

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.)

Prepared By: The Professional Staff of the Committee on Banking and Insurance

BILL: SB 754

INTRODUCER: Senator Bradley

SUBJECT: Certificates of Destruction

DATE: March 18, 2014

REVISED: _____

| | ANALYST | STAFF DIRECTOR | REFERENCE | ACTION |
|----|----------------|----------------|-----------|--------------------|
| 1. | <u>Matiyow</u> | <u>Knudson</u> | <u>BI</u> | <u>Pre-meeting</u> |
| 2. | _____ | _____ | <u>TR</u> | _____ |

I. Summary:

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 or mobile home. The bill removes the current 80 percent repair-to-value threshold that requires the Department of Highway Safety and Motor Vehicles (DHSMV) to declare a total loss vehicle unrebuildable and issue a COD.

Under the bill, a COD would be issued by DHSMV when a motor vehicle or mobile home:

- 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 law¹ 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

¹ s. 319.30(3)(a), F.S.

cost of replacing the vehicle with one of like kind and quality.² If the cost to repair does in fact exceed 100 percent of the replacement cost, the vehicle owner must request that 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 auction³ 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,⁴ 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."⁵ In Florida, most buyers of rebuildable vehicles are auto dealers, or exporters. Buyers of unrebuildable vehicles are primarily automobile dismantlers and recyclers.

In Florida, a rebuildable designation is called a Salvage Title,⁶ and an unrebuildable designation is called a COD.⁷ 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.⁸ 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 5 years Florida has issued 171,742 Salvage Titles, compared to 822,778 CODs.⁹ An average approximately 130,000 more CODs than Salvage

² s. 319.30(3)(a)2, F.S.

³ s. 320.27(1)(c)4, F.S.

⁴ s. 320.27(1)(c), F.S.

⁵ s. 320.27(1)(c)5, F.S.

⁶ s. 319.30(1)(s), F.S.

⁷ s. 319.30(1)(a), F.S.

⁸ s. 17, ch. 89-333, L.O.F.

⁹ Information on file with Banking & Insurance staff.

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.¹⁰

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.¹¹

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.¹²

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:

The bill revises the process for applying for a Salvage Title or COD for a total loss motor vehicle. The bill removes the 80 percent threshold that requires DHSMV to declare a total loss vehicle unrebuildable in order to print a COD. In doing so, the bill replaces the 80 percent threshold with the requirements that DHSMV print a COD when a motor vehicle or mobile home:

- 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.

Replacing a specific percentage-based threshold will result in a greater number of salvage motor vehicle titles being issued and thus allowing for the potential of those vehicles to be rebuilt, sold and permitted back on the roads.

Effective Date:

This act shall take effect July 1, 2014.

¹⁰ s. 319.32, F.S.

¹¹ s. 319.14(b), F.S.

¹² s. 319.32, F.S.

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 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. However, some insurers are worried the DHSMV inspection process for salvage title vehicles does not have any safety or roadworthiness standards.

Salvage Part Dealers – Salvage dealers will be negatively impacted by the changes in the bill. Currently only licensed salvage dealers can purchase COD vehicles. If the cars that would be auctioned as a COD under the current 80 percent threshold were all given a salvage title and auctioned, more groups such as auto dealers would be able to bid on those cars. As a result of more competition at auction, salvage dealers could potentially end up paying more at auction for the vehicles they use to sell parts from. An increase in cost at the auction 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 they have had to under the current COD process. According to the DHSMV agency analysis such costs would be nominal.¹³

¹³ DHSMV 2014 Agency Legislative Bill Analysis (On file with Banking & Insurance staff.)

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:

None.

VIII. Statutes Affected:

This bill substantially amends section 319.30 of the Florida Statutes.

IX. Additional Information:

A. Committee Substitute – Statement of Changes:

(Summarizing differences between the Committee Substitute and the prior version of the bill.)

None.

B. Amendments:

None.