

**The Florida Senate**  
**BILL ANALYSIS AND FISCAL IMPACT STATEMENT**

(This document is based on the provisions contained in the legislation as of the latest date listed below.)

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Prepared By: The Professional Staff of the Committee on Transportation

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BILL: CS/CS/SB 754

INTRODUCER: Transportation Committee, Banking and Insurance Committee, and Senator Bradley

SUBJECT: Certificates of Destruction

DATE: April 4, 2014

REVISED: \_\_\_\_\_

	ANALYST	STAFF DIRECTOR	REFERENCE	ACTION
1.	<u>Matiyow</u>	<u>Knudson</u>	<u>BI</u>	<u>Fav/CS</u>
2.	<u>Everette</u>	<u>Eichin</u>	<u>TR</u>	<u>Fav/CS</u>

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**I. Summary:**

CS/CS/SB 754 revises the process for applying for a salvage certificate of title (salvage title) or a certificate of destruction (COD) on a total loss motor vehicle. The bill specifically requires the Department of Highway Safety and Motor Vehicles (DHSMV) to visually inspect rebuilt vehicles and issue an affidavit-of-compliance if repairs are needed, and if such repairs were made, the applicant must have a law enforcement agency confirm those corrections before issuing a certificate of title.

The bill also directs the department, on or by December 31, 2015, to assess and provide a summary report to the Governor, Senate President, and Speaker of the House of their findings regarding certificates of title and affidavits-of-compliance process.

The bill adds several definitions in relation to certificates of destruction, plus explicitly defines a "late model vehicle" to mean an automobile seven years or newer. The bill raises the 80 percent repair-to-value COD threshold to 90 percent, and limits its application to late model vehicles with a value of at least \$7,500 just prior to sustaining the damage resulting in total loss.

The bill further creates a new valuation standard where all other vehicles would be issued a COD if the value of the vehicle after the total loss:

- Is damaged, wrecked or burned to the extent that the only residual value of the vehicle is as a source of parts or scrap metal; or
- Comes into this state under a title or other ownership that indicates that the vehicle is non-repairable, junked, or for parts or dismantling only.

## II. Present Situation:

### Total Loss

Florida law<sup>1</sup> defines a motor vehicle (vehicle or mobile home) as a “total loss” when:

- An insurance company pays the vehicle owner to replace the wrecked or damaged vehicle with one of like kind and quality or when an insurance company pays the vehicle owner upon the theft of the vehicle; or
- An uninsured vehicle is wrecked or damaged and the cost, at the time of loss, of repairing or rebuilding the vehicle is 80 percent or more of the cost to the vehicle owner of replacing the wrecked or damaged vehicle with one of like kind and quality.

However, the vehicle owner and the owner’s insurance company may reach an agreement to repair, rather than replace, the vehicle. In this case, the vehicle is not considered a “total loss,” unless the actual cost to repair the vehicle to the insurance company exceeds 100 percent of the cost of replacing the vehicle with one of like kind and quality.<sup>2</sup> If the cost to repair does in fact exceed 100 percent of the replacement cost, the vehicle owner must request that the DHSMV brand the vehicle’s certificate of title with the words “Total Loss Vehicle.”

### Salvage Titles

The purpose of a salvage motor vehicle title is to indicate that a vehicle has been severely damaged or declared a total loss at some point in its history, and to provide a traceable record for such vehicles when their titles have been surrendered. Before disposing of or selling a total loss vehicle, the owner or insurance company is usually required to apply for some type of a salvage motor vehicle title. In such cases, the certificate of title is submitted to the respective state’s titling agency. Depending on the state and level of damages, the vehicle may be designated rebuildable or unrebuildable and thereby receive the appropriate title designation. If the vehicle is deemed rebuildable, some states, including Florida, allow it to be repaired, inspected, and ultimately returned to the road. If the vehicle is deemed unrebuildable, the vehicle must be destroyed or dismantled.

Typically, the insurance company has its own procedure for the disposition of rebuildable or unrebuildable total loss vehicles. In Florida, many insurance companies have an agreement with a motor vehicle auction<sup>3</sup> company to acquire, apply for the title of, and sell, the vehicle. The auction company charges a fee to the insurance company, for their services. Buyers at an auto auction must be licensed motor vehicle dealers,<sup>4</sup> and may include salvage motor vehicle dealers who are defined in Florida law as, “any person who engages in the business of acquiring salvaged or wrecked motor vehicles for the purpose of reselling them and their parts.”<sup>5</sup> In Florida, most buyers of rebuildable vehicles are auto dealers, or exporters. Buyers of unrebuildable vehicles are primarily automobile dismantlers and recyclers.

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<sup>1</sup> s. 319.30(3)(a), F.S.

<sup>2</sup>s. 319.30(3)(a)2, F.S.

<sup>3</sup>s. 320.27(1)(c)4, F.S.

<sup>4</sup> s. 320.27(1)(c), F.S.

<sup>5</sup> s. 320.27(1)(c)5, F.S.

In Florida, a rebuildable designation is called a Salvage Title,<sup>6</sup> and an unrebuildable designation is called a COD.<sup>7</sup> Before a total loss vehicle may be acquired by a salvage motor vehicle dealer, the vehicle owner or insurance company must apply for a Salvage Title or a COD. Since 1989, Florida has utilized a percentage-based threshold to determine whether a total loss vehicle receives a Salvage Title or a COD.<sup>8</sup> When applying for a Salvage Title or COD, the insurance company must provide the DHSMV with an estimate of the costs of repairing the physical and mechanical damage. If the estimated costs of repairing the vehicle are equal to 80 percent or more of the current retail value of the vehicle, as established in any official used car or used mobile home guide, DHSMV is required to declare the vehicle unrebuildable and print a COD.

According to the DHSMV, during the last five years, Florida has issued 171,742 Salvage Titles, compared to 822,778 CODs.<sup>9</sup> An average of approximately 130,000 more CODs than Salvage Titles were issued annually. There is a \$2 fee for each Salvage Title, and a \$3 fee for each COD, both of which are deposited into the General Revenue Fund.<sup>10</sup>

### **Rebuilt Inspections**

Before a salvage motor vehicle dealer can resell a salvage motor vehicle, the salvage motor vehicle must go through a physical rebuilt inspection conducted by DHSMV. The purpose of the rebuilt inspection is to assure the identity of the vehicle and that all major component parts which have been repaired or replaced were legally obtained. The rebuilt inspection by DHSMV is not a road worthiness or safety inspection. After the rebuilt inspection, DHSMV affixes a decal to the vehicle that identifies the vehicle as a rebuilt vehicle.<sup>11</sup>

There is a \$40 fee for the initial rebuilt inspection, which is deposited into the General Revenue Fund. If a subsequent inspection is required, there is a \$20 fee, which is deposited into the Highway Safety Operating Trust Fund.<sup>12</sup>

### **Other States**

There is no federal law governing the salvage title process for all states. The result is considerable variation in state salvage title laws, processes, and nomenclature. The methods used to determine whether or not a vehicle is unrebuildable also vary, but similar to total loss methods, tend to be damage or theft driven. Such methods tend to be based on “non-repairable” criteria and include a narrative definition, or a value-based criteria which can include a specific damage-to-value threshold.

## **III. Effect of Proposed Changes:**

**Section 1** requires that when an applicant indicates on a certificate of title request form that a motor vehicle is rebuilt, the DHSMV shall visually inspect the vehicle. If, upon inspection, the

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<sup>6</sup> s. 319.30(1)(s), F.S.

<sup>7</sup> s. 319.30(1)(a), F.S.

<sup>8</sup> s. 17, ch. 89-333, L.O.F.

<sup>9</sup> Information on file with Banking & Insurance staff.

<sup>10</sup> s. 319.32, F.S.

<sup>11</sup> s. 319.14(b), F.S.

<sup>12</sup> s. 319.32, F.S.

department reasonably believe that the vehicle is not equipped as required by law, the department shall issue an affidavit of compliance and the applicant must make necessary repairs, then present the vehicle to a law enforcement agency for confirmation that any defect has been corrected pursuant to s. 316.6105, F.S.,<sup>13</sup> before a certificate of title may be issued for the vehicle. The bill also requires the title to state that the vehicle may have previously been declared a Total Loss Vehicle due to damages.

**Section 2** requires that DHSMV on or before December 31, 2015 shall provide a report to the Governor, the Senate President, and the Speaker of the House regarding certificates of title for rebuilt vehicles, recommendations for any legislation deemed necessary to address and correct any needed improvements to the process used to issue certificates of title for rebuilt motor vehicles. The summary report must include, but is not limited to, a review of the affidavits of compliance issued and submitted that evidence corrections made to rebuilt salvage motor vehicles, and data on crashes caused by defective rebuilt vehicles.

**Section 3** defines a “late model vehicle” to mean an automobile seven years or newer. The bill raises the 80 percent repair-to-value COD threshold to 90 percent, and limits its application to late model vehicles with a value of at least \$7,500 just prior to sustaining the damage resulting in total loss. The bill creates a new valuation standard where all other vehicles would be issued a COD if the value of the vehicle, based on any official used motor vehicle guide or valuation service, after the total loss:

- Is damaged, wrecked or burned to the extent that the only residual value of the vehicle is as a source of parts or scrap metal; or
- Comes into this state under a title or other ownership that indicates that the vehicle is non-repairable, junked, or for parts or dismantling only.

The changes in the bill will result in more salvage motor vehicle titles being issued than under current law, thus allowing for the potential of those vehicles to be rebuilt, sold and permitted back on the roads. Conversely, the bill will result in fewer CODs being issued, thus reducing the number of vehicles available to dismantlers and recyclers.

**Section 4** defines the following terms:

- An “airbag” to mean a motor vehicle inflatable occupant restraint system, including all component parts, such as the cover, sensors, controllers, inflators, and wiring, that is designed in accordance with federal safety regulations for a given make, model, and year of the vehicle.
- A “counterfeit airbag” to mean an airbag displaying a mark identical or similar to the genuine mark of a motor vehicle manufacturer without authorization from said manufacturer.
- The bill expands the definition of fake airbag to include counterfeit or nonfunctioning airbags.
- A nonfunctional airbag is defined to mean a replacement airbag that:
  - Was previously deployed or damaged;

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<sup>13</sup> In the event a law enforcement officer issues a traffic citation for a violation of or for the operation of a motor vehicle which is in an unsafe condition or which is not properly equipped as required, the law enforcement officer shall also issue an affidavit-of-compliance form.

- Has an electric fault that is detected by the vehicle airbag diagnostic system after the installation procedure is completed; or
- Includes any part or object, including, but not limited to a counterfeit or repaired airbag cover, installed in a motor vehicle to mislead the owner or operator of such motor vehicle into believing that a functional airbag has been installed.

The bill adds the acts of importing, manufacturing, purchasing, selling, offering for sale, and reinstalling to the current prohibitions of importing, purchasing, selling, or installing fake airbags or junk-filled airbag compartments. Any person who violates this subsection commits a felony of the second degree.<sup>14</sup>

**Effective Date:**

This act shall take effect July 1, 2014.

**IV. Constitutional Issues:**

A. Municipality/County Mandates Restrictions:

None.

B. Public Records/Open Meetings Issues:

None.

C. Trust Funds Restrictions:

None.

**V. Fiscal Impact Statement:**

A. Tax/Fee Issues:

None.

B. Private Sector Impact:

**Automobile Insurers** – Under the changes in this bill, insurers could receive more money for some of the total loss cars they sell at auction. Receiving more money for such vehicles would have a positive impact on an insurers lost costs which is a component when formulating rates.

**Salvage Part Dealers** – Salvage dealers will be negatively impacted by the changes in the bill. Currently only licensed salvage dealers can purchase COD vehicles. Potentially, the bill would allow an indeterminate amount of vehicles given a COD under the current threshold to be given a salvage title instead. If auctioned or sold, more groups such as auto dealers would be able to bid on or purchase such vehicles. As a result of more

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<sup>14</sup> [ss. 775.082](#), [775.083](#), and [775.084](#), F.S.

competition on salvage titled vehicles, salvage dealers could potentially end up paying more for the vehicles they use to sell scrap metal and parts from. An increase in costs in acquiring vehicles could increase costs and prices on used auto parts that are sold to the general public.

**Automobile Auctions** – Automobile auction companies should benefit from the changes in the bill. Generally, the more money an automobile sells for at auction the more money the auction company makes.

**C. Government Sector Impact:**

The DHSMV may have to inspect tens of thousands more “rebuilt” vehicles each year than under the current COD process. According to the DHSMV agency, analysis of such costs would be nominal.<sup>15</sup>

The DHSMV collects \$40 for each “rebuilt” inspection they perform, however there will be a \$1 decrease to general revenue for every \$2 salvage certificate applied for instead of a \$3 COD.

**VI. Technical Deficiencies:**

None.

**VII. Related Issues:**

Insurers opposed to the changes in the bill have voiced concerns about public safety with regards to rebuilt vehicles and the lack of a safety inspection before being allowed back on the roads.

**VIII. Statutes Affected:**

This bill substantially amends section 319.30 of the Florida Statutes.

**IX. Additional Information:**

**A. Committee Substitute – Statement of Substantial Changes:**  
(Summarizing differences between the Committee Substitute and the prior version of the bill.)

**CS/CS by Transportation on April 3, 2014:**

The CS requires the DHSMV, to visually inspect certain rebuilt vehicles and issue an affidavit-of-compliance if repairs are needed. Upon repair, a law enforcement agency must confirm corrections were made before a certificate of title may be issued.

The CS directs the department to provide a summary report to the Governor, Senate President, and Speaker after assessing the certificates of title and affidavits-of-compliance processes.

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<sup>15</sup> DHSMV 2014 Agency Legislative Bill Analysis (On file with Banking & Insurance staff).

The CS adds the term “valuation service” as an additional means to determine value of a late model vehicle.

The CS also:

- Defines airbag and certain types of airbags.
- Prohibits anyone to knowingly import, manufacture, offer for sale, or reinstall fake or junk-filled airbag compartments; provides penalty.

**CS by Banking and Insurance on March 19, 2014:**

- The CS defines “late model vehicle” to mean an automobile seven years or newer.
- The CS raises the 80 percent repair-to-value COD threshold to 90 percent, and only applies to late model vehicles with a value of at least \$7,500 just prior to sustaining the damage resulting in total loss.
- The CS applies the new valuation for COD to all other vehicles when such a vehicle:
  - Is damaged, wrecked or burned to the extent that the only residual value of the vehicle is as a source of parts or scrap metal; or
  - Comes into this state under a title or other ownership that indicates that the vehicle is non-repairable, junked, or for parts or dismantling only.

**B. Amendments:**

None.