

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

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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

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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.