



April 23, 2024

Via Overnight Mail

Representative Kevin McCabe
Chair, House Transportation Committee
State Capitol, Room 102
Juneau, AK 99801

RE: SB 144/HB 233 Rates & Time Allowances for Motor Vehicle Warranty Work

Dear Chair McCabe:

I understand that the House Labor & Commerce Committee is considering SB 144/HB 233, an Act relating to rates and time allowances for motor vehicle warranty work (the "Act"). Kia America, Inc. ("Kia") respectfully opposes the Act.

By way of background, new motor vehicle manufacturers and distributors generally reimburse their dealers for warranty work in accordance with "factory time allowances." These factory time allowances enumerate exactly how many hours a dealer will be reimbursed for performing any type of warranty work a vehicle may need.

Kia's factory time allowances—like those of all manufacturers and distributors—are the result of specific time studies, whereby technicians are repeatedly timed during their performance of each labor operation on every type of vehicle sold by a Kia dealership. Moreover, Kia has found that dealership technicians are, on average, time efficient in relation to its published time allowances. In other words, dealership technicians generally are performing labor operations faster than the Kia time allowance, meaning dealerships are being reimbursed for more time than actually used to perform the warranty work. This is the current system in place, and it benefits the dealer, the consumer, and Kia.

Unfortunately, the Act would upend the use of factory time allowances in Alaska and would create a warranty reimbursement system founded on the exploitation of dealership customers. This is likely why so many other state legislatures have rejected similar bills. Indeed, there are numerous issues with the Act.

First, the Act creates a warranty reimbursement system devoid of uniformity, predictability, and objectivity. The Act would require manufacturers and distributors to reimburse dealerships in accordance with whatever "time allowance[]" is used by dealer, as opposed to the "factory time allowance." For example, a dealer would be permitted to use time guides published by third parties (often referred to as "third-party time guides"). These third-party time guides are not developed using time studies and do not relate to the actual time spent to perform a repair. Rather, third-party time guides are intended to be used by non-franchised motor vehicle dealers (who do not have access to factory time guides or the resources provided to a dealership by a manufacturer, and who often have lower labor rates) and are intended to be used for performing non-warranty repairs (*i.e.*, repairs on older vehicles that are out of warranty). Because of this, third-party time guides often allot more time than a factory time guide does for performing the same labor operation.



However, the Act does not even require a dealer to use a time guide published by a third party. On the contrary, the Act merely says that dealers must be reimbursed based on the "time allowances" used by the dealer. Therefore, each dealer could create their own time allowances, which the Act would require a manufacturer or distributor to honor. As such, there would be no uniformity, predictability, or objectivity in the warranty reimbursement system if the Act passed.

Second, the Act incentivizes customer exploitation. Quite simply, the Act only provides one restriction to the time allowances a dealer may use. That is, the time allowance must be the same one used by the dealer "for similar non-warranty service work." Thus, for a manufacturer to reimburse a dealer in accordance with a time allowance, the dealer must first convince their retail customers to pay for the same time allowance. And the higher time allowance the dealer can get its customers to pay for non-warranty work, the more the dealer will be reimbursed for warranty work. This creates a race to the bottom, where dealers will try to charge customers as many hours as possible for a repair, even though the hours charged have no relation to the hours actually worked or any other objective measure.

Third, the Act only benefits dealers. The Act would doubtlessly multiply the amount of warranty reimbursement costs to manufacturers. And, the dealers alone will be the beneficiaries of the manufacturers' increased costs. For instance, the Act does not require dealers to pay their technicians—who actually perform the repairs—an amount commensurate with what the dealership receives from the manufacturer. Nor does the Act provide for any additional consumer protections.

For these reasons, and many more, Kia respectfully opposes the Act.

Thank you for your consideration.

Sincerely,

A handwritten signature in black ink that reads "Greg Silvestri". The signature is written in a cursive, flowing style.

Greg Silvestri
Vice President, Service Operations



CC:

Transportation Committee Chair

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