-character alpha-numeric identifier that establishes a vehicle's unique identification, is usually located on the driver's side of the dashboard, visible through the windshield as well as on the inside door panel, and included in title or loan documents. To check the VIN, visit www.fldfs.com and click on "Fleet vehicle resell scheme VIN CHECK." If a match is indicated, the consumer will be directed to call their local DHSMV office.

In addition to the web site for consumers who may have purchased one of these damaged vehicles, Gallagher last year created "Car Check," <http://www.fldfs.com/CarCheck/CarCheck.asp>, to help all Florida auto buyers check vehicle histories before making a purchase. Gallagher created the Car Check web site in anticipation of the possibility of flood-damaged vehicles inundating the market in the aftermath of the 2004 and 2005 hurricane seasons.

The Department of Financial Services, Division of Insurance Fraud, investigates fraud in all types of insurance, including health, life, auto, property and workers' compensation. To report information about this case or any other possible insurance fraud case, call the department's Fraud Fighters hotline at 1-800-378-0445. A reward of up to \$25,000 is offered for information leading to an arrest and conviction.

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HEADLINE: 15 NABBED IN CAR-THEFT RING; MVD WORKER HELD IN INTERNATIONAL PLOT

BYLINE: By Susan Carroll, The Arizona Republic

BODY:

An Arizona Motor Vehicle Division employee was indicted as part of a nine-year conspiracy involving a \$15 million car-theft ring that targeted luxury vehicles, authorities said.

In a federal indictment unsealed Friday, prosecutors allege that MVD employee Heidi Kay Nielsen, 40, falsified title and registration documents for hundreds of vehicles stolen in the Valley and Canada. The vehicles were then sold to customers in the United States, Europe and the Middle East. Paul Charlton, U.S. attorney for the District of Arizona, called the investigation one of the biggest in the state, which leads the nation in auto thefts. The 18 suspects, mostly from the Middle East, formed a "large-scale, complex, organized-crime ring," he said.

The 180-count indictment is a laundry list of crimes, including conspiracy, transporting and selling more than 500 stolen vehicles. The suspects also are charged with mail, bank and wire fraud, according to court records.

By Friday night, authorities had arrested 15 of the suspects, who live in Arizona, California, Washington and Canada. The suspects are being held in federal custody.

The majority of the vehicles listed in the indictment were stolen from the cities where the suspects lived, then transported through Arizona.

Authorities said the ring worked like this:

Thieves would target a vehicle to steal, typically such luxury-brands as Jaguar, Lexus, BMW or Harley-Davidson. Once they had a stolen vehicle, they would search

for a similar car.

Then they would take the vehicle's identification number, called the VIN, and copy it onto the stolen vehicle. Prosecutors allege that Nielsen's role in the scam was to create counterfeit copies of the title and registration using the "clone" VIN.

Authorities said the scam worked for so long because it involved multiple states' registration system and vehicles stolen from Canada.

According to the indictment, the ring also purchased vehicles with "salvaged titles," which indicate that a car was severely damaged in a wreck. The cars were repaired and sold at a higher price with a falsified title. Some of those vehicles were sold in the United States, while others were shipped to Europe or the Middle East.

Chandler Police Detective Travis Feyen said investigators have tried to trace the vehicles, which are typically considered unsafe because of the previous damage.

"There is a lag time," Feyen said. "There could be some people driving these right now."

MVD spokeswoman Cydney DeMonica declined to comment Friday on Nielsen's arrest.

It's not the first time the office has been involved in a criminal investigation. In 2000, four MVD customer-service employees were arrested and accused of selling bogus driver's licenses.

Auto-theft suspects

- * Heidi Kay Nielsen, 40, of Chandler; Kamal Hikmat Aboul-Hosn, 34, of Gilbert.
- * Zakarya Mohammed Al-Mulla, 29, of Tempe; Qasem Mohemmed Al-Sadq ,29, of Chandler.
- * Moustapha Lofti Eljammal, 27, of Tempe; Bassam Mohammed El-Khatib, 41, of Chandler.
- * Ali Hussein Hamie, 41, of Chandler; Johnny Aurel Hreniuc, 47, of Glendale.
- * Wesley Tadeusz Pawlowski, 42, of Phoenix; Paul Vasile Petrini, 35, of Peoria.
- * Vasile Valy Rosca, 29, of Scottsdale; Samier Badih Youssef, 28, of Chandler.
- * Hikmat Kamal Aboul-Hosn, 60, of Shoreline, Wash.; Jamal Faddoul Abdoul-Hosn, 58, of Shoreline, Wash.
- * Ghassan Aboul-El-Hosn, 34, of Seattle; Mustapha Math, 25, of Seattle.
- * Karl Ivan Avetoom, 34, of Newport Beach, Calif.; and Abdul Nour Chebib, 39, of Canada.

New Mexico Auto Recyclers Operating Under New Rules

Most Albuquerque auto recyclers welcome a new law requiring them to comply with strict environmental rules.

Sandy Blalock, owner of Capo's Auto & Truck Parts said she pushed for the law's passage because she felt too many businesses were polluting the environment. "You could have a major impact on your community," Blalock said. She said hazardous materials like engine oil, transmission fluid and Freon from air condition units are supposed to be handled in accordance with federal guidelines, and some recycling yards had been avoiding those requirements.

The law, passed during the 2005 legislative session, created a separate license category for auto recyclers. In the past, recyclers, dealers, distributors and wholesalers all applied for a single license distributed by the Motor Vehicles Division. But, because there was only one license, people could get an auto dealer license, put a few cars out front to sell, and at the same time open up a recycling yard in the back.

According to Steve Silliman, New Mexico Automotive Recyclers Association president, "it's a good thing in our opinion. It's two separate businesses, and there should be two separate licenses."

The new law, which went into effect January 1st, required any business engaged in auto recycling to go through the permitting process with MVD, even if it was already a licensed recycler. That meant business owners had to prove they were bonded and in compliance with all current federal environmental regulations and county zoning and fire rules.

Separately, the law addressed an issue of concern to auto owners, insurance companies and crooks. It created a new classification for badly wrecked cars: "nonrepairable." Now, a vehicle that has been damaged beyond any hope of repair will be classified as "nonrepairable." The vehicle owner's insurance company will make this designation based on whether the car was in an accident, stolen and stripped or burned. The title will be "flagged" in the MVD system and no one except a licensed recycler will be able to buy it. Martinez said the title stamp will prevent unsafe vehicles from traveling on the roads but also may help fight "title washes."

"I think it's something Albuquerque has needed for a while now," said Bill Proffer, general manager at Albuquerque Foreign Auto Parts. "There shouldn't be any problem in getting a license if you had been following the rules and regulations."

Carfax: Title-washed vehicles flood market

April Wortham | | **Automotive News** / February 12, 2007 - 1:00 am

Advertisement

Flood-damaged vehicles are bobbing up across the country at double the rate of just a few years ago, a new Carfax report says.

The report, released Feb. 1, offered further evidence that Hurricane Katrina pumped large numbers of title-washed vehicles into the market.

Carfax said incidences of flood-damaged cars and trucks uncovered by its used-car database jumped 103 percent nationwide in 2002-06 compared with the previous five-year period, 1997-2001.

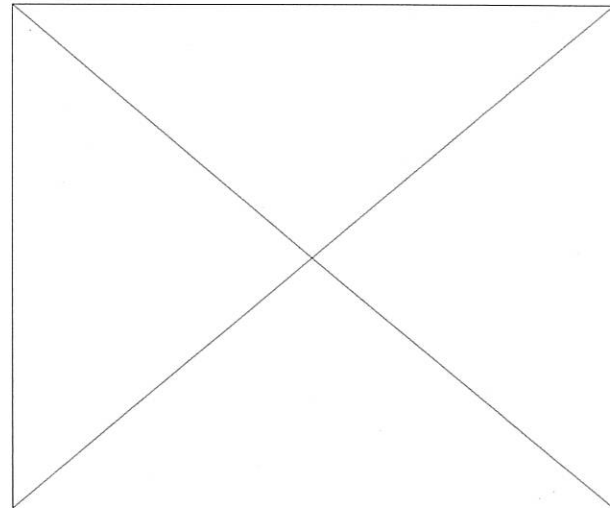
The largest increases were found in vehicle history reports ordered by dealers or consumers in the three states hardest hit by the 2005 hurricane. In Mississippi, reports of vehicles found to have water damage

increased 633 percent; in Alabama, the rate was 374 percent.

One of every 150 vehicles in Louisiana checked against the Carfax database in 2006 had a title that at one point was branded flood-damaged. Compare that with 2002, when it was one of every 700 vehicles.

Carfax did not release raw numbers of vehicles found to be water-damaged.

But a study by Experian Automotive and retailer CarMax Inc. concluded that at least 200,000 vehicles had their titles branded as flood- or storm-damaged as a result of hurricanes and floods in 2005. Of those, 45 percent had lost the designation after being moved to a different state.



Rising tide

These states showed the largest increases in reports of flood-damaged vehicles in 2002-06 compared with the previous 5-year period.

1. Mississippi	633%
2. Alabama	374%
3. Louisiana	343%
4. Oklahoma	231%

5. Virginia	189%
6. Minnesota	173%
7. Montana	172%
8. Missouri	170%
9. Michigan	162%
10. Pennsylvania	161%

Source: Carfax

Far from flood areas

In the Carfax report, the surprise was the spike in reports of waterlogged vehicles in places far from a hurricane's reach or not prone to flooding.

Carfax spokesman Larry Gamache said states such as Virginia, Minnesota and Montana are in what he calls "the path of least resistance." The paths follow major U.S. highways radiating from the Gulf Coast. It also includes places where consumers and dealers are less vigilant when it comes to flood-damaged vehicles.

Data also show a pattern in the increase of reports in states with large populations and sprawling urban areas, he said. All but two states, Nebraska and Nevada, showed an increase in flood-damaged vehicles.

"These flood-damaged vehicles are percolating up from the Gulf Coast to regions further afield. By tracking these incidence rates, you can actually see how these flood-damaged vehicles are moving to states further and further away," Gamache said.

To be sure, flood-damaged vehicles were circulating throughout the country before the 2005 hurricane season. Carfax could not say how much of the rate increase was the result of hurricanes Katrina, Rita and Wilma. But Gamache attributed the "lion's share" to those storms.

Carfax said the number of vehicles in its database has remained relatively constant over the 10 years covered by the study. The study looked at the rates at which vehicle history reports came back showing a title branded as flood- or storm-damaged, not the number of total reports.

Old tactic

Moving a flooded, wrecked or stolen vehicle to another state to clear its title of past damage is a tactic that has concerned dealers and consumer activists for decades.

With the attention brought to title-washing by the 2005 hurricanes and a push by the National Association of Automobile Dealers, bills were introduced in the U.S. House and Senate last year that would require insurance companies to make the vehicle identification numbers of totaled vehicles commercially available.

Congress adjourned before taking up the bills. Expectations are that the total-loss-disclosure legislation will be reintroduced in the coming weeks.

"This Carfax study, assuming it's accurate, absolutely reinforces the need for total-loss-disclosure legislation," said Bailey Wood, a NADA spokesman. "We need to get it through and on the president's desk."

You may e-mail April Wortham at awortham@crain.com



COPART VEHICLE VERIFICATION TERMS
(Términos de Verificación de Vehículo de Copart)



Run and Drive Verification – Copart represents that *at the time the vehicle arrived at Copart's facility*, the vehicle (i) started, (ii) could be put into gear, and (iii) was capable of moving forward under its own power.

Verificación de Correr y Menejar - Copart afirma que al llegar a la instalación de Copart, el vehículo (i) arrancó, (ii) pudo ser puesto en marcha, y (iii) fue capaz de avanzar bajo su propio poder.



Engine Starts Verification– Copart represents that *at the time the vehicle arrived at Copart's facility*, the vehicle (i) started, and (ii) ran at idle.

Verificación del Funcionamiento de Motor - Copart afirma que al llegar a la instalación de Copart, el vehículo (i) arrancó, y (ii) corrió en reposo.



Enhanced Vehicle – Vehicles listed as “Enhanced Vehicles” are those where: (i) the seller has authorized Copart to perform an enhancement service to the vehicle such as a wash and vacuum or protective covering or (ii) the vehicle is under a program that gives Copart discretion to utilize enhancement services to maximize the value of the vehicle. This designation does not guarantee that any enhancement service was completed but rather indicates that qualifying vehicles would likely be enhanced. It is the bidder's responsibility to inspect and verify the utilization of enhancement services.

Vehículos Complementados - Vehículos alistados como “Vehículos Complementados” son aquellos que: (i) el vendedor autorizó a Copart a realizar un servicio adicional al vehículo como lavar, limpiar con aspiradora, o añadir un revestimiento protector, o (ii) el vehículo está bajo un programa que da el derecho a Copart de utilizar estos servicios para maximizar el valor del vehículo. Esta designación no garantiza que cualquier servicio fue completado, sino indica que vehículos que califiquen son probables de ser complementados. Es la responsabilidad única del comprador de inspeccionar y verificar la utilización de tales servicios adicionales.

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TO A FRIEND

IAA Announces 1Q Fee Income Hits \$66.8 Million

WESTCHESTER, Ill. (May 12, 2006) -- Insurance Auto Auctions announced Thursday its first-quarter fee income grew to \$66.8 million from \$61.1 million in the same time period of 2005, which executives attributed to the increased buying activity from the company's dual auction capabilities.

The company said revenues for the quarter were up 10 percent, reaching \$77.7 million, compared to \$70.9 million in the same quarter of last year.

"During the first quarter, we continued to experience rapid sales growth, solid profitability and excellent cash flow due to our ability to add many new buyers to our customer network, which has translated into the best returns in the industry for our suppliers," explained Tom O'Brien, chief executive officer. "We have stayed committed to our dual bidding strategy that combines live physical auctions with a real-time Internet bidding capability using our state-of-the-art I-bid LIVE product."

Commenting further, O'Brien said, "We have also identified several opportunities to expand our business through acquisitions and greenfields, which will support our ongoing commitment to improving our service offering and adding new buyers to our base, ultimately allowing us to provide even better returns to our suppliers. We once again made significant improvement on the expansion front during the quarter, including our acquisition of N.W. Penn Auction Sales and Warren Country Salvage in Erie, Pa., which leverages the company's existing regional coverage in this market.

"Since the close of the quarter, we have also acquired Indiana Auto Storage Pool's two locations in Indiana and moved into a new, larger facility in Kansas City, Kan.," he continued. "All four of these new facilities are already up-and-running on our technology platform and are allowing us to meet the demands of our growing buyer base."

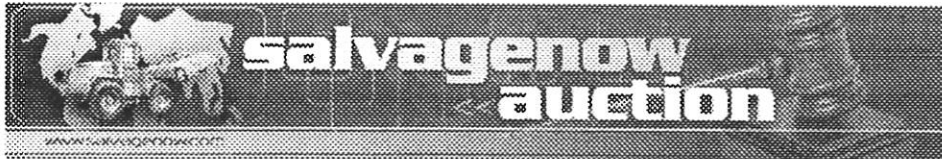


Copart, Akinvest Sign Agreement

FAIRFIELD, Calif. (July 5) - Copart has entered into an agreement with Akinvest, permitting the Canadian-based company to provide floor planning and logistical assistance to international buyers of vehicles from Copart as well as the international buyers of cars from wholesale vehicle auctions utilizing VB2's Internet sales platform.

Under the agreement, Akinvest will offer financing on certain qualified salvage and whole vehicles as well as assistance in arranging export transportation and complying with customs documentation requirements.

"We are pleased to have developed this relationship with Akinvest," said Copart Chief Executive Officer Willis Johnson. "We expect the services that Akinvest provides to make purchasing by our international buyers easier and less complicated, both for buyers of salvage vehicles through Copart and whole cars through our wholesale partners. We also are confident Akinvest will contribute to the worldwide appeal of our VB2 technology."



04:15:29
EST
Feb 10

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CarID

76562 2006 Ford Expedition 4 door

This Vehicle was Sold.

Auction Ends:	Vehicle Sold	Buyer Fee:	\$300
Sale Price:	\$3,200	Est.Transport:	\$200
Paid:		Auction Fee:	

Vehicle Details

1FMPU15566L#####
V8 Automatic
Silver w/ Grey Cloth
Clean Title
7,185 Miles

Primary/Sec Damage

Hard Roll / Center Front
Location

Dallas, TX
Rental Agency/Avis

Comments

Public Estimate
PublicEstimate_001.PDF



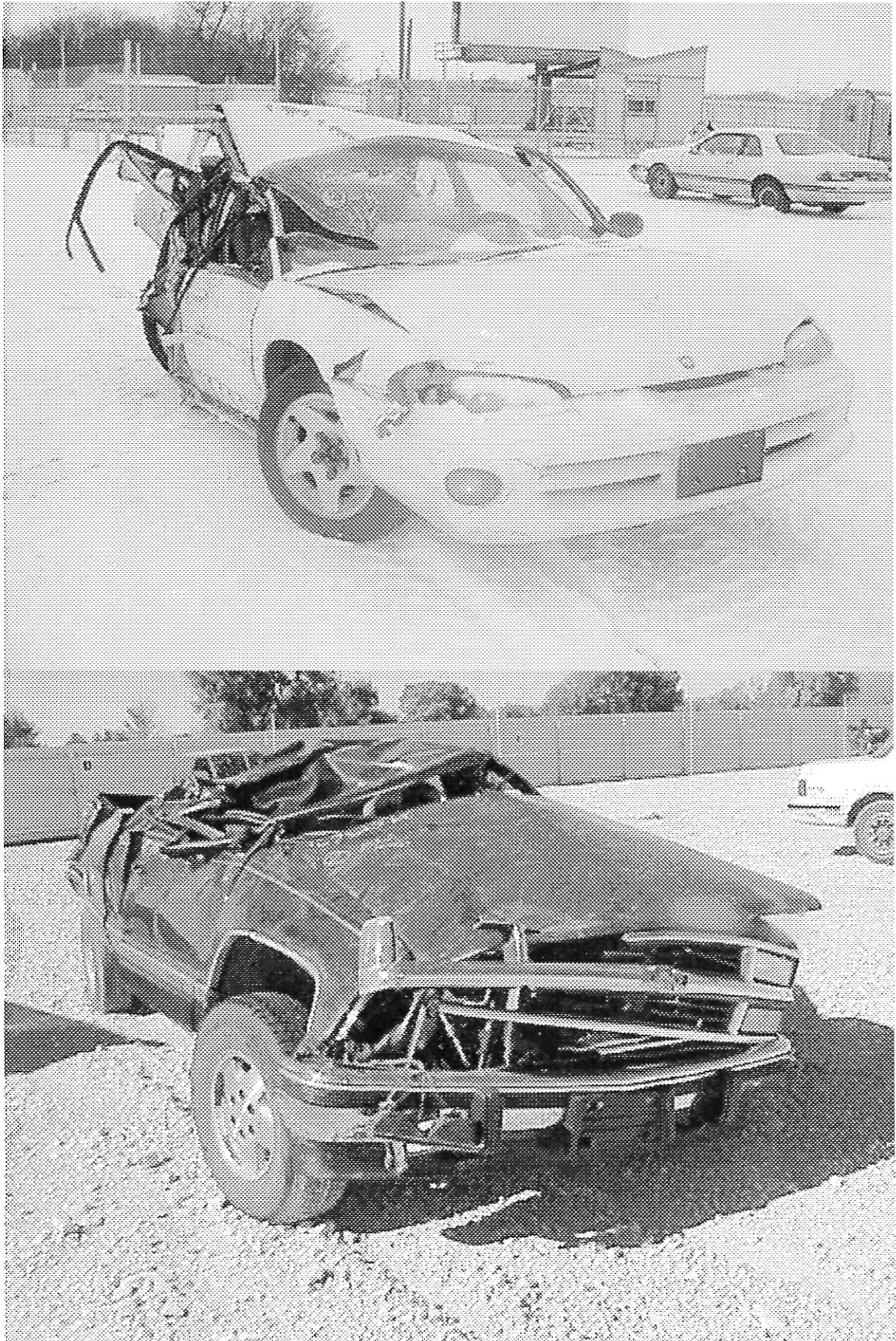
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Feb 10 04:15:29 PM EST







Memorandum

To: Senate Transportation Committee
From: John Morse
Date: 2/14/2007
Re: Senate Bill 295

Chairman Donovan and members of the Committee, thank you for the opportunity to appear today in support of Senate Bill 295. My name is John Morse and I am a member of the Dealer Review Board for the State of Kansas in addition to being an Auto Recycler as my chosen vocation.

The need for the regulation embodied in Senate Bill 295 has been identified by Legislative Post Audit in the report you have before you. In addition endorsing their findings, the passage of this legislation will benefit Kansas citizens in the following way:

- Make our highways and roads safer to travel. Currently with no regulation of these insurance pools I have observed on a regular basis what appear to be foreign nationals purchasing numbers of damaged vehicles and then caravanning them down our turnpike across Kansas toward Mexico. You have probably seen these caravans of wrecked vehicles stopped along the side of the road in your travels. It appears to me that these vehicles are not road worthy and I question why this practice would be allowed this to continue.
 - Are these purchasers insured should they harm a Kansas citizen in their travels?
 - Are these vehicles capable of passing any sort of safety inspection to travel our roads having just been sold as salvage at one of these unregulated pools?
 - Are the operators paying any sales tax to the state of Kansas?
 - Are they putting these vehicles back on US roads in other states endangering others?

Mr. Chairman I believe the Senate Bill 295 will help ensure the identity and legitimacy of the purchaser of auto salvage and aid in protecting our citizens by answering many of the questions I have outlined for you.

I would be happy to answer any questions you may have at the appropriate time. Thank you for your attention.

TESTIMONY AGENDA

1. INTRODUCTION

Ken Halphen

- President ADRA- Oklahoma Chapter
Automotive Dismantlers and Recyclers Association
- Owner of Al's Auto Salvage and Sales LLC (Oklahoma)

2. Copy Section 561 of Necessity for the Regulation Legislative Function
3. Discussion and copy of mission statement from the Used Motor Vehicle and Parts Commission website (Oklahoma)
4. Discussion and copy of the VIN Report and monthly newsletter by the Used Motor Vehicle and Parts Commission (Oklahoma)
5. Discussion and copy of Oklahoma Application for Used Car Dealership and Automotive Dismantler
6. Discussion of my experience with the Oklahoma Legislature and Passage of Senate Bill 461 dealing with foreign buyers and Senate Bill 3085 dealing with VIN disclosure requirements
7. Questions and Answers

Oklahoma Motor Vehicle Commission Laws

Oklahoma Statutes Title 47 - Motor Vehicles Chapter 62

Section 561 Necessity for Regulation - Legislative Finding

The Legislature finds and declares that the distribution and sale of new motor vehicles in the State of Oklahoma vitally affects the general economy of the state and the public interest and the public welfare, and that in order to promote the public interest and the public welfare, and in the exercise of its police powers, it is necessary to regulate and to license motor vehicle manufacturers, distributors, representatives, new motor vehicle dealers and salespersons of new motor vehicles doing business in Oklahoma, in order to prevent frauds, impositions and other abuses upon its citizens and to protect and preserve the investments and properties of the citizens of this state, and in order to avoid undue control of the independent motor vehicle dealer by the motor vehicle manufacturing and distributing organizations, and in order to foster and keep alive vigorous and healthy competition by prohibiting unfair practices by which fair and honest competition is destroyed or prevented, and to protect the public against the creation or perpetuation of monopolies and practices detrimental to the public welfare, to prevent the practice of requiring the buying of special features, appliances and equipment not desired or requested by the purchaser, to prevent false and misleading advertising, to prevent unfair practices by motor vehicle dealers, manufacturers and distributing organizations, to promote the public safety and prevent disruption of the franchise system of distribution of motor vehicles to the public and prevent deterioration of facilities for servicing motor vehicles and keeping same safe and properly functioning, and prevent bankrupting of motor vehicle dealers, who might otherwise be caused to fail because of such unfair practices.

Section 562 Definitions

The following words, terms and phrases, when used in Sections 561 through 567, 572, 578.1, 579 and 579.1 of this title, shall have the meanings respectively ascribed to them in this section, except where the context clearly indicates a different meaning:

1. **"Motor vehicle"** means any motor-driven vehicle required to be registered under the Oklahoma Vehicle License and Registration Act except all-terrain vehicles and motorcycles used exclusively for off-road use;
2. **"New motor vehicle dealer"** means any person, firm, association, corporation or trust not excluded by this paragraph who sells, offers for sale, advertises to sell, leases or displays new, unused or remanufactured motor vehicles and holds a bona

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Used Motor Vehicle and Parts Commission

Mission Statement

To license and regulate used motor vehicle dealers, wholesale motor vehicle dealers, automotive dismantlers, rebuilders, manufactured home dealers, manufactured home manufacturers, and manufactured home installers: To create a atmosphere of fair competition among equally regulated dealers: and to protect the interests of the consuming public.

Contact Us

STATE OF OKLAHOMA
USED MOTOR VEHICLE AND PARTS COMMISSION
2401 NW 23rd, Suite 57
Oklahoma City, Oklahoma 73107

Phone: (405) 949-2626
Fax: (405) 949-9996

The VIN Report

The Vehicle Industry News Report

October 2006

Upcoming Commission Meetings

October 10
November 14
December 12
January 9

Meetings begin at
10:30am

Education Program Dates

October 9
November 13
December 11
January 8

Classes begin at
9:00am

Reading This May Save You Money

The Commission instituted an Education Program in 1992 with the intent of being pro-active in helping dealers prevent problems which could be avoided with proper attention to details. The Commission developed a website containing the Rules which apply to licensees. The web address is www.umvpc.state.ok.us. It is important that you as a licensee know the laws and rules that govern you. Since the institution of fining authority the Commission has begun assessing fines for violations. The most common fine assessed is for failure to deliver title within 30 days of sale. Other fines assessed in the past year have been fines for failing to properly re-assign titles, unlicensed salespersons, wholesale dealers consigning vehicles to retail used motor vehicle dealers, rebuilders operating beyond the scope of their license, and manufactured home installers setting up homes without a license. There has also been an extraordinary number of licenses surrendered this year after Commission personnel determined the used motor vehicle dealers investigated were not operating from their licensed locations. Commission investigators also did random auditing of dealers throughout the state, primarily used motor vehicle dealers and manufactured home dealers, to review documentation of sales transactions. Consumer complaints also generated a substantial number of fine assessments, primarily for failure to deliver title. If you feel that you do not know the laws and rules you are expected to follow, you should review them on our website or attend our Education Program again. The Commission's primary focus is not to assess fines but to insure all licensees adhere to all the same requirements.

RENEWALS FOR 2007

You will have received your application for renewal of your license by the time you get this newsletter. Be sure to read the instructions before filling out the application. Note the new fees. If you do not submit the proper fee, we cannot begin to process your renewal application until the proper fee is paid.

Dismantlers will need to pay particular attention to the application's request for a copy of your last sales tax report and your DEQ permit number. If you do not provide both of those, we will be unable to complete your renewal application.

Used motor vehicle dealers: As with past years, we cannot verify with the Tax Commission that you have renewed and that your dealer plates can be issued until your renewal is complete.

Dealers choosing not to renew please note: The Tax Commission has stated that dealers who go out of business and transfer title to their individual name will be required to pay excise tax, title and transfer fees on those transfers. You may wish to consider whether you want to dispose of your vehicles now because it may cost you more later. The Tax Commission still gives a dealer going out of business a 30 day grace period to transfer titles as a dealer to allow you to dispose of inventory.

Air Bags

We have recently had several complaints concerning the failure of a dealer-rebuilder to disclose that air bags were not replaced when a vehicle was rebuilt. We have taken the position that it is a material misrepresentation for the seller not to disclose this, even if the rebuilder discloses that the vehicle has a rebuilt title. We have taken this position because we believe that the safety issue and the expense in replacing the air bags make their existence or lack thereof a material part of the agreement to purchase the vehicle and unless a buyer is specifically told that there are no air bags it is assumed that they are there. The remedies available to the buyer may be rescission of the purchase, replacement of the air bags by the rebuilder or compensation to the buyer to allow the buyer to replace the bags. This is an issue which will continue to cause problems until there is legislation requiring that air bags be replaced if the vehicle is rebuilt. Legislation was introduced to require this in the 2006 legislative session but the bill did not get out of committee. We are still considering what policy is appropriate in the situation where the vehicle is sold by a subsequent buyer who was not told that the air bags had not been replaced. Any subsequent buyer, whether it is an individual or a dealer is equally a victim of the failure to disclose. The rebuilder may have liability to a subsequent buyer for failing to replace the air bags or failing to disclose that the air bags were not replaced. Whether the subsequent unknowledgeable seller is liable is presently an issue for the courts to decide.

Dismantlers and Rebuilders

There have been inquiries recently about the difference between a dismantler and a rebuilder. An "automotive dismantler and parts recycler" means a person, firm or corporation engaged in the business of purchasing, dismantling, or disassembling used motor vehicles for the purpose of selling the parts thereof, but shall not include a person who is primarily engaged in the business of rebuilding repairable motor vehicles". In order to obtain and maintain a dismantler's license a person must meet the definitional requirement. To verify this, dismantlers licensed after November 1, 1986 are required to submit a Dismantler's Compliance Statement with their renewal application.

"Rebuilder" means a used motor vehicle dealer who is engaged in the business of rebuilding repairable motor vehicles and who has paid the fee for and been issued a rebuilder certificate..." A rebuilder's certificate is granted for a limited specific purpose, to allow a rebuilder to purchase a wrecked vehicle and rebuild that vehicle. It is not a license to buy a parts car to go with the vehicle the rebuilder intends to rebuild. It is intended that the rebuilder buy the parts needed for the repair from a third party. In fact, it is a violation of the rebuilder rules to use the rebuilder BID card to buy a car to use for parts, to resell a wrecked vehicle without rebuilding it, or to sell parts. Violators may be fined and/or the certificate suspended or revoked.

The distinction between the two types of licensees addresses an issue of fundamental fairness to both parties. The rebuilder obtains access to rebuildable vehicles at a wholesale price. The dismantler, whose investment in facilities is generally substantially more than the rebuilder's, is protected from the rebuilder competing for wrecked vehicles which are only a source for parts. The Commission is charged with enforcing that distinction to maintain that balance.

UNLICENSED WHOLESALER FOUND GUILTY

August 18, 2006 a McClain County jury found Douglas Johnson guilty on nine counts of obtaining merchandise by bogus check. The jury recommended that Johnson serve six months in prison and be fined \$5,000.00 on each count. Formal sentencing is scheduled for October 11, 2006. Johnson had at different times operated as a wholesaler under the license of a Missouri dealer, as an unlicensed dealer, and as an unlicensed wholesaler drafting off Landmark Auto Sales. The charges arose after Johnson obtaining a number of vehicles from an Oklahoma franchise dealer for which Johnson gave the dealer checks which subsequently did not clear. Johnson is presently under a permanent injunction enjoining him from acting as a used motor vehicle dealer in the state of Oklahoma. Johnson was also a party defendant in a federal lawsuit by a California dealer, in which judgment was rendered against Johnson in the amount of \$359,940.70 for fraud and conversion. In a deposition given in that case, Dwight Powers, also a defendant in the federal lawsuit, alleged that Johnson also owed Powers \$450,000-\$500,000. The Judge has been requested to include as part of his sentence that Johnson not be allowed to work in the car business in any capacity.

Used Motor Vehicle And Parts Commission
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USED MOTOR VEHICLE AND PARTS COMMISSION
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The Oklahoma Statutes Title 47 Sections 581-587 require all used motor vehicle dealers and salespersons to be licensed and makes it the responsibility of the dealer to comply.

IMPORTANT: READ THE FOLLOWING CAREFULLY AND COMPLETELY.

All new applications for license are presented to the Commission Board for consideration the second Tuesday of each month. **All requirements with the exception of the photo of the sign must be submitted by the Friday eleven days before that meeting.** The license will be issued only after all of the requirements have been met. Making application does **NOT** authorize you to conduct any business as a used motor vehicle dealer.

- 1. Initial application for dealership** completed in full, signed and notarized. Use the attached form. Please limit the name of your business to 30 characters including spaces. The name of your business must include auto sales, motors, used cars, cars, etc something reflecting the type of business to be conducted under this license, but it cannot duplicate the name of an existing licensed dealership. Contact our office for approval of business name before using it.
- 2. Proper fee of Three Hundred Dollars (\$300.00)** submitted with application. The fee must be in the form of a check, money order or cashier's check. **This agency does not accept cash.** Fee is nonrefundable unless the Commission DENIES the application. If you are applying for both the used motor vehicle dealer license and the automotive dismantler license at the same time, the fee is Two Hundred Dollars (\$200.00) each. If you are currently licensed as an automotive dismantler, the fee for the used dealer's license is \$100.00. **IF YOU DO NOT COMPLETE THE REQUIREMENTS BY THE END OF THE CALENDAR YEAR IN WHICH YOU APPLY, YOUR APPLICATION WILL EXPIRE, AND YOU WILL BE REQUIRED TO MAKE A NEW APPLICATION ACCOMPANIED BY A NEW FEE FOR THE SUBSEQUENT YEAR.**
- 3. Personal History Questionnaire** must be completed in full for the sole proprietor, or each partner, or each member of the LLC, or each corporate officer and the majority (largest) stockholder listed on the initial application. Use the attached form. You may make as many additional copies of the form as is needed.
- 4. Copy of Current Oklahoma Driver's License** for each individual who is required to complete a personal history questionnaire.
- 5. Financial Statement** must be completed in full for the sole proprietor, or each partner, or each member of the LLC, or the corporation and the majority (largest) stockholder. Use the attached form. You may make as many additional copies of the form as is needed.
- 6. Certificate of Insurance** completed by your insurance agent as proof of \$25,000 single limit garage liability insurance on all vehicles offered for sale or used in any capacity. The certificate must show the ownership, name of business and the address of the lot location as they appear on the initial application. Coverage, in accordance with the financial responsibility laws of the State of Oklahoma, shall be kept in force at all times with no lapse in coverage during the period of licensure. **A lapse in coverage will result in automatic revocation of your license.**
- 7. \$15,000 Dealer's Bond** completed by your bonding agent. The original bond, signed by the owner, showing the ownership, name of business and the address of the lot location as they appear on the initial application must be submitted. Coverage shall be kept in force at all times with no lapse in coverage during the period of licensure. **A lapse in coverage will result in automatic revocation of your license.**

8. **Current Certificate of Incorporation** for the corporation issued by the Oklahoma Secretary of State's Office if your dealership is corporately owned or a current Certificate of Limited Liability Company if your dealership is owned by an LLC. A current Certificate of Good Standing issued by the Oklahoma Secretary of State is also acceptable.

9. **Photos of Sales Office and Sales Lot.** Your business must meet local zoning or other municipal requirements. Your place of business must be a permanent structure **separate and apart** from any residence or other type of business including any other used motor vehicle dealer's location. Your facility must have access to a restroom for the public.

10. **Photo of Business Sign permanently mounted.** Your sign must reflect the name of your business exactly as it appears on the initial application. It must be at least 32 square feet in size, be permanently mounted, have permanent lettering, and visible from the nearest roadway.

11. **Letter or permit from the city or county** where business is to be located showing approval of local zoning requirements for this type of business. If there are no zoning requirements for your location, you will need to submit a letter from the appropriate authority stating such.

12. **Proof of a usable phone** listed with local directory assistance in the name of the business exactly as it appears on your initial application at the location to be licensed.

13. **Sample copies of all condition of sale documents** for Commission approval. You will be given sample copies of approved forms at the Education Program. If you wish to use other forms, they must be submitted to the Commission for approval before you use them.

14. **Inspection and approval of the location by a Commission investigator.** This will be done after the Board of Commissioners meet.

15. **Attendance of the Education Program** by the sole proprietor, one partner, one corporate officer, or one member of the LLC as listed on the initial application is mandatory. See the enclosed information sheet.

◆◆**NOTE TO FELONY APPLICANTS**◆◆ You must submit certified copies of the Judgement & Sentence documents for each conviction and a current OSBI report. The information on your conviction shall be submitted at the same time as your application. You will need to schedule a personal interview with the Director of the Commission prior to your personal appearance before the Board of Commissioners. For this reason your application process may take longer.

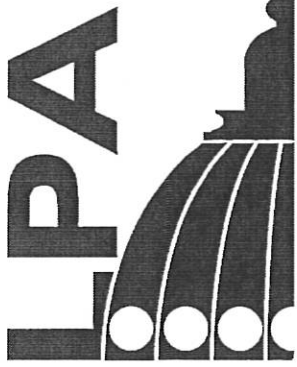
All sales personnel are required to be licensed. A salesperson's license does not entitle a salesperson to buy and sell vehicles as a dealer under the dealer's license. For example, if the person is an independent contractor, using his/her own funds to buy and sell vehicles, or if the person is not under the supervision or authority of the dealer, he/she is not a salesperson, but is in fact a dealer and must have his/her own used dealer's license. To qualify for license the individual must be a bona fide employee of the dealership. The licensing requirements consist of:

16. **Salesperson's initial application fee** of \$25.00 each.

17. **Salesperson's application** completed in full, signed by the applicant and the employing dealer.

18. **Copy of current Oklahoma Driver's License.**

19. **\$1,000 Salesperson's bond** properly executed by the bonding agent and signed by the salesperson.



PERFORMANCE AUDIT REPORT

Limited-Scope Audit

**Insurance Auto Salvage Auctions in Kansas:
Reviewing the System for Regulating the Sale of
Vehicles Acquired Through These Auctions**

**A Report to the Legislative Post Audit Committee
By the Legislative Division of Post Audit
State of Kansas
July 2006**

Legislative Post Audit Committee

Legislative Division of Post Audit

THE LEGISLATIVE POST Audit Committee and its audit agency, the Legislative Division of Post Audit, are the audit arm of Kansas government. The programs and activities of State government now cost about \$11 billion a year. As legislators and administrators try increasingly to allocate tax dollars effectively and make government work more efficiently, they need information to evaluate the work of governmental agencies. The audit work performed by Legislative Post Audit helps provide that information.

We conduct our audit work in accordance with applicable government auditing standards set forth by the U.S. Government Accountability Office. These standards pertain to the auditor's professional qualifications, the quality of the audit work, and the characteristics of professional and meaningful reports. The standards also have been endorsed by the American Institute of Certified Public Accountants and adopted by the Legislative Post Audit Committee.

The Legislative Post Audit Committee is a bipartisan committee comprising five senators and five representatives. Of the Senate members, three are appointed by the President of the Senate and two are appointed by the Senate Minority Leader. Of the Representatives, three are appointed by the Speaker of the House and two are appointed by the Minority Leader.

Audits are performed at the direction of the Legislative Post Audit Committee. Legislators

or committees should make their requests for performance audits through the Chairman or any other member of the Committee. Copies of all completed performance audits are available from the Division's office.

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Barbara J. Hinton, Legislative Post Auditor

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LEGISLATURE OF KANSAS

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July 5, 2006

To: Members, Legislative Post Audit Committee

Senator Les Donovan, Chair	Representative John Edmonds, Vice-Chair
Senator Anthony Hensley	Representative Tom Burroughs
Senator Nick Jordan	Representative Peggy Mast
Senator Derek Schmidt	Representative Bill McCreary
Senator Chris Steineger	Representative Tom Sawyer

This report contains the findings, conclusions, and recommendation from our completed performance audit, *Insurance Auto Salvage Auctions in Kansas: Reviewing the System for Regulating the Sale of Vehicles Acquired Through These Auctions*.

The report includes a recommendation for better protecting the citizens of Kansas from the physical and financial dangers of salvage vehicles that have been inadequately repaired or fraudulently titled.

We would be happy to discuss these recommendations or any other items in the report with any legislative committees, individual legislators, or other State officials.

Barbara J. Hinton
Legislative Post Auditor

Get the Big Picture

Read these Sections and Features:

1. **Executive Summary** - an overview of the questions we asked and the answers we found.
2. **Conclusion and Recommendations** - are referenced in the Executive Summary and appear in a box after each question in the report.
3. **Agency Response** - also referenced in the Executive Summary and is the last Appendix.

Helpful Tools for Getting to the Detail

- In most cases, an “**At a Glance**” description of the agency or department appears within the first few pages of the main report.
- **Side Headings** point out key issues and findings.
- **Charts/Tables** may be found throughout the report, and help provide a picture of what we found.
- **Narrative text boxes** can highlight interesting information, or provide detailed examples of problems we found.
- **Appendices** may include additional supporting documentation, along with the audit **Scope Statement** and **Agency Response(s)**.

EXECUTIVE SUMMARY

LEGISLATIVE DIVISION OF POST AUDIT

How Does Regulation of the Salvage Vehicle Pools in Kansas Compare to Regulation in Other States, and What Steps Could Be Taken To Improve the State's Oversight of These Operations?

A vehicle is considered to be a salvage vehicle if it is more than seven years old and damaged to such an extent it can't be driven safely on State highways, less than seven years old but has damage equal to at least 75% of its previous fair market value, or has been declared a total loss by the owner's insurer. page 3

Salvage vehicle pools acquire damaged vehicles primarily from insurance companies. *Salvage vehicle pools store, display, and sell salvage vehicles on behalf of third parties. They don't own the vehicles they sell; they are the sales agent for the owner. Salvage pools host vehicle auctions at their own location, over the Internet, or both. As of April 2006, Kansas had 17 registered salvage pools, mostly in the eastern half of the State.* page 3

The sale of salvage vehicles has been associated with criminal activity, such as Vehicle Identification Number (VIN) cloning and title washing. VIN cloning occurs when the VIN of a vehicle purchased at a salvage auction is removed and intentionally placed on a stolen vehicle of the same make and model. The stolen vehicle then is sold to a buyer who has no way of knowing its true history. Title washing involves re-titling a salvage vehicle in another state for the sole purpose of eliminating the salvage "brand," because a vehicle with a clean title is worth far more than the same vehicle with a salvage title.

Compared to four other states we contacted, Kansas had the weakest level of oversight of salvage vehicle pools. *We looked at four states reported to have relatively good systems for overseeing salvage vehicle pools--Missouri, Ohio, Oklahoma, and Wisconsin.* page 6

Kansas' only requirements for salvage pools are that they register with the Division of Vehicles, pay a one-time registration fee of \$50, and maintain copies of the titles of vehicles they sell. In contrast, the states we reviewed employ most or all of the following strategies to regulate salvage pools:

- *require salvage pool operators to be licensed*
- *require background checks for operators of salvage pools*
- *allow state officials to request and review sales records of salvage pools*
- *require bidders at salvage auctions to have a state-issued buyer identification card, available only to certain types of licensees*

A national program that would help decrease title fraud has been stalled by lack of federal funding. *The National Motor Vehicle Title Information System was created by the Anti-Car Theft Act of 1992 to combat title fraud. This database would allow states to verify the history of a vehicle before a title is issued, thus minimizing title fraud. In addition, the system is designed to make vehicle history reports accessible to law enforcement agencies, insurance providers, vehicle manufacturers, and consumers.*

..... page 9

In order for the system to be fully functional, all states need to participate. But because of a lack of federal funding, only 28 states do so. Kansas is not a participant — State officials submit information to the database, but they estimate the State would have to spend several hundred thousand dollars in start-up costs to be able to get information from the database. A 2001 cost study completed for the U.S. Department of Justice (which is responsible for the system), concluded that, although it would cost \$22 million to fully establish this national database, it would save vehicle buyers from \$4 billion to 11 billion per year if all states participated.

Conclusion page 9

Recommendation page 10

APPENDIX A: Scope Statement page 11

APPENDIX B: Agency Response page 12

This audit was conducted by Brad Hoff. Cindy Lash was the audit manager. If you need any additional information about the audit's findings, please contact Mr. Hoff at the Division's offices. Our address is: Legislative Division of Post Audit, 800 SW Jackson Street, Suite 1200, Topeka, Kansas 66612. You also may call us at (785) 296-3792, or contact us via the Internet at LPA@lpa.state.ks.us.

Insurance Auto Salvage Auctions in Kansas: Reviewing the System for Regulating the Sale of Vehicles Acquired Through These Auctions

Insurance companies often acquire vehicles that are badly damaged because of accidents, floods, or other conditions that may make them unfit for resale. These types of vehicles typically are brought to insurance auto salvage auctions and auctioned off for their salvage value to the highest bidder.

K.S.A. 8-2401 defines a “salvage vehicle pool” as any person who, as an agent for a third party, is primarily engaged in the business of storing, displaying, and offering salvage vehicles for sale. Although salvage vehicle pools are required to register with the Department of Revenue’s Division of Vehicles, they are not licensed or regulated by the Division.

Recently, legislators have expressed concerns about the unregulated nature of this business. Specific concerns are that salvage vehicles from these pools later are being sold without their origin being disclosed to unsuspecting individuals or to car dealers who don’t know they may be purchasing or reselling a rebuilt or stolen vehicle.

This limited-scope performance audit answers the following question:

How does regulation of salvage vehicle pools in Kansas compare to regulation in other states, and what steps could be taken to improve the State’s oversight of these operations?

To answer this question, we identified the number of registered insurance auto salvage auction pools in Kansas and their locations. We reviewed literature and talked to representatives of the salvage industry to understand how salvage vehicle pools operate. We also interviewed Division of Vehicles officials to learn what Kansas does to regulate salvage vehicle pools. In addition, we talked to officials of the Highway Patrol and Insurance Department to understand those agencies’ roles in dealing with salvage vehicles. Finally, we interviewed officials in Missouri, Ohio, Oklahoma, and Wisconsin to determine how they regulate salvage vehicle pools.

A copy of the scope statement for this audit approved by the Legislative Post Audit Committee is included in *Appendix A*.

In conducting this audit, we followed all applicable government auditing standards set forth by the U.S. Government Accountability Office.

How Does Regulation of the Salvage Vehicle Pools in Kansas Compare To Regulation in Other States, and What Steps Could Be Taken To Improve the State's Oversight of These Operations?

ANSWER IN BRIEF: *Kansas has very limited oversight of salvage vehicle pools compared with four other states we contacted. In Kansas, salvage vehicle pools aren't licensed or regulated—the only requirements are that they register with the Division of Vehicles, pay a one-time registration fee of \$50, and have available a certificate of title (or facsimile or photocopy of the complete title) for salvage vehicles they sell. The Division has no authority to review those titles. In contrast, the four states we reviewed generally require salvage pools or their operators to be licensed, require background checks for salvage pool operators, allow state officials to request and review sales records of the pools, and limit who can purchase vehicles from the salvage auctions. Kansas could implement any of these requirements. A federal database authorized nearly 15 years ago to help decrease title fraud, including fraud associated with salvage vehicles, still is not fully functional, and Kansas is not a participant in that system. These findings are presented after a description of salvage vehicles and pools, and the concerns associated with the sale of salvage vehicles.*

Salvage Vehicle Pools Acquire Damaged Vehicles Primarily from Insurance Companies

Under Kansas law, a salvage vehicle is one which:

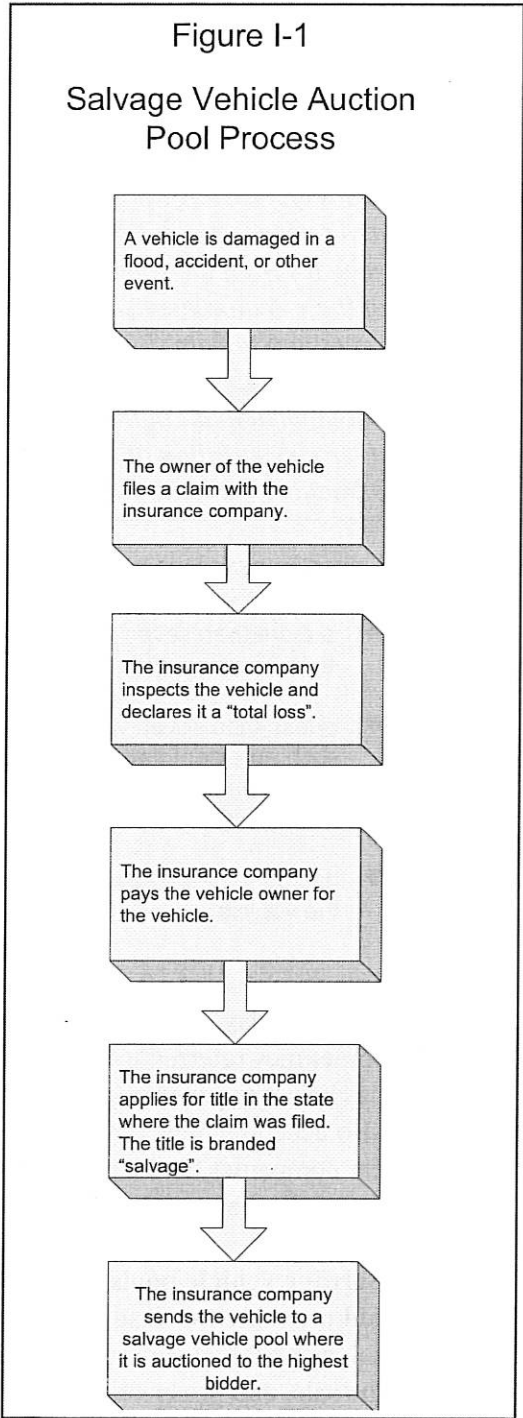
- is more than seven years old and has been wrecked or damaged to such an extent that it can't be driven safely on State highways,
- is less than seven years old, and has been wrecked or damaged to such an extent that the total cost of repairs is 75% or more of the fair market value of the vehicle immediately prior to the damage, and the damage is not merely cosmetic (such as might result from hail), or
- has been declared a total loss by the insurer, who has taken title to the vehicle

Salvage vehicles often end up at salvage vehicle pools, which store, display, and sell them on behalf of a third party. Although sometimes referred to as “insurance pools” because this historically has been the primary source of the vehicles they sell, salvage pools also accept vehicles from other sources, such as car dealers, rental car companies, and lenders. Salvage pools do not own the vehicles they sell; they are the sales agent for the owner.

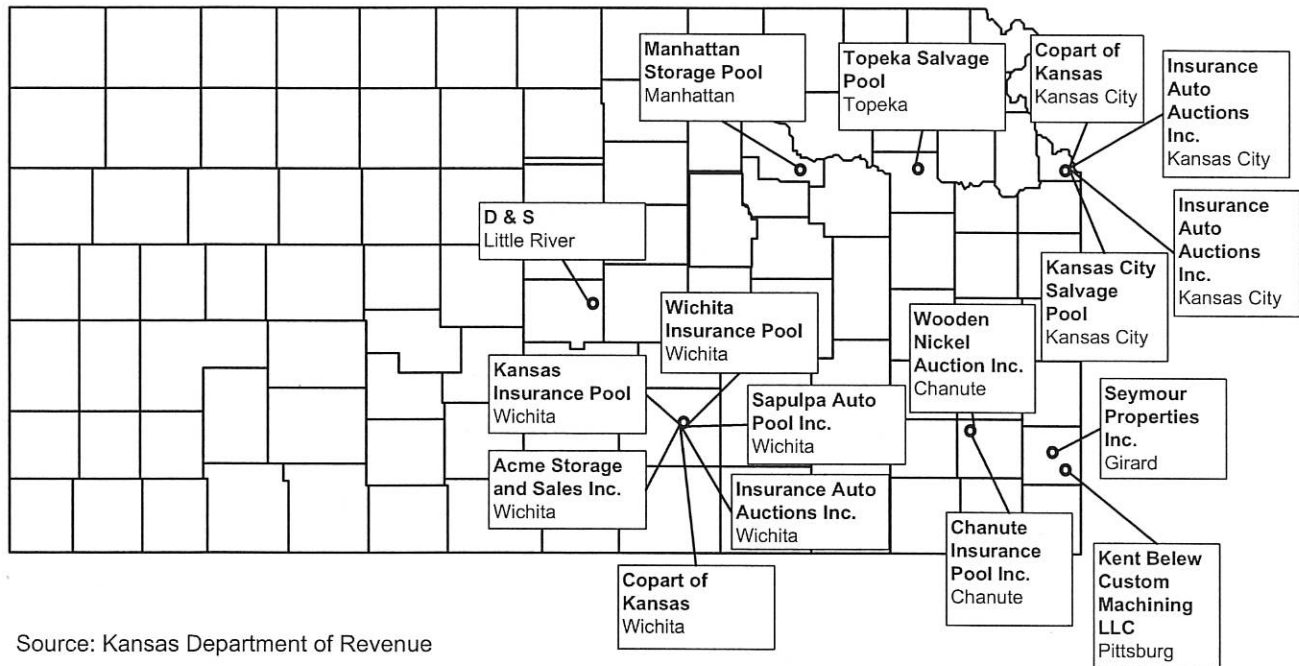
Salvage vehicle pools host auctions where prospective buyers bid on vehicles. Traditionally, these auctions were held at the salvage pool's location, vehicles could be viewed firsthand before the sale, and prospective buyers had to be on-site to bid. In the last

several years, there's been a trend toward conducting auctions on the Internet, either solely or in conjunction with an on-site sale. Internet auctions make it possible for bidders to be located nearly anywhere, which increases the number of potential bidders. It also means some or all participants will base their bid only on Internet pictures of the vehicle and such other information as the salvage pool provides.

Figure I-1 shows the general process of how a vehicle might arrive at a salvage auction.



Registered Insurance Auto Salvage Auction Pools in Kansas



Source: Kansas Department of Revenue

As of April 2006, Kansas had 17 registered salvage pools. Most of the salvage pools are located in the eastern half of the State; the largest concentrations are in Wichita and Kansas City. The map shows the name and location of registered salvage pools in Kansas.

The sale of salvage vehicles has been associated with problems related to criminal activity and consumer protection. The criminal activities most often associated with salvage vehicles are vehicle identification number (VIN) cloning and “title washing,” or otherwise obscuring a vehicle’s damage history with a clean title.

VIN cloning occurs when a vehicle is purchased at a salvage auction for the sole purpose of removing its VIN and placing it on a stolen vehicle of the same make and model. This makes it nearly impossible for the vehicle to be identified as stolen. It’s then sold to a buyer who has no way of knowing its true history.

Title washing involves re-titling a salvage vehicle in another state for the purpose of eliminating the salvage “brand” on the title, because a vehicle with a clean title is worth far more than that same vehicle with a salvage title. (“Brands” are qualifiers attached to a title that indicate some imperfection in the vehicle;

for example, salvage, rebuilt, lemon, non-highway, and so on.) The variation between states in the brands they use and the way they identify those brands on the title make it possible to hide a vehicle's history. Here's an example of how a title can be "washed" of its salvage brand:

A vehicle with a salvage title is purchased in Kansas. It's retitled in Arkansas, which doesn't use the term "salvage." Instead, the new title will say "damaged." When the vehicle is retitled in yet another state, the owner may explain that the damage has been repaired, and the vehicle receives a clean title.

Once a vehicle has a clean title, buyers typically have no way to know of the previous damage. At a minimum, buyers overpay for these vehicles; at worst, they end up with unsafe vehicles they would not have bought at any price had they known the true history.

Although services such as Carfax can be used to obtain a vehicle's history, the databases those services use may be incomplete. Some states reportedly withhold information from the databases, and information that is reported may not be timely enough to identify vehicles that are quickly rebuilt and sold. In addition, there have been cases nationwide where vehicles that were declared a total loss by an insurer were sold without being retitled.

In Kansas, application for a salvage title must be made within 30 days after an insurance company declares a vehicle a total loss. Failure to do so is a Class C non-person misdemeanor. However, in 2005, State Farm Insurance Company settled with the attorneys general of 49 states for \$40 million, admitting that it resold between 30,000 and 50,000 vehicles which it had declared a total loss, and for which it should have--but did not--obtain salvage titles. As a result, buyers purchased these vehicles with clean titles and had no way of knowing their safety, reliability, or true value.

Although salvage pools aren't the root cause of these problems, increased regulation of the pools can provide a way to address some of these issues simply because so many salvage vehicles will pass through a pool.

Compared to Four Other States We Contacted, Kansas Had the Weakest Level Of Oversight of Salvage Vehicle Pools

During this audit we talked to vehicle officials in four states reported to have relatively good systems for overseeing salvage vehicle pools--Missouri, Ohio, Oklahoma, and Wisconsin. **Figure I-2** shows how Kansas compares to those four states on several measures related to the regulation of salvage pools.

Figure I-2 Comparison of Salvage Pool Oversight					
	Kansas	Oklahoma	Missouri	Wisconsin	Ohio
Require salvage pools or their operators to be licensed		✓	✓	✓	✓
Require background checks for operators of salvage pools			✓	✓	✓
Allow state officials to request and review sales records		✓	✓	✓	✓
Require bidders to have a state-issued buyer identification (BID) card, available only to certain types of licensees.		✓	✓	✓	✓
Source: LPA analysis of sample states					

Salvage pools in Kansas are registered, rather than licensed, and there are no requirements for pool operators. Kansas' only requirement for salvage vehicle pools is that they register with the Department of Revenue's Division of Vehicles and pay a one-time fee of \$50. Registration simply helps ensure the State is aware of a business' existence. Licensing typically involves setting some level of standards for operation of the business. By contrast:

- Ohio licenses salvage vehicle pools, and requires applicants for a license to demonstrate fiscal viability (by submitting financial statements showing the business has a net worth of at least \$20,000). Ohio officials are allowed to inspect the businesses' premises and records. License fees are \$100, and licenses must be renewed every two years.
- Missouri, Oklahoma, and Wisconsin require operators of salvage pools to hold a license as a salvage business, a used car dealer, or a wholesale dealer. Each type of license has criteria that must be met before a license is issued.

Kansas doesn't know as much about the backgrounds of the people operating auto salvage pools as some other states do. Because of opportunities for illegal activity associated with salvage vehicles, it's important to ensure that individuals with past criminal histories aren't involved in acquiring and selling salvage vehicles.

Kansas doesn't conduct background checks on salvage pool operators when they register. In Ohio, however, applicants must submit a police report form showing criminal history, and a conviction for a felony or misdemeanor crime related to salvage vehicles is grounds for denial of a license. Wisconsin runs a background check on applicants to see if they've been convicted of a felony.

Kansas doesn't have the authority to review the records of salvage pools. By looking at titles contained in sales records,

it's easy to tell whether vehicles that were declared a total loss actually had salvage titles, as required by law. In addition, sales records identifying the buyer are important in spotting patterns of suspicious purchases.

In Kansas, salvage vehicle pools are required to keep a copy of the title of vehicles they sell, but State law makes no provision for the Division of Vehicles to see these titles or any other records of the salvage pool. (Copies of the titles would be available to law enforcement officials with probable cause and a search warrant.) State law doesn't specify how long copies of titles must be maintained.

The four states we reviewed all give state regulatory officials access to sales records from salvage pools whenever necessary.

Kansas is less restrictive about who can purchase a vehicle from a salvage pool. Salvage vehicles pose physical and financial risks to the public when unscrupulous individuals buy them. A salvage vehicle that is rebuilt poorly, with structural flaws that aren't readily apparent and a new coat of paint and its title "washed" to disguise its history, can end up in the hands of an unsuspecting consumer. In Kansas, any individual who creates a user ID and password and pays a registration fee to the salvage pool is able to bid on vehicles at the salvage pool auctions.

Each of the four states we contacted require individuals to have a State-issued BID card in order to participate in salvage auctions, and only issue BID cards to individuals who are involved with the automotive or salvage business and who meet certain criteria, as follows:

- Oklahoma BID card holders must have an automobile dismantler license or a rebuilder certificate
- Missouri limits BID cards to people with a salvage dealer and dismantler license who are actively engaged in the business
- Ohio limits BID cards to people with a salvage motor vehicle dealer license, who are in good financial standing and who have not been convicted of a felony
- Wisconsin issues BID cards to licensed motor vehicle dealers, salvage dealers, or wholesale dealers. BID card holders have to be at least 18 years old, can't have a conviction for a crime related to the sale of motor vehicles, and must renew the card annually or biannually.

***A National Program
That Would Help
Decrease Title Fraud
Has Been Stalled by
Lack of Federal Funding***

The National Motor Vehicle Title Information System was created by the Anti-Car Theft Act of 1992 to combat title fraud. This computerized database was intended to store information on every title issued for a vehicle.

The information stored in this computerized motor vehicle title database allows state titling agencies to verify the validity of ownership documents when a new title is issued. For example, when fully operational, the database system will allow a titling agency to know whether a vehicle has ever been sold with a salvage title, or whether it has ever been reported stolen. Also, when a vehicle is retitled in a new state, the state in which it was formerly titled is notified of the move, so that it can inactivate the vehicle's title record, reducing the opportunity for criminals to obtain duplicate titles and use them fraudulently.

The system is expected to benefit titling agencies, law enforcement, insurance providers, vehicle manufacturers, and consumers by making vehicle history reports and other information readily available.

A cost study completed in 2001 concluded that it would cost \$22 million to fully establish this national database, but that the system would save vehicle buyers from \$4 billion to 11 billion per year if all states participated. For this system to maximize its effectiveness, each state needs to participate by providing information to the database. Until all states participate, the database system will not work as designed.

This national database reportedly has never received the federal funding it needed to be effective. Currently, only 28 states participate. In addition, consumers don't have access to the data. Kansas Division of Vehicles officials said Kansas voluntarily submits its titling information to the database electronically, but is not a participant in the system. They estimated Kansas would have to spend \$300,000 on start-up costs in addition to an annual fee to be a full participant with access to the data in the system. Because the future of the system is uncertain, State officials are reluctant to invest that level of funding. They have asked Senator Brownback to support increased federal funding for states to participate.

Conclusion

Title fraud is a nationwide problem, which probably is most effectively dealt with by a national solution such as a national motor vehicle title database. However, it's not clear that additional federal support to assist states in developing systems to link with

this national database is forthcoming, nor would it eliminate the benefit of State oversight activity. Salvage vehicle pools, although not the cause of title fraud, are a venue where that fraud can be both perpetuated and, to some degree, controlled. Kansas' lack of regulation of salvage pools places it far behind several states, which attempt to reduce title fraud and protect consumers by controlling who can operate and participate in salvage vehicle auctions, and by reviewing the records of those auctions.

Recommendation

To better protect the citizens of Kansas from the physical and financial dangers of salvage vehicles that have been inadequately repaired or fraudulently titled, the Department of Revenue's Division of Vehicles should propose legislation to the 2007 Legislature that would give the State meaningful oversight of salvage vehicle pools. In developing that proposal, the Division should consider the following options:

- a. implementation of a Buyer Identification (BID) card system to help ensure that only persons with a legitimate interest in salvage vehicles can make purchases at salvage auctions
- b. authority for the Department of Revenue to review titles and other sales records maintained by salvage pools
- c. creation of sanctions for salvage pools that fail to maintain vehicle titles as required by current State law

APPENDIX A Scope Statement

This appendix contains the scope statement approved by the Legislative Post Audit Committee for this audit on January 30, 2006. The audit was requested by Senator Les Donovan.

Insurance Auto Salvage Auctions in Kansas: Reviewing the System for Regulating the Sale of Vehicles Acquired Through These Auctions

Insurance companies often acquire badly damaged vehicles due to accidents, floods, or other conditions that may render a vehicle unfit for resale. These types of vehicles typically are auctioned off for their salvage value.

K.S.A. 8-2401 defines a “salvage vehicle pool” as any person who, as an agent for a third party, is primarily engaged in the business of storing, displaying, and offering salvage vehicles for sale. Salvage vehicle pools are not licensed or regulated by the Department of Revenue’s Division of Vehicles. The only statutory requirements are that they register with the Division, pay a one-time registration fee of \$50, and have available on their premises a certificate of title or facsimile or photocopy of the complete title of salvage vehicles they sell.

Recently legislators have expressed concerns about the unregulated nature of this business. Specific concerns are that vehicles from these pools are later being sold without their origin being disclosed to unsuspecting individuals or to other car dealers who don’t know that they may be reselling a rebuilt or stolen vehicle.

A limited scope performance audit of this topic would address the following questions.

1. How does regulation of the salvage vehicle pools in Kansas compare to regulation in other states, and what steps could be taken to improve the State’s oversight of these operations? To answer this question, we would determine how many salvage vehicle pools are registered in Kansas and where they are located. Through discussions with officials at the Division of Vehicles and people in the industry, we would become familiar with how the salvage vehicle pools operate. We would contact officials in other states to determine such things as how they license and regulate insurance salvage pool auctions, how ownership of an auctioned vehicle is disclosed, how vehicles are identified so that bidders can trace their history, who can bid on vehicles at these auctions, and what identification is required of bidders. Based on the information we obtain from other States and industry officials, and our own assessment of the opportunities for fraud, tax evasion, and laundering of stolen automobiles, we would make recommendations for ways the Legislature could consider improving the regulation of these pools.

Estimated time to complete: 200 hours

APPENDIX B

Agency Response

On June 15, 2006 we provided copies of the draft audit report to the Department of Revenue. Its response is included as this Appendix. The agency concurred with the report's findings and conclusions.



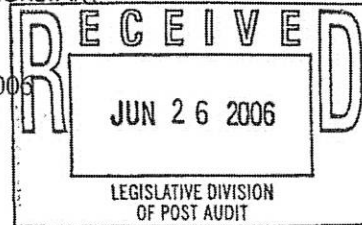
K A N S A S

JOAN WAGNON, SECRETARY

KATHLEEN SEBELIUS, GOVERNOR

DEPARTMENT OF REVENUE
OFFICE OF THE SECRETARY

June 21, 2006



Ms. Barbara Hinton,
Legislative Post Auditor
Legislative Division of Post Audit
800 SW Jackson, Suite 1300
Topeka, Kansas 66612

Dear Ms. Hinton:

Thank you for the opportunity to respond to the draft audit report, *Insurance Auto Salvage Auctions in Kansas: Reviewing the System for Regulating the Sale of Vehicles Acquired Through These Auctions*.

As noted in the audit report, the sale of vehicles through the Salvage Vehicle Pools is essentially unregulated in Kansas. Existing state law does not assign the regulatory authority that is needed to the Department of Revenue.

There are real risks associated with these sales. The most important is the increased public safety risk to all drivers due to the presence of potentially unsafe vehicles on the Kansas roadways. An elevated risk of consumer fraud is also present in the current environment.

To date, we have taken steps within the existing legal framework to improve public protection. In September 2006, the Department of Revenue plans to introduce a new vehicle title. The new title will be easier to read and understand, with the salvage brand on the title displayed in large, all-capital letters. The new title form will also include a bar code that can be read by a computer scan at any County Treasurer's office. Using the bar code will help deter and discover attempts to illegally alter a title.

While encouraging greater awareness among vehicle buyers is helpful, we believe increased regulation would be prudent. The Department of Revenue supports each of the options identified by Legislative Post Audit, and encourages the Kansas Legislature to consider assigning the Department of Revenue additional investigatory and oversight responsibilities in concert with these provisions. As noted, other states have determined that these measures represent an appropriate use of industry oversight that can be administered by state government at a reasonable cost.

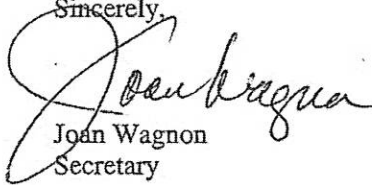
DOCKING STATE OFFICE BUILDING, 915 SW HARRISON ST., TOPEKA, KS 66612-1588
Voice 785-296-3081 Fax 785-296-7928 <http://www.ksrevenue.org/>

The Kansas Legislature previously considered, but did not enact, legislation requiring a BID card system. We believe instituting the BID card system would be a good first step in regulating vehicle purchasers.

If the legislation suggested in this report were to be enacted, the Department would assign its Dealer License Investigators to conduct on-site investigations at salvage pool auctions. We would design and implement procedures to review titles and sales records at salvage pools. We would also need to establish a licensure process and a process for implementing sanctions as defined by the legislature to apply should a salvage pool fail to comply with state standards. Through study, we would determine the detailed procedures to be implemented and estimate the resource requirements at a later date.

Thank you for the opportunity to respond to the audit. We appreciate the professionalism displayed by the audit staff assigned to the project.

Sincerely,



Joan Wagnon
Secretary

800 SW JACKSON, SUITE 808
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bsmoot@nomb.com

BRAD SMOOT
ATTORNEY AT LAW

10200 STATE LINE ROAD
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LEAWOOD, KANSAS 66206

Statement of Brad Smoot
Legislative Counsel, Copart Auto Auctions
Senate Transportation Committee
Regarding SB 295
February 14, 2007

Mr. Chairman and Members:

On behalf of Copart Auto Exchange, we are pleased to have an opportunity to appear in opposition to SB 295. Copart, Inc., is the nation's largest operator of auto salvage pools with operations in Kansas City, Kansas and Wichita. With me today is Shawn Yadon, Assistant VP for Government Affairs. Shawn will confer with you next and certainly be able to provide you with a more complete review of our operations and our concerns about SB 295. With your permission, I'd like to comment on just a couple of items.

First, SB 295 is the outgrowth of a three year lobbying effort. HB 2860 was introduced in the House in 2004 but did not receive a hearing. The House bill was just over one page in length. The House bill was followed by a limited-scope post audit report in July of 2006. To the best of our knowledge, no one in our industry or the auto insurance industry was consulted in the limited audit. Moreover, while the report compares Kansas regulatory scheme for salvage pools to four other states, it should be noted that only 16 states license salvage pools and that Kansas is in the clear majority of 34 states that do not. Only two states in the last 20 years have elected to expand state regulation of this business. Lawmakers are now presented with a 15 page bill imposing far more stringent requirements on salvage pools than originally proposed in 2004.

Second, the Division of Post Audit recommended three possible legislative options. The Buyer ID card system proposed by SB 295 is by far the most onerous and most likely to disrupt the marketplace for salvaged vehicles. Copart has no objections to the two other options discussed in the audit report.

Finally, the original bill imposed a \$10 bid identification card. SB 295 imposes a \$10 fee for in-state bidders but a \$250 fee for out-of-state bidders. I can find no rational basis for that distinction and I imagine that it should create some constitutional questions among members of the committee. Those of us associated with the insurance industry are very aware of the sensitivity of this issue having participated in the legislative revision of the Kansas premium tax laws made necessary by a similar disparity in tax rates between in-state and out-of-state insurers.

We urge the committee to take a long look at this legislation, the lack of real cost/benefit analysis and limited input from those affected. Thank you.

**Statement of Shawn Yadon
Assistant Vice President, Government Affairs—Copart, Inc.
Before The Kansas State Senate Transportation Committee
February 14, 2007**

(Senate Bill 295—OPPOSE)

Mr. Chairman, Members Of The Committee:

My name is Shawn Yadon. I am the Assistant Vice President of Government Affairs for Copart, Inc. Also in attendance with me from Copart, are Jon Powell, Regional Marketing Executive based here in Kansas, and, Paul Puglisi, Regional Operations Executive, also based here in Kansas. Copart is the largest operator of automotive salvage pools in the United States with 123 salvage pool locations in the U.S., plus one location in Canada. In Kansas, we operate a salvage pool in Kansas City, KS, and one in Wichita.

I am here today on behalf of Copart, to provide comment describing our opposition to Senate Bill 295.

At its core, Senate Bill 295 seeks to bring substantial changes to the insurance auto auction industry in Kansas. It is fair to say that the Post Audit released last summer by the Legislative Division of Post Audit regarding the Insurance Auto Salvage Auction Industry, was the starting point for what is now SB 295. Also admittedly, the audit conducted was a Limited Scope Audit. I know from our standpoint at Copart, we are a major component in the Insurance Auto Salvage Auction Industry here in Kansas. We were never contacted for input during the course of the Post Audit. In reading the complete report, it does not make specific mention of contact and outreach to the insurance industry either. Input from the salvage pool operators such as Copart and from the insurance industry itself, I believe would have provided a much more comprehensive picture of the industry, its operations and the state of the industry in Kansas.

While there are a number of concerns we have with Senate Bill 295, the primary opposition centers around the provisions that seek to implement a Buyer Identification Card (BID Card) system in Kansas.

Kansas is presently one of 34 states across the country that embraces an open, fair and competitive marketplace for selling and purchasing of salvage vehicles. Today, a buyer base of literally tens of thousands of legitimate buyers from across the U.S. and approximately 100 countries worldwide compete for Kansas' salvage vehicles making it a truly global marketplace. Buyers from all over the country and all over the world pay top dollar for the privilege of removing Kansas' salvage vehicles from the state. By ensuring that top dollar is received by insurance companies for total loss salvage vehicles, premiums are kept low for Kansas consumers. Kansas' competitive salvage market also creates and maintains an environment where severely damaged vehicles are more likely to be salvaged than repaired.

It is important to note that only 2 states in the past twenty years have enacted salvage vehicle BID Card legislation.

In fact, virtually all of the current buyer restriction statutes on the books today involving salvage vehicles, were enacted 15, 20+ years ago. At that time, salvage vehicle auctions were all 'live auction', 'in person' format auctions, dominated by in-state purchasers, perhaps with a small number of buyers crossing state lines to view and bid on vehicles. Such BID Card laws were not of significant consequence at that time. It is also interesting to note that of the 4 neighboring states the Post Audit analyzed which presently have BID Card statutes on their books, 2 of those states are presently considering legislation in 2007 that if passed, would eliminate their BID Card system.

Fast forward to the year 2000 and beyond, and we have this truly global marketplace I described at the beginning of my comments. The internet, coupled with dynamic interstate commerce, and international commerce, has provided a fertile environment for the insurance auto salvage auction industry to flourish.

Proponents of a BID Card system often talk about consumer protection and claim that BID Cards will work to combat title fraud related crime and the like. To be clear, unscrupulous people around the country from time to time do engage in vehicle title fraud. Copart supports tough laws that truly combat such crime and enforce tough punishment for those found guilty.

A BID Card system does absolutely nothing to combat vehicle title fraud and related activities. In fact, an open and competitive marketplace as you have in Kansas today, provides a better opportunity for the reporting, compliance, tracking and transparency of salvage vehicle sales information. Copart registers each business entity buyer on our system

before that entity is allowed to bid and purchase vehicles from our virtual auctions. We have routinely provided this sales information to states around the country and to law enforcement agencies in support of their crime prevention and crime fighting efforts. We certainly are supportive of providing such information to the State of Kansas. Should Kansas implement a BID Card system, the buyer base is immediately reduced by 95%. These relatively select few buyers purchase the vehicles, then are allowed to sell these vehicles to whomever they please. Our tracking under a BID Card system is now limited to the select few eligible to buy, with vehicles moving on from these purchasers, unregulated.

So the deliberations over a BID Card system in our mind, is a deliberation between changing Kansas' environment to one that is burdensome and anti-competitive, virtually cutting off interstate commerce and international business.....Or, keeping the fair, open & competitive atmosphere in Kansas that has allowed insurance companies the opportunity to recover the best salvage vehicle returns they can. Of course, such returns are inter-related to the customers' vehicle claims and ultimately, their premiums.

There is no documented, validated or verifiable data that connects a BID Card system with any reduction in vehicle title fraud related crime. A BID Card system negatively impacts salvage pools, insurance companies, legitimate purchasers of salvage vehicles from across the country and around the world, and, Kansas consumers.....to the monopolistic benefit of a relatively small group of Kansas in-state salvage buyers.

On behalf of Copart, I urge your 'NO' vote on Senate Bill 295.

Thank you.



FARMERS

February 13, 2007

To: Senate Transportation Committee

From: Mark Binder

Re: Testimony for Senate Bill 295

Position: Opposed

Mr. Chairman and members of the Committee, my name is Mark Binder. I am the National Total Loss and Salvage Manager for Farmers Insurance. Thank you for this opportunity to appear here today in opposition to Senate Bill 295.

The implementation of salvage buyer restrictions like those proposed in Senate Bill 295 has shown in other states to cause an overall reduction in the gross return on the sale of salvage. This fact will be visible not only for my company but for all insurance companies that provide auto physical damage coverage in this state, were this bill to become law.

When an insurance company declares a vehicle a total loss, the vehicle is typically sold at a salvage auction. This bill requiring buyer restrictions will reduce the number of salvage purchasers at these auctions. The current salvage buyer base will shrink and therefore by basic economics the salvage prices will fall due to decreased competition.

Kansas, Colorado, Nebraska and New Mexico do not have buyer restrictions on the sale of insurance company total loss vehicles. In these states Farmers Insurance had an average gross return of 22.75%. Conversely, in states that have buyer restrictions such as Oklahoma, Iowa, Missouri and Arkansas the Farmers average gross return were 3.65% lower and had result of 19.10%. From this data you can see the impact on the insurance policy holders of Kansas from the proposed buyer restrictions.

In 2006, Farmers Insurance had gross returns of \$3.4 million. If buyer restrictions are introduced the expected reduction of our salvage proceeds likely will remain consistent with other states. Kansas's policyholders will have an estimated reduction of \$522,000 annually in salvage recoveries. Over five years these recoveries could be reduced by an estimated \$2.6 million. These figures are just for Farmers Insurance and do not include the dozens of other insurance companies that conduct business within this state.

Senate Transportation Committee

2-14-07

Attachment 11

Buyer groups will begin to bypass the state of Kansas for their salvage sales due to the complexity of purchasing insurance salvage in the state. One example is foreign buyers. Approximately 25-30% of all salvage vehicles are sold internationally. With buyer restrictions this makes their participation in the sale much more challenging and has been known to limit this buyer base.

You may very well hear that legislating restrictions such as those proposed within this bill is a form of consumer protection and, therefore, protects the citizens of this state. This point is not a valid one for four reasons.

- The true protection for the consumer in Kansas is branded titles as specified in the state's titling laws. Buyer restrictions have no impact on this mechanism.
- In addition to title requirements, national databases, such as Carfax, provide comprehensive vehicle history of vehicles and these databases are often easily accessible by the average consumer.
- Under this proposed statute, once a salvage vehicle is sold to a licensed buyer they will not be limited in who they can sell the salvage to. For example, a salvage auction will sell a vehicle to a licensed buyer and the next day the buyer can sell the vehicle to anyone that is a willing buyer.
- Furthermore, the location or occupation of a buyer does not correlate to any form of consumer protection. It amounts to nothing more than an attempt to erect barriers to entry in a marketplace that depends on competition in order to be fair and efficient.

The negative impact of this legislation will be realized by a much larger segment of the population. If these returns are reduced, then there is likelihood that the insurance premium costs of all the policyholders in the state will be increased. This increase in insurance premiums could be needed to make up for the decline in the regulatory required surplus dollars for the insurance company to have in reserves for payments of claims to customers.

In conclusion, the sale of a product in an open market that allows free access to all consumers is the foundation of our American economy. This buyer restriction bill will impact this concept and will benefit a small percentage of the Kansas population; however the impact of this legislation could be realized negatively by every one of this state's citizens that purchases auto insurance. I encourage you to not support Senate Bill 295. Thank you for your time and allowing me to address this committee.



F A R M E R S

11880 College Boulevard
Suite 201 A
Overland Park, Kansas 66210
Phone: 913-234-3902

February 14, 2007

To: Senate Transportation Committee

From: Lee Wright, Governmental Affairs Representative

Re: Opposition Testimony on SB 295

Mr. Chairman and members of the Committee, my name is Lee Wright and I represent Farmers Insurance. Farmers' is the third largest insurer of motor vehicles in our state with a 10% share of the market. We are also the largest insurance employer in the state and are proud to have served Kansans continuously since 1930. Thank you for this opportunity to appear today in opposition to Senate Bill 295.

Requiring buyer identification cards in order to purchase non-repairable vehicles or salvage vehicles will limit buyer competition, thereby reducing the price of salvage. We estimate such a marketplace restriction will result in at least a 15% annual reduction in our recovery results for salvage vehicles. The 15% loss figure is conservative and is based on results incurred in states that have adopted similar restrictive legislation.

To give you a specific example, in 2005, bid card legislation was enacted in Arkansas. This resulted in a 20% drop in auction attendance and gross salvage recoveries dropping 16%.

Wisconsin and Ohio have adopted restrictive bid card legislation. When the results of those states are compared to those of Minnesota, an open state, we found Wisconsin experienced a 15% drop in recoveries and Ohio a 16% reduction.

The significance of this reduction in our salvage recoveries, as well as the salvage recoveries of our competitors, will be the potential adverse impact this may have on policyholder premiums for Kansas' motorists. This is a major concern of ours as Farmers strives to keep auto insurance rates affordable for our customers.

With me today from Oklahoma is our National Total Loss Salvage Manager, Mark Binder. Mark can give you more specifics on the dollar impact we have experienced in bid card states, and the effect this type of restrictive legislation has had on international buyers.

With your permission, I would like to introduce Mr. Binder at this time.

Thank you.

Senate Transportation Committee
2-14-07
Attachment 11

Memorandum

TO: THE HONORABLE LES DONOVAN, CHAIRMAN
SENATE TRANSPORTATION COMMITTEE

FROM: WILLIAM W. SNEED, LEGISLATIVE COUNSEL
THE STATE FARM INSURANCE COMPANIES

RE: S.B. 295

DATE: FEBRUARY 13, 2007

Mr. Chairman, Members of the Committee: My name is Bill Sneed and I am Legislative Counsel for the State Farm Insurance Companies. State Farm is the largest insurer of homes and automobiles in Kansas. State Farm insures one out of every three cars and one out of every four homes in the United States. Please accept this memorandum as our opposition to SB 295.

Senate Bill 295 will require any salvage vehicle dealer in Kansas who wished to purchase a salvage or non-repayable vehicle in Kansas to make application to the state for a buyer's identification card. Such a bill in its current form creates the potential for less salvage buyers within the state, which could result in lower salvage returns and ultimately affect our policyholders in the long run. To begin with I would like to provide a little historical background on this issue to the committee.

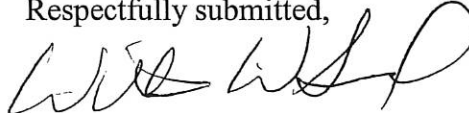
During the 2004 session, HB 2860 was introduced, which for the most part is identical to SB 295. This bill was one of several that both the House and Senate reviewed relative to salvage titles and changes proposed in the State of Kansas, in this area. Ultimately, the legislature passed sweeping changes to the salvage title laws but after review did not take action on HB 2860. The reason, valid then as it is today, is that such changes are not necessary for the overall protection of Kansas citizens when purchasing vehicles that need to be appropriately marked salvage. Various interested parties at the behest of the chairman of both committees worked on this during the 2004 session. The result was a conference committee report on HB 2745, which did provide enormous changes and new protections for Kansas citizens.

Now to the issue at hand, much has been made about the limited performance audit on this subject. We think that it is important to note that at no time did Legislative Post Audit contact individuals in the insurance business for their input on this subject. During that process,

nor through today's hearing, have the proponents of the bill made any effort to contact the insurance industry to discuss this sweeping change in Kansas law. We find it ironic that the industry that might most be affected by this change, outside of the salvage pool industry itself, has been left out of the discussions on this bill. We believe that there is an intentional purpose for leaving us out of the discussion. Notwithstanding that, we believe that it is critical that the legislature evaluate this enormous bureaucratic process being proposed for the State of Kansas.

Based upon the foregoing, we respectfully request that you reject SB 295. We would be happy to answer any questions at the appropriate time.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'WWS', written in a cursive style.

William W. Sneed

WWS:pmk

019646 / 032884
WWSNE 1487298

FarmersAlliance

Insuring Rural America Since 1888

To: Senate Transportation Committee

From: Richard E. Wilborn

Re: Senate Bill No. 295

Date: February 14, 2007

Mr. Chairman and Members of the Committee, I appreciate this opportunity to share our views concerning salvage vehicle pool dealers.

My name is Rick Wilborn. I am Vice President of Government Affairs for the Farmers Alliance Mutual Insurance Companies. Farmers Alliance is a Kansas domestic property and casualty company that has been operating in and committed to the State of Kansas since 1888. We also write property and casualty insurance in eight other contiguous states.

We appreciate the concern of the proponents of S.B.295. However, there is no evidence to indicate that an open market leads to title washing anymore than buying salvage from a dismantler, in a bid card state. The bottom line is that the net effect of S.B.295 will lower the value of automobile salvage and increase auto physical damage and auto property damage rates over time. By making thousands of potential salvage buyers ineligible to purchase auto salvage, the price of salvage automobiles will decline.

At Farmers Alliance we recover approximately 13% on the value of total loss vehicles through the sale of the auto salvage. Lowering the dollar amount of recovery from salvage, will increase the net losses charged to the coverage of auto physical damage and losses paid under auto property damage coverage. Over time, the deterioration in loss experience will require rate increases to offset the increase in net loss paid.

Thank you for your consideration and we urge you to oppose S.B.295.

I would be glad to stand for any questions.

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620.241.2200 • fax 620.241.5482 • www.fami.com
Farmers Alliance Mutual Insurance Company
Alliance Indemnity Company • Alliance Insurance Company, Inc.

Senate Transportation Committee

2-14-07

Attachment 14-

HOUSE TRANSPORTATION COMMITTEE

RE: SB 295

February 14, 2007
Topeka, Kansas

Submitted by:
Tony Kimmi
Farm Bureau Mutual Insurance Company

Chairman Donovan, and members of the Senate Transportation Committee, thank you for the opportunity to submit comments in opposition of SB 295. I am Tony Kimmi and I represent Farm Bureau Mutual Insurance Company. SB 295 seeks to put limits on who may bid on auto salvage in Kansas by requiring a bid card in addition to the auto dealer and/or salvage license that is currently required.

Farm Bureau Mutual Insurance Company in Kansas uses various salvage vendors to sell our auto salvage that result from constructive total loss claims. One of these vendors is based out of state and conducts internet auctions to sell our salvage vehicles. This method of bidding reaches many more buyers than the traditional on-site auction and as a result, we attain higher salvage bids due to the global competition. This vendor sells 36% of Kansas autos to out of state bidders and an additional 27% of Kansas autos to foreign buyers. This international competition for salvage increases the salvage return and decreases the net cost of collision claims payments.

If a bid card is required to be purchased for \$250, the number of bidders would be reduced and our salvage return would most likely decrease. This would result in higher average claim payments and, in turn, higher auto rates.

To illustrate the impact of removing internet bidders, the 2006 Net Average Salvage return for internet salvage company was 5.42% higher than the traditional salvage company we use in Kansas.

The difference is significant and it clearly illustrates how more bidders result in higher salvage values and this is passed back to the rate-making process. Restricting the bidding process will likely result in higher auto insurance premiums in Kansas.

I respectfully ask that you to oppose SB 295 due to its detrimental impact on open competition and the indirect impact it will have on auto insurance rates. Thank you.

Tony Kimmi
Business Center Director
Farm Bureau Mutual Insurance Company
(785) 587-6332



JOHN C. PETERSON
CAPITOL STRATEGIES, LLC

SUITE 200, 212 SW 8TH AVENUE • TOPEKA, KANSAS 66603-3939 • (785) 233-1903 • FAX (785) 233-3518 • john@kansasstatehouse.com

February 13, 2006

Dear Senator:

RE: SB295 - Senate Transportation Committee

On behalf of Insurance Auto Auctions, we would urge you to oppose SB 295.

SB 295, which has been drafted and promoted by the salvage dealers, states that licensed auto auction companies, such as ourselves, could only sell our product to those salvage dealers.

Further, by requiring a buyer identification card, it makes it less likely that even out of state salvage dealers will purchase salvage and non-repairable vehicles.

A very small percentage of salvage vehicles are sold by us to public buyers. Most of our clients are licensed used car dealers, rebuilders, and dismantlers. If the bill becomes law, only that third category, dismantlers (salvage vehicle dealers), will be able to purchase salvage and non-repairable vehicles. It in essence makes all vehicles which are tagged as salvage vehicles into "non-repairable vehicles" without changing that statutory definition. It is bad for Kansas consumers; its bad for purchasers of insurance.

It creates a windfall for salvage dealers. They would gain a monopoly in the purchase of salvage vehicles, a monopoly that comes at the expense of Kansas consumers. These restrictions would allow salvage dealers to make more money by purchasing their inventories for less, due to statutorily diminished competition for these vehicles.

Additionally, as the marketplace for vehicles expands through the internet, SB 295 takes Kansas in the wrong direction and makes it less competitive in this growing area of commerce.

Insurance Auto Auctions operates two businesses in Kansas and employees 18 Kansas citizens. On behalf of those employees and their customers, we would urge you to defeat this monopolistic power grab contained in SB 295.

John C. Peterson

Bill Brady

Mark Boranyak

Senate Transportation Committee
2-14-07
Attachment 16