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February 2, 2024

Representative Jesse Sumner, Chair
House Labor and Commerce Committee

Senator Jesse Bjorkman, Chair
Senate Labor and Commerce Committee

RE: HB 233 || SB 144-Relating to rates and time allowances for required motor vehicle work

Dear Chairs Sumner and Bjorkman:

I am Les Nichols, and I am writing to support HB 233 || SB 144 in my capacity as the president of the Alaska Auto Dealers Association.

The AADA is a statewide association of both new franchise and independent used car dealers. We represent auto dealers across Alaska by promoting best practices, providing communication on the state of the automotive industry in Alaska, and representing dealers' concerns to our elected officials.

We, as new car dealers, advocate for consumers in Alaska in cases of factory recalls, service bulletins, warranty repairs, lemon law buybacks and goodwill repairs.

The franchise agreements that we signed are governed by federal anti-trust laws. We are not allowed to negotiate directly with manufacturers by association without being in violation of federal law. Individually we are each too small to have any weight in any individual negotiations with our manufacturers. For that reason, we must come to you when we see a need for state franchise law revision.

This bill is important to protect Alaskan businesses, workers, and consumers from the manufacturers practice of unilaterally discounting the amount of time they will pay dealers, and technicians for a warranty repair on a vehicle they produced. This problem is systemic and drives repair prices up on Alaskan consumers.

This legislation is similar to legislation that has been passed in: Illinois, Wisconsin, and Montana.

States with similar pending legislations are Iowa, Colorado, Arkansas, Tennessee, South Carolina, Louisiana, California, and Texas.

When a consumer comes to a new car dealership for a repair, dealership employees pull an estimate of the time it will take for a technician to complete the repair. In non-warranty repairs we use an industry time guide like All Data or Chiltons. That time is multiplied by the labor rate per hour, and the total is the price of the repair.

Manufacturers publish their own time guides which indicate how much time they will pay a dealership and technician for. For example, if a repair is estimated to take 3 hours and the shop rate is \$150 per hour the repair cost to a consumer is \$450. The practice of discounting time is when the manufacturer tells us that they will only pay us for 2 hours of that job, making their price for the job only \$300.

Technicians are paid on the book hours for the job. When the manufacturer discounts the time, they discount how much a new car technician can be paid. This practice results in many qualified and skilled Alaskan technicians refusing to work for new car dealerships as a protest to the manufacturers policy.

This bill only addresses one of the ways that manufacturers take discounts from their dealers.

Other areas that manufacturers force discounts on their dealers are:

- Discounts on labor.
- Discounts on parts.
- Discounts on the dealers' rental cars for covered repairs.
- Refusing to pay for diagnostic time.
- Refusing to pay for the time a technician's rack is unavailable while the manufacturer considers whether to authorize a repair or not.

Additionally, manufacturers require dealers to send our technicians to factory training. Dealers in our state report spending up to \$75,000 to complete factory training for each technician. We are required to pay the manufacturer for the training, the travel and room and board for our employees. We are required to purchase special tools and purchase regular image upgrades. To be compliant, we must also hire an employee whose entire purpose is to ensure that our warranty claims are submitted in exact compliance with the manufacturer's warranty guides that are hundreds of pages long. Many of these expenses are unique to new car dealerships and not required of independent facilities.

Finally, after all of this compliance and expense they will periodically charge us back for valid repairs on technicalities.

The result is that auto dealers historically average 2.2% return on sales. Compare that to other industries such as:

- Insurance 10-13%
- Real Estate 12-15%
- Legal services 7-10%

Auto dealers are typically in the same category as grocery stores in terms of our return on sales.

The low returns make the automotive industry difficult in our state. In the Fairbanks area 7 franchises have failed in the last 24 years. Including Cadillac, Daewoo, Hyundai, Kia, Mazda, Mercedes and Volkswagen. Kia failed to survive twice under different owners.

The heavy-handed unilateral discounting by the manufacturers hurts Alaskan consumers. If a dealer is no longer represented in a community, it becomes the consumers

responsibility to get the vehicle to a repair facility. Often that can mean sending a vehicle to Anchorage or Seattle at great expense.

To give you some scope of the problem Automotive News published an article Feb.27 2023 "Warranty Wars Billions At Stake As Dealers Go To State Capitols To Close The Pay Gap."

After Illinois instituted similar legislation manufacturers reported that 250 million in additional payments were made to dealers for warranty work. This shows that manufacturers were helping themselves to \$250 million a year in discount in that state alone. Dealers were powerless to stop this money grab until the state legislation passed.

We are asking legislators to ensure that manufacturers cannot unfairly shift the expense of their responsibilities to our local consumers by shorting dealerships and technicians for the time it takes to make a qualified repair.

Thank you for your consideration of HB 233 || SB144, we respectfully request your support in passing this important protection for Alaskans.

A handwritten signature in black ink, appearing to be 'Les Nichols', written in a cursive style.

Les Nichols, AADA President