CONNECTICUT AUTOMOTIVE RETAILERS ASSOCIATION

36 TRUMBULL STREET
HARTFORD, CONNECTICUT 06103

James T. Fleming | **Telephone: (860) 293-2500**
President | **Facsimile: (860) 527-2582**

James T. Fleming, President

Connecticut Automotive Retailers Association

before the

Committee on Banking, Housing and Urban Affairs

United States Senate

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Chairman Dodd, Ranking Member Shelby, and Members of the Committee:

My name is Jim Fleming. I am President of the Connecticut Automotive Retailers Association. We are comprised of approximately 300 members who collectively employ more than 14,000 people in jobs that pay good wages with benefits. Our dealer members are small businesspeople and entrepreneurs, many of whose families have been in the business for generations. Several of them are sitting behind me today. My testimony also reflects the views of the National Automobile Dealers Association and their 19,700 members.

We very much appreciate the fact that you are seeking the retail dealer's perspective today on the important issue of assisting the domestic automobile industry. What you end up doing or not doing will have just as much impact on us as it will on the manufacturers. If they go under, so do we. It is that simple.

You know how difficult times are - so do the small businesspeople that run the dealerships in this country. People are not coming into our showrooms and buying cars. Consumer confidence has evaporated. Sales are way, way down and dealerships are going under. In 2007, we had 325 new car dealerships in Connecticut. Now we have 300: a loss of 25 dealers in one year. Nationwide, nearly 700 mostly family owned new car retail businesses have closed in the last 11 months - that equates to some 20,000 newly unemployed women and men. Last year in Connecticut, our employees totaled about 15,000 in good jobs with benefits and retirement plans: now it is 14,300, down 700. That reduction equals $23 million in lost payroll.

Let me put a human face on this issue. Senator Dodd already knows this because he met with the small business people in Connecticut who run the dealerships. If you have not done the same, please do so before you vote on this issue. We are not Wall Street or Detroit: we are Main Street in East Hartford or New Britain, Connecticut. Let me give you just one example of what has been happening as our dealers head into this holiday season. A Connecticut dealer who sells domestic and foreign brands and has been in the Hartford area for three generations has told me the following:

- In the last month, thirty customers walked through his doors and all were interested in purchasing a new car. Normally, most of those customers would have qualified for credit, but banks are so squeamish – they couldn't get financed. <u>*Thirty sales were lost*</u>.
- The dealer had no alternative but to cut back. He has had to lay-off 30 employees, fully ten percent of his workforce. That's $1 million in payroll lost to those workers and their

families. It's also a loss in revenue to the government of $200,000 through payroll, Social Security and Medicare taxes that now won't be paid.

- This dealer has also essentially wiped out his advertising budget, slashing $1 million in that line item for the next year. What will the Ad firm do? I think cut back as well. The local newspapers, radio and television stations will feel those cuts, and they, too, will cut back or lay-off employees as a result. Auto advertising accounts for almost 35% of the revenue to the local networks in our state. In many cases it is now down to single digits.
- This dealer has also reduced his inventory, compounding the problems that Detroit is having. He is buying fewer cars from the manufacturers. That also means less in sales tax revenue to the state in the future. I might add that we traditionally sell $9 billion in vehicles in Connecticut, with the state receiving hundreds of millions of dollars in sales tax revenue; car sales alone account for 17% of the state sales tax.   With fewer vehicle sales, there is a ripple effect: fewer mechanics, fewer orders for parts or tires, and fewer shipments of these parts by FedEx or UPS.

Members of the Committee, this is NOT a bailout bill for Detroit or Wall Street. This is about investing in the future of our small towns and businesses, in the economies and budgets of our state governments, and ultimately, in the overall welfare of our country.

So, I guess the question is: will you help the industry? There are two possible answers to this, a "no" or a "yes". Saying "maybe" really means "no" - taking no action or allowing bankruptcy will have very real implications for the people who you represent back home. Members of the Committee: I served in public office for 28 years in Connecticut as a state senator and member of the Governor's cabinet. I know what it is like to cast tough votes and make difficult decisions. The right thing to do here is to provide the bridge loans to the manufacturers.

If you say "no," then here is the bottom-line: If GM, Ford or Chrysler go bankrupt, our members who retail those cars will also go under. There is just no doubt in my mind about that. Most consumers will *not* buy a car made by a bankrupt company. The brand will be tainted and consumers will lack confidence that there is anyone standing behind the product or warranty. The retail dealership system for any bankrupt brand will collapse. Consumer choice will be drastically limited as to the choice of new automobiles and the distance needed to travel for service and warranty work will increase dramatically. Banks will not have confidence to deal with franchised dealers if the risk is too great or the rules are abruptly changed.

If you say "yes" to some type of financing package for the manufacturers, it will give us time to ride out this economic tsunami. You are right to demand to know how the funds will be used and to assure accountability with public funds. James Madison said that "if men were angels we would not need government". Well men are not angels, so put their feet to the fire, and hold these gentlemen and their boards accountable; impose timelines, make sure the people's funds are properly handled, and push them to produce more efficient vehicles. The people I represent, the 300 dealers and their 14,000 employees, will sell them to the public. But do the right thing here and support this legislation. A resurgence of the automobile industry is necessary for a recovery of the overall U.S. economy. So hold the industry accountable. But be sure that you leave a well-capitalized, financially sound dealer network in place, as it is essential to the success of every automobile manufacturer, especially a manufacturer facing economic challenges.

Franchised dealerships are independent, mostly family-owned businesses, not the “company owned” stores that many other retail industries employ. As such, it is the dealer – and not the manufacturer – that invests in the land, buildings, equipment, computers, tools, personnel, training, advertising and promotions, and good will necessary to sell and service vehicles. Through these multimillion dollar dealer investments – $11.3 million per dealership on average – manufacturers are able to externalize virtually all of the costs associated with establishing and maintaining their national retail distribution network.

A key element in preserving a strong dealer network is maintaining the current state franchise laws; stability in the automotive industry cannot be found by altering them. The pre-emption or suspension of state franchise laws would further threaten the economic stability of Main Street and further erode the national infrastructure essential to the recovery of troubled manufacturers. If the manufacturers are empowered to ignore these statutes, they will act precipitously to the detriment of the dealers and the local communities they support. The consequences of wholesale dealer terminations would include closed businesses, terminated employees, increased foreclosures, and idle real estate, thereby deepening the current recession and threatening even the dealerships that the manufacturers would designate for survival.

Moreover, even in the absence of the this type of actual manufacturer abuse, any elimination or suspension of the state franchise laws would operate to increase the cost of the capital that is needed for the efficient distribution of vehicles. Dealer investments are premised on the existence of franchise law protections. If the franchise laws were not present to protect those investments, the investments would carry more risk. And that risk, in turn, would command a risk premium. Indeed, publicly traded auto retailers routinely disclose the possible repeal of state franchise laws as a risk factor in their public filings. If those laws were in fact to be removed, that risk would mature into a reality and the capital investment markets would respond accordingly. Existing capital would seek safer havens, and the cost of attracting new capital would rise. While this would be very visible in the public capital markets, the same phenomenon would play out in the private capital arena as private dealers made decisions where to place their resources. And these increased costs would have to be paid somewhere in the overall industry value chain. Thus, far from saving manufacturers anything, the removal of the state franchise laws would actually raise their costs of operation.

Think carefully about the value that the dealer franchise network provides. Keep it healthy and intact. The American dealerships absorb massive costs to market, sell, finance, distribute and service the vehicles produced by the manufacturers. The buildings, service bays, the very signs on Main Street for GM, Chrysler, Jeep, and Ford are paid for by the dealers. The American public makes two big purchases - homes and cars. They want to eyeball the person who sells them a car, not some computer screen or massive corporate entity. When they have a problem they want to go to the local business and have it resolved.

So what am I asking? Pass this legislation and do so soon. Help bring back consumer confidence in the automobile sector. You can play a major role in doing that by saying “yes” to an assistance package for the industry that will provide bridge loans for the domestic automobile manufacturers and includes elements to stimulate business on Main Street right now:

- Allow a temporary deduction of interest on consumer new auto loans and of the sales taxes on new vehicle purchases. Senators Mikulski and Bond have a bill, S. 3684, that would do this and I urge its swift passage.

- Enact a temporary expansion of the definition of a "small business" to provide dealers access to working capital through Small Business Administration loan guarantees.

- Provide for a temporary, refundable consumer tax credit for car and truck buyers.

- Fund state fleet modernization programs, often called "cash for clunkers" where consumers are given a direct incentive to upgrade older vehicles to more environmentally-friendly ones.

- Enact temporary increases in the expensing and depreciation of business vehicle purchases.

- Finally, ensure that the recently announced TALF initiative extends to floor planning loans or inventory financing for retail dealers.

Mr. Chairman, we appreciate the fact that you have included the retail automotive dealers in this discussion. I've just outlined specific steps that you could take that will help us ride out the current economic storm. The U.S. domestic auto industry hangs in the balance—and so do dealers and their local communities. Thank you.