

JERRY PETROWSKI

WISCONSIN STATE SENATOR

Senate Bill 658

December 1, 2021

Good morning Mr. Chairman and committee members and thank you for taking the time to hear Senate Bill 658. This bill was introduced at the request of the Department of Transportation (DOT) to assist them in addressing issues with a rapidly increasing number of individuals using Wisconsin wholesaler licenses. The department is responsible for the issuance and supervision of motor vehicle dealer licensees – which include motor vehicle wholesalers. Automobile wholesalers require a license in Wisconsin and are allowed to purchase and sell vehicles in bulk to retailers or other licensed dealers, but are prohibited from consigning vehicles to another dealer or selling to the general public.

Wisconsin has seen a significant increase in the number of wholesalers licensed in the state. In fact, from June 2018 to June 2021, the number of licensees has increased 650%. This increase in Wisconsin occurred at the same time many other states were placing stricter requirements upon their wholesale licensing processes.

Wisconsin currently has more than 1500 wholesale dealers, and 83% of these dealers are located within five warehouse facilities in Wisconsin. Wisconsin's current minimum facility requirements to receive a license are less restrictive than many other states and have allowed this business model to thrive in our state. As a result we have seen increases in fraudulent activity, such as wholesalers selling directly to consumers, selling without an inspection or buyer's guide, and sales of vehicles with a tampered odometer.

The abuse of the wholesale license has become a nationwide epidemic. The American Association of Motor Administrators (AAMVA) acknowledged this problem and published a best practice document which recommend many potential reforms for this jurisdiction license type.

Senate Bill 658 adopts many of these best practice recommendations and the reforms taken by other states. These are commonsense reforms, focused on strengthening consumer protections, include the following: limiting the number of wholesale dealers allowed in one physical location, requiring wholesalers to occupy their location and be available at posted hours, and requiring dealers to maintain a facility that is heated and electrified.

This bill will assist DOT's efforts to deal with bad actors while allowing long standing Wisconsin businesses to continue to operate. Thank you again for taking the time to hear this bill and I would be happy to answer any questions.

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JOHN SPIROS
State Representative • 86th Assembly District

**Testimony on Senate Bill 658
Senate Committee on Transportation and Local Government
Wednesday, December 1, 2021**

Thank you Chairman Petrowski and members of the Senate Committee on Transportation and Local Government for allowing me to submit testimony on Senate Bill 658, relating to wholesale motor vehicle dealer licensing.

This bill is a request of the Wisconsin Department of Transportation (DOT). DOT is responsible for issuing and supervising motor vehicle dealer licensees, including motor vehicle wholesalers, who in Wisconsin, require a license and are prohibited from consigning vehicles to another dealer or selling to retail buyers.

Wisconsin currently has more than 1300 wholesale dealers, a number that has increased by 650% from June 2018 to June 2021. More than 85% of these dealers are located within four warehouse facilities in Wisconsin. This increase in the number of dealers in Wisconsin has occurred simultaneously to when many other states started placing stricter requirements upon their wholesale licensing processes.

The abuse of the wholesale license has become a nationwide epidemic. The American Association of Motor Administrators (AAMVA) acknowledged this problem and published a best practice document which was consulted in drafting this legislation. DOT's Department of Motor Vehicles Dealer and Agent Section has also put together a slide show outlining what has been occurring in Wisconsin and the necessity for this bill.

The current minimum facility requirements have allowed this business model to thrive in our state, as well as the fraudulent activity that can be seen with it. SB 658 focuses on strengthening consumer protections by putting in place some simple provisions to limit the number of wholesale dealers allowed in one physical location, require wholesalers to occupy their location and be available at posted hours, and require dealers to maintain a facility that is heated and electrified.

Thank you again for allowing me to submit testimony in support of this bill.

Wisconsin Wholesaler Fraud

Kristina Boardman

WisDMV Administrator

Kristina.boardman@dot.wi.gov



December 1, 2021

1

What is a Wholesale License and what can you do with it?

- Buy and sell vehicles to other dealers only.

Current Wholesale Dealer Requirements

- A business office to maintain the books, records, and files necessary to conduct business
- A vehicle display lot adjacent to the business office, unless all vehicles offered for sale are displayed within the business building.
- Display a dealership sign

How did we get to this point?

2



3

Auto wholesale licenses to expire July 1, 2015

A state law enacted in 2014 and coming into force July 1 has left holders of automobile wholesale licenses facing a dramatic change in the way they do business — if they decide to stay in business in Indiana at all.

State Rep. Ed Soliday, R-Valparaiso, who chairs the Roads and Transportation Committee through which the bill passed, said the law is cleaning up an industry that had made Indiana "the laughing stock of the nation" in the area of wholesale car dealing.

4

Washington

BRIDAL OUTLET
WHOLESALE ONLY AUTO DEALERS

B1001 - B1002 - B1003 - B1004 - B1005 - B1006 - B1007 - B1008
B1009 - B1010 - B1011 - B1012 - B1013 - B1014 - B1015 - B1016
B1017 - B1018 - B1019 - B1020 - B1021 - B1022 - B1023 - B1024
B1025 - B1026 - B1027 - B1028 - B1029 - B1030 - B1031 - B1032
B1033 - B1034 - B1035 - B1036 - B1037 - B1038 - B1039 - B1040
B1041 - B1042 - B1043 - B1044 - B1045 - B1046 - B1047 - B1048

B1049 - B1050 - B1051 - B1052 - B1053 - B1054 - B1055 - B1056
B1057 - B1058 - B1059 - B1060 - B1061 - B1062 - B1063 - B1064
B1065 - B1066 - B1067 - B1068 - B1069 - B1070 - B1071 - B1072
B1073 - B1074 - B1075 - B1076 - B1077 - B1078 - B1079 - B1080

B1081 - B1082 - B1083 - B1084 - B1085 - B1086 - B1087 - B1088
B1089 - B1090 - B1091 - B1092 - B1093 - B1094 - B1095 - B1096
B1097 - B1098 - B1099 - B1100 - B1101 - B1102 - B1103 - B1104
B1105 - B1106 - B1107 - B1108 - B1109 - B1110 - B1111 - B1112

CATALYST

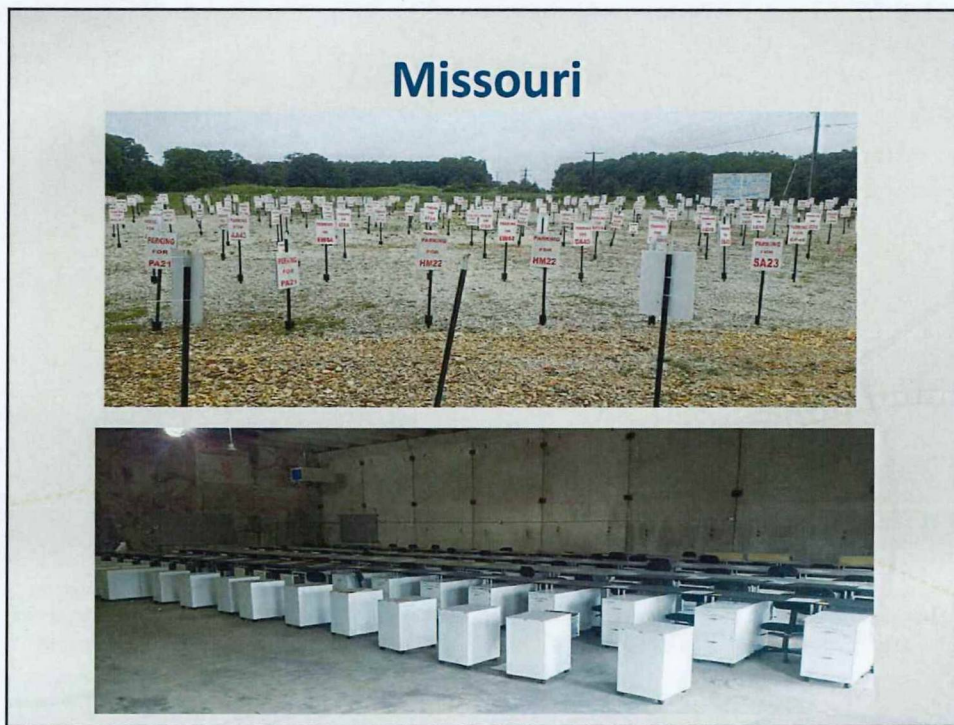
Numbers represent the business licenses of wholesale auto dealers renting space inside the offices of Suite B at 7207 Evergreen Way in Everett, Washington. There are 112 holders of wholesale auto dealer licenses and every one lives and operates in another state.

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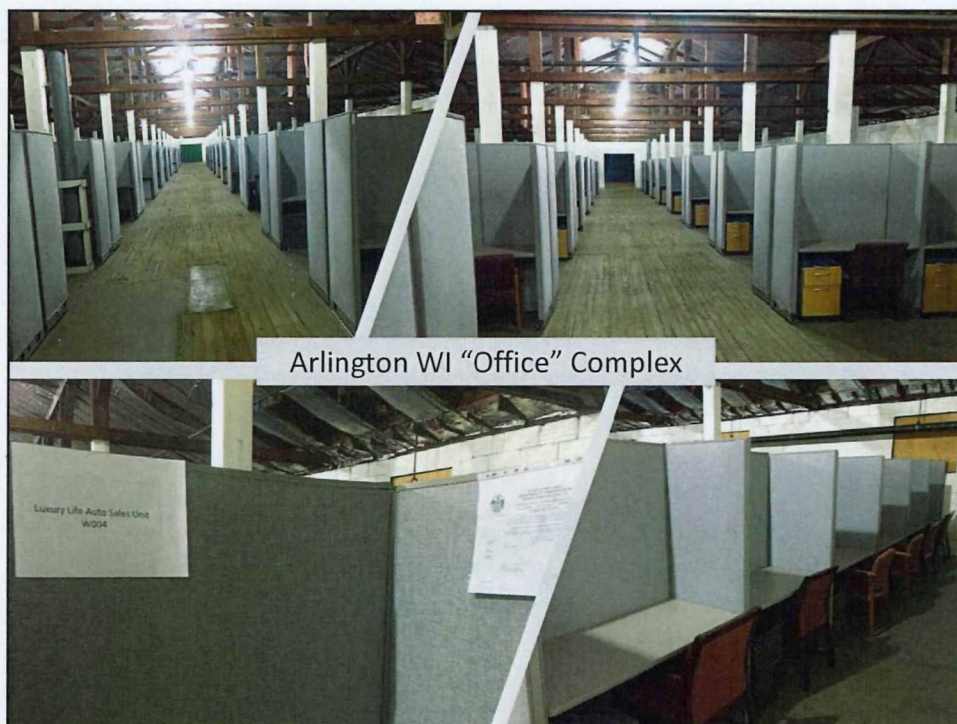
Washington

Washington will not issue wholesale
dealer licenses anymore as of July 1, 2017

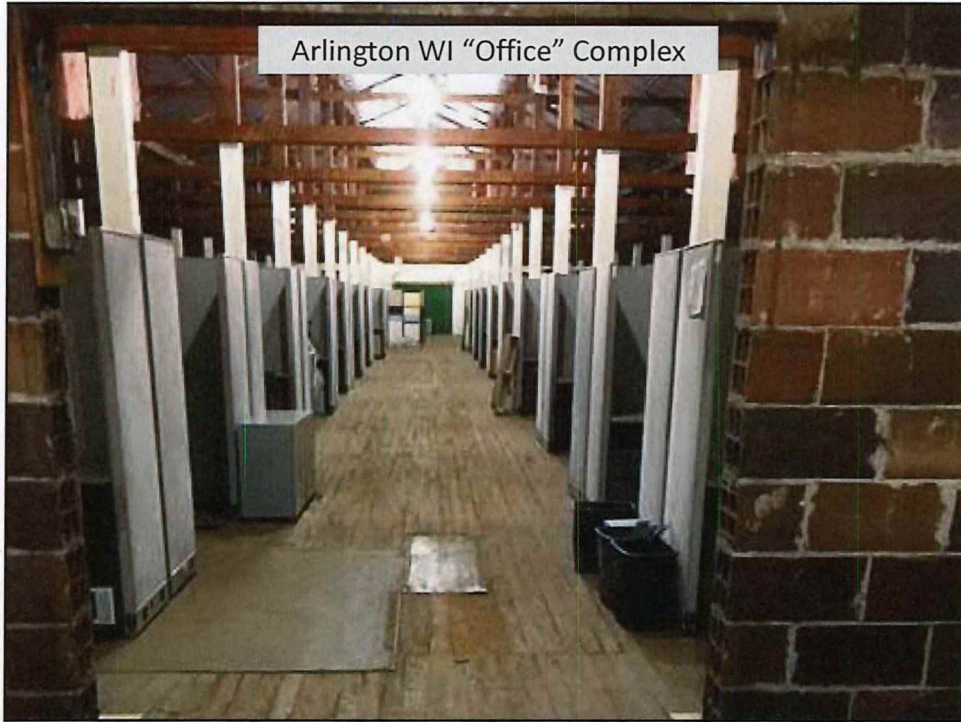
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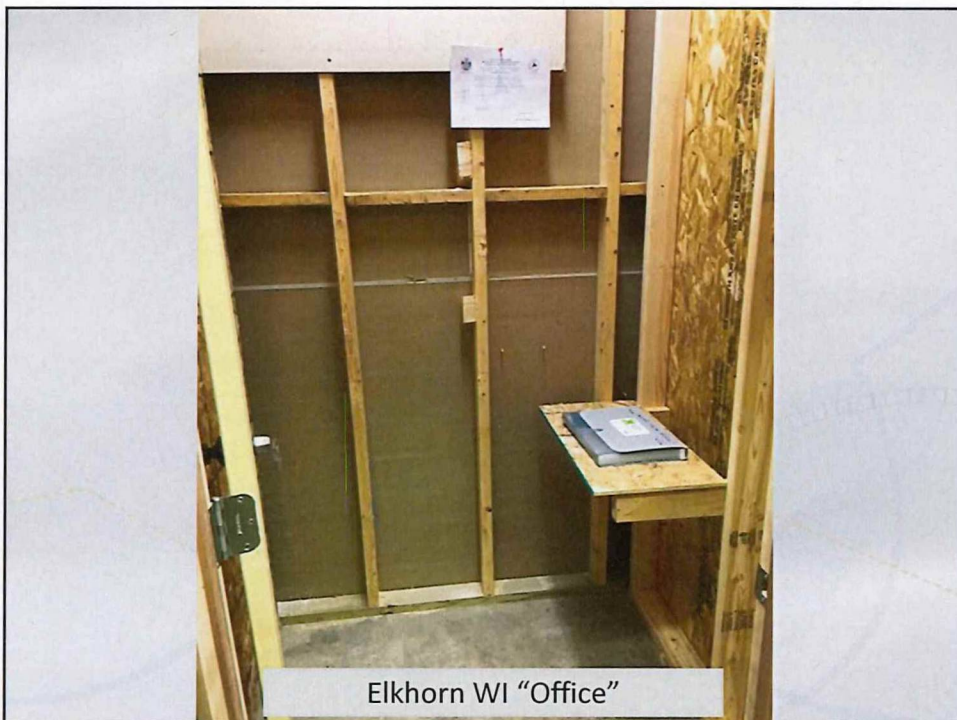
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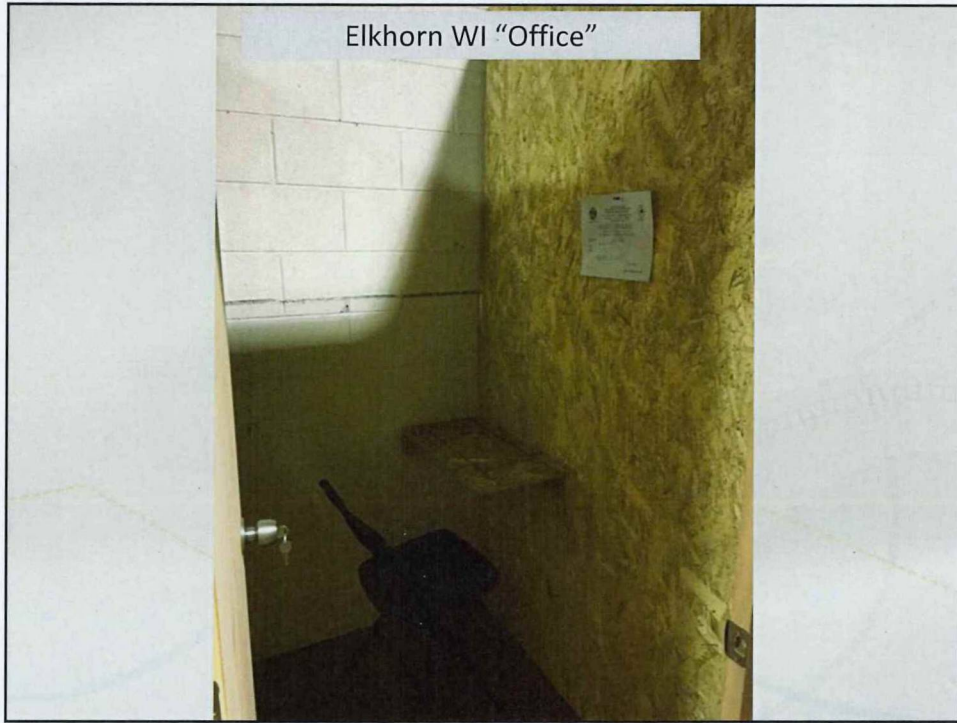
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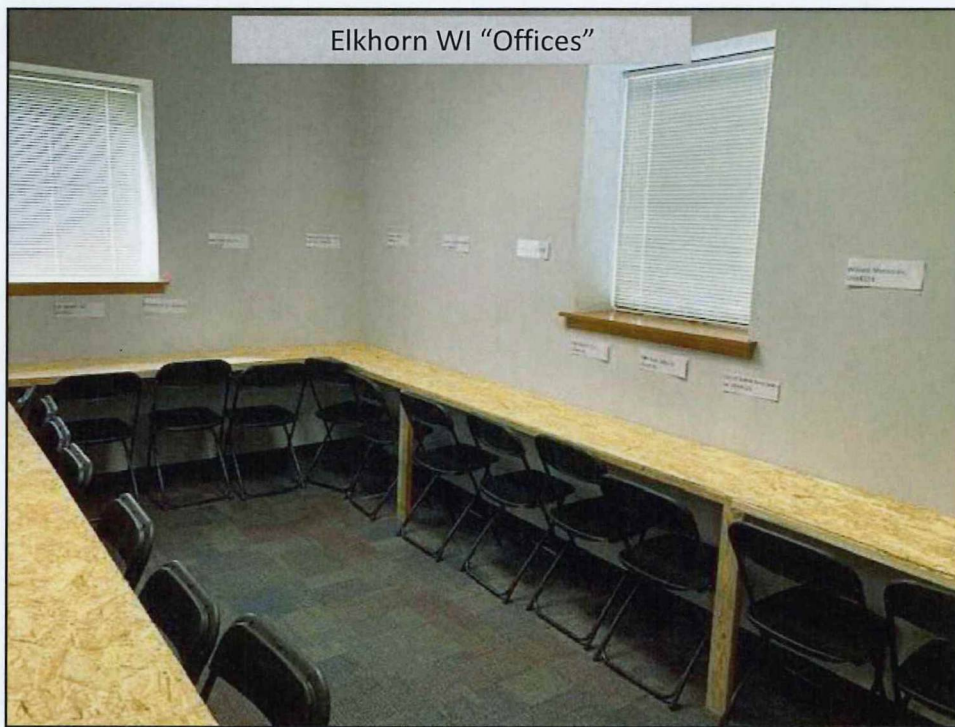
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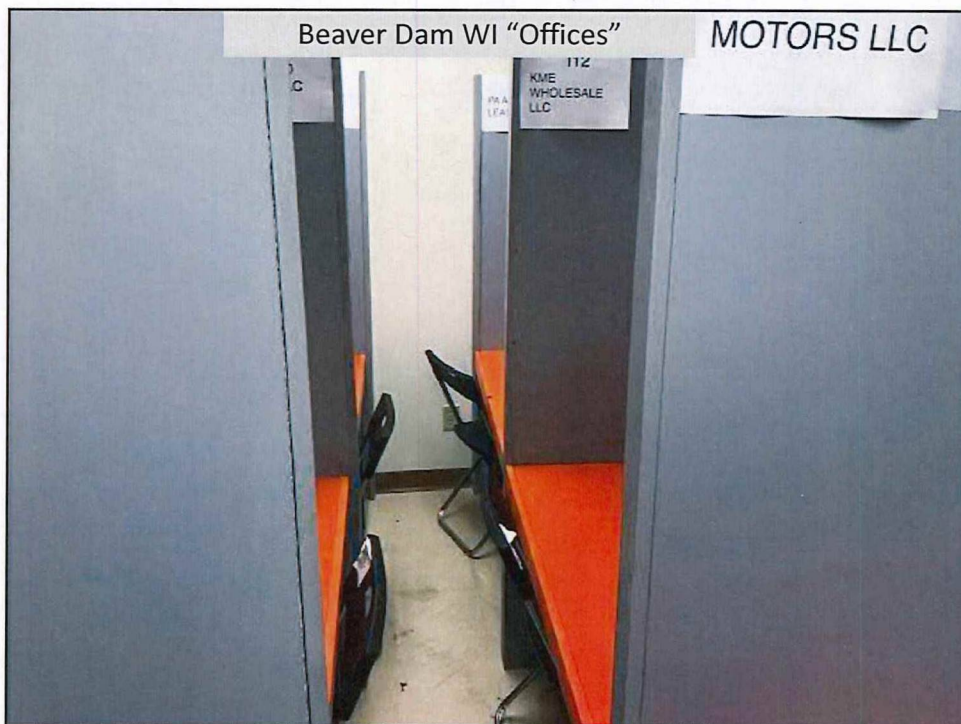
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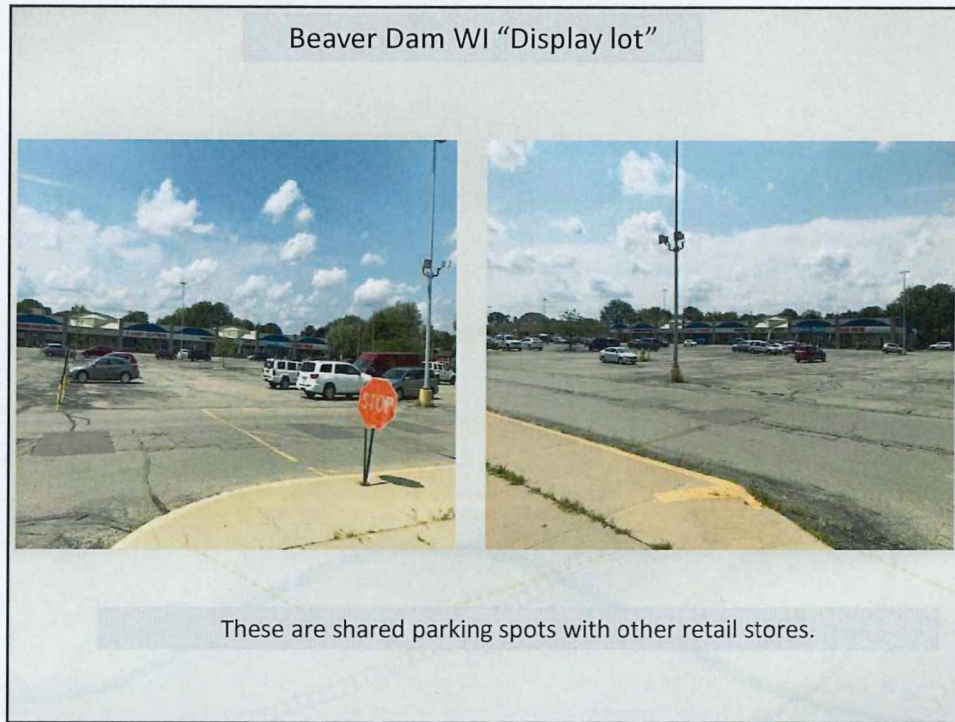
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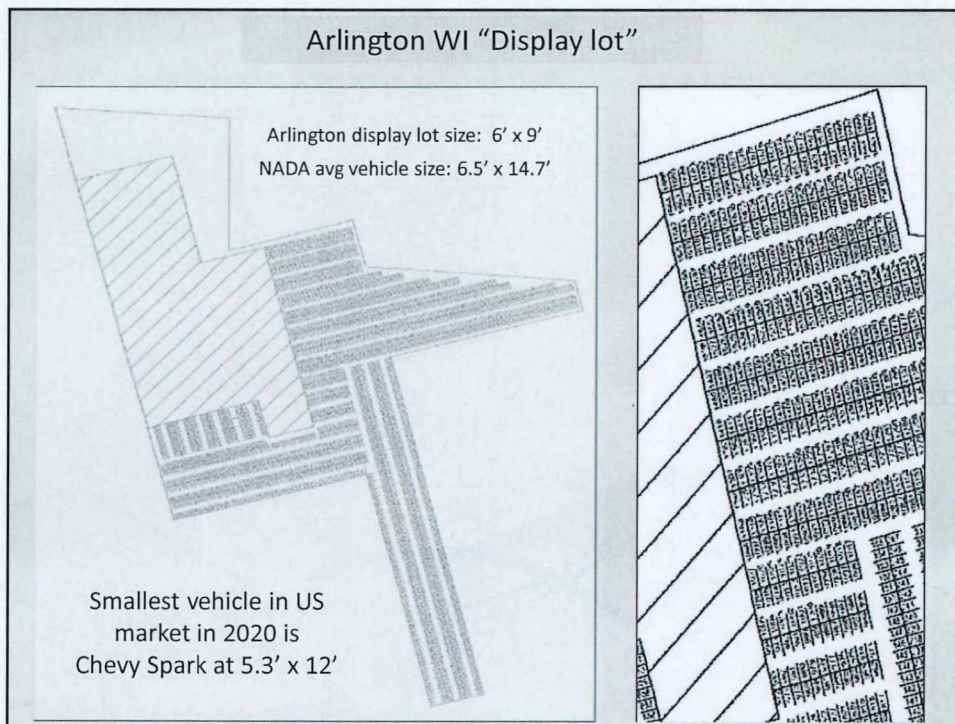
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14



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16

Wholesale Dealer Licenses	
Year	Issued
2012	8
2013	4
2014	10
2015	6
2016	19
2017	12
2018	21
2019	341
2020	536
1/1/2021 – 11/12/2021	848

As of today, there are 1,591 licensed wholesale dealers in the state of Wisconsin, and 1,251 of those are at five locations (953 in Arlington, 81 in Beaver Dam, and 293 spread across three Elkhorn locations).

264 wholesale dealers are at “non-centralized” locations.

17

Impact

Year	Number of revocations
2018	8
2019	13
2020	71
2021	77

Since 2018 wholesalers have committed a significant amount of odometer and title fraud

- 531 vehicles impacted
- 42,504,625 miles rolled back
- \$2,550,277 in consumer loss

These facilities regularly evict licensees for non-payment. While this is good for the integrity of the license, it creates a lot of work for the department.

- Each eviction creates 9.5 hours of work and costs \$189.07

Criminal activity is being perpetrated across with country with our Wisconsin license, as wholesalers sell illegally in and out of state.

18



To: Members – Senate Committee on Transportation and Local Government
Fr: LKQ Corporation
Re: Support for SB 658 - Motor Vehicle Dealer and Wholesaler Facilities and Licensure Requirements
Dt: November 30, 2021

LKQ Corporation (LKQ) is a leading provider of alternative and specialty parts to repair and accessorize automobiles and other vehicles. We currently have facilities in 47 states including Wisconsin. Our 12 Wisconsin facilities have 228 employees at salvage yards in Janesville, Hustisford and Milwaukee and distribution facilities in Appleton, Milwaukee and DeForest.

As a company that buys and dismantles thousands of junk and salvage vehicles daily, we place the utmost importance on public safety and consumer protection. It is imperative that the unsafe vehicles bought at salvage auctions are disposed of properly and do not end up back in the hands of an unknowing consumer.

That is why LKQ supports SB 658 and the Department of Transportation's (WisDOT) efforts to update and clarify the requirements on those who wish to hold a Wholesale Dealer License in Wisconsin.

Wholesale Dealers have operated in and worked with auto and salvage dealers in Wisconsin for decades. Salvage operators would routinely work with wholesaler dealers to obtain vehicles from auction. However, with the advent of technology most auto / salvage auctions have gone completely online and the demand for the wholesale dealers has diminished. That is why there were only a few hundred licensed wholesale dealers in Wisconsin - until recently.

Since 2018, Wisconsin has seen a dramatic spike in the number of licensed wholesale dealers in the state – growing from a few hundred to more than 1,500 today. More than 1,200 (or 83 percent) of these licenses are at three locations in Wisconsin – Elkhorn, Arlington, and Beaver Dam.

From data collected by WisDOT over the last few years, it is clear there are individuals taking advantage of Wisconsin's current wholesale dealer requirements by committing continued crimes and malpractice. Consumers in Wisconsin and across the country are becoming the victims of odometer fraud, title fraud and other types of criminal activity at the hands of licensed Wisconsin wholesale dealers.

These same licensed wholesale dealers can buy a vehicle from any auto auction in the country – including salvage auctions. That means they are buying damaged vehicles which are unsafe and not meant to be put back on the road.

Unfortunately, it seems unlikely that these unsafe, damaged vehicles are being disposed of properly. We do not know where the vehicles are going, but we know that they are not being sold to salvage operators for proper dismantling and disposal. It is possible that these unsafe vehicles are being cosmetically repaired, sold back to unknowing consumers, and then going back on the streets.

The problems Wisconsin is currently experiencing from wholesale dealers is not unique. Several other states have already experienced similar problems and have been forced to take legislative action. Many of these states have stopped issuing new wholesale dealer licenses, or simply eliminated the license completely.

Because states continue to see wholesale dealers committing various malpractices and crimes across the country, the American Association of Motor Vehicle Administrators (AAMVA) put together a "Wholesale Vehicle Dealer Licensing Whitepaper" in December 2019 which provides states some guidance to address the challenges that states may face with wholesale dealers. The requirements in SB 658 are modeled after that guidance and update and clarify the requirements for a wholesale auto dealer to operate in Wisconsin.

This bill will not eliminate the wholesale dealer license in Wisconsin. Individuals will still be able to obtain a Wisconsin wholesale dealer license under this legislation. However, we are confident that this legislation will stop the significant fraud and criminal activity currently happening at the hands of licensed Wisconsin wholesale dealers.

Senate Committee on Transportation and Local Government

December 1, 2021

Senate Bill 658

Regulation of Motor Vehicle Wholesale Dealers

On behalf of US Dealer Licensing and Wholesale Dealer License, Inc.

Testimony of Mike B. Wittenwyler

What is a wholesale dealer?

- With a wholesale dealer license, an individual can buy and sell vehicles at dealer-only auctions. Many auto auctions are closed to the general public and require a wholesale dealer license in order to attend the auction and purchase vehicles.
- Companies like Wholesale Dealer License, Inc. (wdlcorp.com) and US Dealer Licensing (usdealerlicensing.com) provide assistance to individuals seeking a wholesale dealer license.
- To start, these companies will walk the individual applicant through the dealer licensing process.
- The companies also then provide a state-approved physical address to rent, assist with any required paperwork, offer access to necessary bonding and insurance and continue to guide licensees on compliance matters.
- Within about 30 days, a company can help an individual obtain the wholesale dealer license and dealer license plates.
- Under Wisconsin law, a wholesale dealer license is required for anyone who sells, leases or negotiates any sales or contracts for five or more automobiles in a calendar year.
- With a wholesale dealer license, an individual can only buy and sell automobiles between other dealers.
- A wholesale dealer cannot sell to the general public.

What happened in 2021?

- Without a rulemaking, notice or hearing (or a change in state law), the Wisconsin Department of Transportation (“WI DOT”) announced that the agency was implementing changes to the wholesale dealer license application process beginning on January 1, 2021.
- The requirements now being enforced by WI DOT include:
 - A permanent business location with indoor office space.
 - An outdoor vehicle display lot adjacent to the business office. The minimum size of the vehicle display lot must be equal to the size of a standard parking stall, in accordance with local or county zoning requirements.
 - A \$25,000 surety bond or irrevocable letter of credit.

- Zoning and local permit approval for the location.
 - An outdoor sign showing business name.
 - A sign with your business hours posted on or next to the entrance door.
 - Posted notice that sales are restricted to licensed dealers only.
 - A valid lease for the business real estate during licensing period unless the license applicant owns it.
 - Fees for a two-year wholesale dealer license, dealer plate fee, and representative license fee.
 - An applicant must be at least 18 years old.
 - Applicants will need to attend a training course.
- In attempting to comply with these requirements, companies found that WI DOT was inconsistent in its guidance and frequently changing the standard when a company thought it had achieved full compliance.
 - For example, WI DOT was inconsistent on what size is a standard parking stall.
 - Even when municipal officials had not objected to a parking space size, WI DOT insisted that a company get full approval via a variance from a “standard” size.
 - At all times, WI DOT insisted it was not attempting to regulate these companies out of business.
 - Given the investment the companies were making in complying with each of the new requirements, they wanted to be assured that the businesses would be allowed to operate.
 - Provided that the companies are in compliance with the new requirements, WI DOT stated that the companies would be fine.

Why does 2021 Senate Bill 658 put these Wisconsin companies out of business?

- Senate Bill 658 adopts a number of provisions that would make it cost prohibitive to operate a company like Wholesale Dealer License, Inc. or US Dealer Licensing.
- SB 658 would essentially prohibit the business model without saying it is prohibited.
- Changes to state law in SB 658 include:
 - Doubles the bond amount from \$25,000 to \$50,000;
 - Requires dealers to maintain a facility that is heated and electrified;
 - Sets a required parking space size of 9 x 18 feet;
 - Requires that each dealer have a designated parking spot;
 - Prohibits more than five dealers from sharing a single building;
 - Establishes a minimum office size of 8 x 8 free with a door, walls, lighting and certain furnishings;
 - Requires minimum staffing and weekly hours of business; and,
 - Limits the use of dealer plates.

- The stated objective of the bill is consumer protection.
- None of the provisions in SB 658 advance that objective.
- How does parking space size stop fraudulent activity?
- If there are actually alleged abuses and the need for consumer protection, WI DOT should state what they are and propose changes that directly address the alleged problems.
- A more sincere policy debate would be whether Wisconsin wants to allow companies that enable wholesale dealer licensing.
- A dealer that wants to engage in fraud or other unlawful activity will still be able to do so under SB 658, just with a bigger parking spot, defined office space, etc.
- SB 658 does nothing to prevent or otherwise deter bad behavior.
- SB 658 does nothing to make a consumer safer.
- What SB 658 does is increase the cost of entry into the market and make the hypothetical bad actor spend more to commit the bad act.
- SB 658 will pick winners and losers in the marketplace.
- To get at any bad actors in the industry, legislation should target specific behaviors, give consumers recourse or develop a system to better track and penalize certain misbehaving wholesalers.
- SB 658 does not do any of that.

**Senate Committee on Transportation and Local Government
Public Hearing on SB 658
Testimony from the Concerned Auto Recyclers of Wisconsin
November 17, 2021
RE: Support for SB 658**

Chairman Petrowski and Members of the Committee:

Thank you for the opportunity to appear before you today to share with you our support for SB 658, which would clarify and update the licensure requirements of Motor Vehicle Wholesalers in the State of Wisconsin.

I'm Rob Koepf—The Vice- President of CARS and Owner of Morrison's Auto Parts located in Edgerton, WI. We have been in business since my Grandfather started it in 1958 and we employ over 70 people.

The Concerned Auto Recyclers of Wisconsin is a non-profit trade association established in 1959. We are Wisconsin's association for professionals in the automotive recycling industry and represent the interests of more than 50 auto recycling and salvage businesses in the State of Wisconsin. We work to promote our industry and educate our members in this evolving and sophisticated market. The auto recycling industry serves a vital role not only in reclaiming reusable auto parts and components but also by creating thousands of jobs across the state. Nationally, the automotive recycling industry employs over 140,000 people at more than 9,000 locations around the country. Generating \$32 billion in sales nationwide, the industry helps support many other industries like shipping, waste removal, forklift and heavy equipment, and towing.

We're here today to express our support for SB 658, which is a bill that simply updates and clarifies the requirements to be a licensed Motor Vehicle Wholesaler in the State of Wisconsin. While the need for wholesalers has diminished somewhat because most motor vehicle dealer auctions are now conducted online, which enabling dealers themselves to participate directly without the assistance of Wholesalers, it is important that integrity of the Wholesaler license remains intact. Based on the information we've obtained from the Department of Transportation, there are potentially thousands of new "Wholesalers" who are operating in a manner that was not intended under the law.

Wholesalers are only able to sell the vehicles they purchase to Licensed Dealers. Historically, Wholesalers supplemented Dealers inventory by attending auctions that Dealers couldn't or procured vehicles independently. Wholesalers had arrangements with particular Dealers and knew what they needed or traditionally looked for, again this was before auctions were held online. At that time, Wholesalers were required to have a place of business, hours of operation,

record keeping requirements, a parking lot to store the vehicles they purchase, etc. All the things you would expect to run a traditional business.

Since 2019, it appears most Wholesalers who have become licensed have tried to circumvent the requirements by packing hundreds of wholesalers in one building and only generally complying with the requirements of a Wholesaler. More importantly, we have no idea where they selling the vehicles that they buy? Do date, we do not have one member who has been approached to purchase a vehicle from any of these new wholesalers. The vehicles they are buying are severely damaged or need to be junked altogether. Most of these vehicles can only be dismantled, which can only be done by a licensed Salvage Dealer. So where are these vehicles going and who is buying them?

There are significant safety concerns related to what is happening with these damaged vehicles and environmental concerns related to how they are being stored.

SB 658 simply clarifies that if you're going to be a Motor Vehicle Wholesaler in the State of Wisconsin you need to operate like a regular business.

Thank you for listening to our testimony and we'd be happy to answer any questions.