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SENATE BILL NO. 1308

Offered January 9, 2025

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A BILL to amend and reenact §§ 46.2-1569.1 and 46.2-1571 of the Code of Virginia, relating to motor vehicle dealers; recall and warranty costs; right of first refusal.

Patron—McPike

Referred to Committee on Transportation

Be it enacted by the General Assembly of Virginia:

1. That §§ 46.2-1569.1 and 46.2-1571 of the Code of Virginia are amended and reenacted as follows:

§ 46.2-1569.1. Manufacturer or distributor right of first refusal.

A. Notwithstanding the terms of any franchise agreement, in the event of a proposed sale or transfer of a dealership, the manufacturer or distributor shall be permitted to exercise a right of first refusal to acquire the new vehicle dealer's assets or ownership, if such sale or transfer is conditioned upon the manufacturer's or dealer's entering into a dealer agreement with the proposed new owner or transferee, only if all the following requirements are met:

1. To exercise its right of first refusal, the manufacturer or distributor must notify the dealer in writing within 45 days of its receipt of the completed proposal notice for the proposed sale or transfer submitted as required by subdivision 3 of § 46.2-1569;

2. The exercise of the right of first refusal will result in the dealer's and dealer's owner's receiving the same or greater consideration as they have contracted to receive in connection with the proposed change of ownership or transfer; and

3. The manufacturer or distributor agrees to pay the reasonable expenses, including attorney's fees which do not exceed the usual, customary, and reasonable fees charged for similar work done for other clients, incurred by the proposed new owner and transferee prior to the manufacturer's or distributor's exercise of its right of first refusal in negotiating and implementing the contract for the proposed sale or transfer of the dealership or dealership assets. Notwithstanding the foregoing, no payment of such expenses and attorney's fees shall be required if the dealer has not submitted or caused to be submitted an accounting of those expenses within 30 days of the dealer's receipt of the manufacturer's or distributor's written request for such an accounting. Such accounting may be requested by a manufacturer or distributor before exercising its right of first refusal.

B. A manufacturer or distributor shall not exercise or enforce a right of first refusal if (i) the proposed sale or transfer is to a dealer licensed in the United States as a dealer holding a franchise from any manufacturer or distributor licensed as a manufacturer or distributor in the Commonwealth unless the manufacturer or distributor has a formal written program to increase the number of minority dealers and a minority dealer will obtain at least 51 percent ownership and control of the dealership's assets after the exercise of the right of first refusal consistent with subdivision 2 of § 46.2-1572 or (ii) the proposed sale or transfer of the dealership's assets involves the transfer or sale to a member or members of the family of one or more dealer owners, or to a qualified manager or a partnership, limited liability company, corporation, or other entity controlled by such persons.

C. The provisions of clause (i) of subsection B shall not apply to any manufacturer or distributor, together with any of its parents, subsidiaries or affiliates that as of January 1, 2019, (i) produced or distributed at least 1,000 motor vehicles in the immediately preceding 12 months, at least 51 percent of which had a gross vehicle weight rating of at least 16,000 pounds and (ii) was on January 1, 2019 a party, including that party's parents, subsidiaries and affiliates, to federal litigation arising from rights and obligations created by § 46.2-1569.1.

§ 46.2-1571. Recall, warranty, maintenance and sales incentive obligations.

A. Each motor vehicle manufacturer, factory branch, distributor, or distributor branch shall (i) specify in writing to each of its motor vehicle dealers licensed in the Commonwealth the dealer's obligations for preparation, delivery, recall, and warranty service on its products and (ii) compensate the dealer for recall or warranty parts, service, and diagnostic work required of the dealer by the manufacturer or distributor as follows:

1. Compensation of a dealer for recall or warranty parts, service, and diagnostic work shall not be less than the amounts charged by the dealer for the manufacturer's or distributor's original parts, service, and diagnostic work to retail customers for nonwarranty service, parts, and diagnostic work installed or performed in the dealer's service department; and the determination of compensation in accordance with the provisions of this section shall be deemed reasonable due to the substantial number of repair orders reviewed,

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59 ~~unless the manufacturer can show that the amounts are not reasonable.~~ All manufacturer or distributor
60 compensated parts, service, diagnostic work, updates to a vehicle accessory or function, or initialization or
61 repair of a vehicle part, system, accessory, or function performed by the dealer shall be subject to this
62 subsection. *Diagnostic work shall include all time spent by a dealer waiting and communicating with the*
63 *manufacturer's technical assistance or external manufacturer source in order to complete a warranty repair.*
64 Recall or warranty parts compensation shall be stated as a percentage of markup, which shall be an agreed
65 reasonable approximation of retail markup and which shall be uniformly applied to all of the manufacturer's
66 or distributor's parts unless otherwise provided for in this section. ~~If the dealer and manufacturer or distributor~~
67 ~~cannot agree on the recall or warranty parts compensation markup to be paid to the dealer, the markup shall~~
68 ~~be determined by an average of the dealer's retail markup on all of the manufacturer's or distributor's parts~~
69 *Compensation of a dealer for recall or warranty parts, service, and diagnostic work shall be determined by*
70 *an average of the dealer's amounts charged to retail customers for nonwarranty service, parts, and*
71 *diagnostic work as described in subdivisions 2 and 3.*

72 2. For purposes of determining recall or warranty parts and service compensation paid to a dealer by the
73 manufacturer or distributor, including body-shop repairs, only retail repair orders, or the retail portion of
74 repair orders containing retail and non-retail operations, shall be considered. For the purposes of this section,
75 "retail" does not include menu-priced parts or services, services and parts used in internal repairs paid by the
76 dealer, group discounts, special event discounts, special event promotions, and insurance-paid repairs.

77 3. Increases in dealer recall or warranty parts and service compensation and diagnostic work
78 compensation, pursuant to this section, shall be requested by the dealer in writing, shall be based on 100
79 consecutive repair orders or all repair orders over a 90-day period, whichever occurs first. If any portion of a
80 retail repair order includes amounts that are not retail, such portion shall be excluded. Compensation for parts
81 shall be stated as a percentage of markup that shall be uniformly applied to all the manufacturer's or
82 distributor's parts. *Compensation for parts used in a recall or similar repair shall be based on the highest*
83 *price of such part in the 12 months before the recall, technical or service bulletin, or similar repair is a*
84 *nnounced to dealers. If the manufacturer or distributor changed the parts number or similar designation of a*
85 *part, the price of such part established pursuant to this subdivision shall be determined by the price of such*
86 *part before such change.*

87 4. In the case of recall or warranty parts compensation, the provisions of this subsection shall be effective
88 only for model year 1992 and succeeding model years.

89 5. If a manufacturer or distributor furnishes a part to a dealer at no cost for use by the dealer in performing
90 work for which the manufacturer or distributor is required to compensate the dealer under this section, the
91 manufacturer or distributor shall compensate the dealer for the part in the same manner as recall or warranty
92 parts compensation, less the wholesale costs, for such part as listed in the manufacturer's current price
93 schedules. A manufacturer or distributor may pay the dealer a reasonable handling fee instead of the
94 compensation otherwise required by this subsection for special high-performance complete engine assemblies
95 in limited production motor vehicles that constitute less than five percent of model production furnished to
96 the dealer at no cost, if the manufacturer or distributor excludes such special high-performance complete
97 engine assemblies in determining whether the amounts requested by the dealer for recall or warranty
98 compensation are consistent with the amounts that the dealer charges its other retail service customers for
99 parts used by the dealer to perform similar work.

100 6. In the case of service work, manufacturer original parts or parts otherwise specified by the
101 manufacturer or distributor, and parts provided by a dealer either pursuant to an adjustment program as
102 defined in § 59.1-207.34 or as otherwise requested by the manufacturer or distributor, the dealer shall be
103 compensated in the same manner as for recall or warranty service or parts.

104 This section does not apply to compensation for parts such as components, systems, fixtures, appliances,
105 furnishings, accessories, and features that are designed, used, and maintained primarily for nonvehicular,
106 residential purposes. Recall, warranty, and sales incentive audits of dealer records may be conducted by the
107 manufacturer, factory branch, distributor, or distributor branch on a reasonable basis, and dealer claims for
108 recall, warranty, or sales incentive compensation shall not be denied except for good cause, such as
109 performance of nonwarranty repairs, lack of material documentation, fraud, or misrepresentation. A dealer's
110 failure to comply with the specific requirements of the manufacturer or distributor for processing the claim
111 shall not constitute grounds for the denial of the claim or reduction of the amount of compensation to the
112 dealer as long as reasonable documentation or other evidence has been presented to substantiate the claim.
113 The manufacturer, factory branch, distributor, or distributor branch shall not deny a claim or reduce the
114 amount of compensation to the dealer for recall or warranty repairs to resolve a condition discovered by the
115 dealer during the course of a separate repair requested by the customer or to resolve a condition on the basis
116 of advice or recommendation by the dealer. Claims for dealer compensation shall be paid within 30 days of
117 dealer submission or within 30 days of the end of an incentive program or rejected in writing for stated
118 reasons. *The manufacturer, factory branch, distributor, or distributor branch shall reimburse a dealer for*
119 *rental vehicles as required pursuant to subdivision B 5 within 30 days of when such costs are incurred by the*

120 *dealer, regardless of when the underlying warranty or recall claim is submitted.* The manufacturer, factory
 121 branch, distributor, or distributor branch shall reserve the right to reasonable periodic audits to determine the
 122 validity of all such paid claims for dealer compensation. Any chargebacks for recall or warranty parts or
 123 service compensation and service incentives shall only be for the six-month period immediately following the
 124 date of the claim and, in the case of chargebacks for sales compensation only, for the six-month period
 125 immediately following the date of claim. However, such limitations shall not be effective if a manufacturer,
 126 factory branch, distributor, or distributor branch has reasonable cause to believe that a claim submitted by a
 127 dealer is intentionally false or fraudulent. For purposes of this section, "reasonable cause" means a bona fide
 128 belief based upon evidence that the material issues of fact are such that a person of ordinary caution,
 129 prudence, and judgment could believe that a claim was intentionally false or fraudulent. A dealer shall not be
 130 charged back or otherwise liable for sales incentives or charges related to a motor vehicle sold by the dealer
 131 to a purchaser other than a licensed, franchised motor vehicle dealer and subsequently exported or resold,
 132 unless the manufacturer, factory branch, distributor, or distributor branch can demonstrate by a
 133 preponderance of the evidence that the dealer should have known of and did not exercise due diligence in
 134 discovering the purchaser's intention to export or resell the motor vehicle.

135 B. It shall be unlawful for any motor vehicle manufacturer, factory branch, distributor, or distributor
 136 branch to:

137 1. Fail to perform any of its recall or warranty obligations, including tires, with respect to a motor vehicle;
 138 2. Fail to assume all responsibility for any liability resulting from structural or production defects;
 139 3. Fail to include in written notices of factory recalls to vehicle owners and dealers the expected date by
 140 which necessary parts and equipment will be available to dealers for the correction of defects;

141 4. Fail to compensate any of the motor vehicle dealers licensed in the Commonwealth for repairs effected
 142 by the dealer of merchandise damaged in manufacture or transit to the dealer where the carrier is designated
 143 by the manufacturer, factory branch, distributor, or distributor branch;

144 5. Fail to fully compensate its motor vehicle dealers licensed in the Commonwealth for recall or warranty
 145 parts, work, and service pursuant to subsection A either by reduction in the amount due to the dealer or by
 146 separate charge, surcharge, or other imposition by which the motor vehicle manufacturer, factory branch,
 147 distributor, or distributor branch seeks to recover its costs of complying with subsection A, or for legal costs
 148 and expenses incurred by such dealers in connection with recall or warranty obligations for which the
 149 manufacturer, factory branch, distributor, or distributor branch is legally responsible or which the
 150 manufacturer, factory branch, distributor, or distributor branch imposes upon the dealer. Failure to fully
 151 reimburse a dealer for the cost to the dealer of a rental vehicle provided to a customer as required, offered,
 152 advertised as available, or agreed to by the manufacturer or distributor shall be considered a violation of this
 153 subsection. Failure to provide compensation consistent with this section to a dealer for assistance requested
 154 by a customer whose vehicle was subjected to an over-the-air or remote change, repair, or update to any part,
 155 system, accessory, or function by the vehicle manufacturer or distributor and performed at the dealership to
 156 satisfy the customer shall be considered a violation of this subsection;

157 6. Misrepresent in any way to purchasers of motor vehicles that warranties with respect to the
 158 manufacture, performance, or design of the vehicle are made by the dealer, either as warrantor or co-
 159 warrantor;

160 7. Require the dealer to make warranties to customers in any manner related to the manufacture,
 161 performance, or design of the vehicle;

162 8. Shift or attempt to shift to the motor vehicle dealer, directly or indirectly, any liabilities of the
 163 manufacturer, factory branch, distributor or distributor branch under the Virginia Motor Vehicle Warranty
 164 Enforcement Act (§ 59.1-207.9 et seq.), unless such liability results from the act or omission by the dealer;

165 9. Deny any dealer the right to return any part or accessory that the dealer has not sold within 12 months
 166 where the part or accessory was not obtained through a specific order initiated by the dealer but instead was
 167 specified for, sold to and shipped to the dealer pursuant to an automated ordering system, provided that such
 168 part or accessory is in the condition required for return to the manufacturer, factory branch, distributor, or
 169 distributor branch, and the dealer returns the part within 30 days of it becoming eligible under this
 170 subdivision. For purposes of this subdivision, an "automated ordering system" ~~shall be~~ *is* a computerized
 171 system that automatically specifies parts and accessories for sale and shipment to the dealer without specific
 172 order thereof initiated by the dealer. The manufacturer, factory branch, distributor, or distributor branch shall
 173 not charge a restocking or handling fee for any part or accessory being returned under this subdivision. This
 174 subdivision shall not apply if the manufacturer, factory branch, distributor, or distributor branch has available
 175 to the dealer an alternate system for ordering parts and accessories that provides for shipment of ordered parts
 176 and accessories to the dealer within the same time frame as the dealer would receive them when ordered
 177 through the automated ordering system. *Notwithstanding the provisions of this subdivision, the manufacturer,*
 178 *factory branch, distributor, or distributor branch shall not deny any dealer the right to return any part or*
 179 *accessory required by a recall, technical or service bulletin, or similar repair for compensation, and the*
 180 *manufacturer, factory branch, distributor, or distributor branch is prohibited from deeming such part*

181 *obsolete or nonreturnable by removing it from the current parts codes or catalogs; or*

182 10. When providing a new motor vehicle to a dealer for offer or sale to the public, fail to provide to such
183 dealer a written disclosure that may be provided to a potential buyer of the new motor vehicle of each
184 accessory or function of the vehicle that may be initiated, updated, changed, or maintained by the
185 manufacturer or distributor through over-the-air or remote means, and the charge to the customer at the time
186 of the new motor vehicle sale for such initiation, update, change, or maintenance. A manufacturer or
187 distributor may comply with this subdivision by notifying the dealer that such information is available on a
188 website or by other digital means.

189 C. Notwithstanding the terms of any franchise, it shall be unlawful for any motor vehicle manufacturer,
190 factory branch, distributor, or distributor branch to fail to indemnify and hold harmless its motor vehicle
191 dealers against any losses or damages arising out of complaints, claims, or suits relating to the manufacture,
192 assembly, or design of motor vehicles, parts, or accessories, or other functions by the manufacturer, factory
193 branch, distributor, or distributor branch beyond the control of the dealer, including, without limitation, the
194 selection by the manufacturer, factory branch, distributor, or distributor branch of parts or components for the
195 vehicle or any damages to merchandise occurring in transit to the dealer where the carrier is designated by the
196 manufacturer, factory branch, distributor, or distributor branch. The dealer shall notify the manufacturer of
197 pending suits in which allegations are made that come within this subsection whenever reasonably practicable
198 to do so. Every motor vehicle dealer franchise issued to, amended, or renewed for motor vehicle dealers in
199 Virginia shall be construed to incorporate provisions consistent with the requirements of this subsection.

200 D. On any new motor vehicle, any uncorrected damage or any corrected damage exceeding three percent
201 of the manufacturer's or distributor's suggested retail price as defined in 15 U.S.C. §§ 1231 -1233, as
202 measured by retail repair costs, must be disclosed to the dealer in writing prior to delivery. Factory
203 mechanical repair and damage to glass, tires, and bumpers are excluded from the three percent rule when
204 properly replaced by identical manufacturer's or distributor's original equipment or parts. Whenever a new
205 motor vehicle is damaged in transit, when the carrier or means of transportation is determined by the
206 manufacturer or distributor, or whenever a motor vehicle is otherwise damaged prior to delivery to the new
207 motor vehicle dealer, the new motor vehicle dealer shall:

208 1. Notify the manufacturer or distributor of the damage within three business days from the date of
209 delivery of the new motor vehicle to the new motor vehicle dealership or within the additional time specified
210 in the franchise; and

211 2. Request from the manufacturer or distributor authorization to replace the components, parts, and
212 accessories damaged or otherwise correct the damage, unless the damage to the vehicle exceeds the three
213 percent rule, in which case the dealer may reject the vehicle within three business days.

214 E. If the manufacturer or distributor refuses or fails to authorize correction of such damage within 10 days
215 after receipt of notification, or if the dealer rejects the vehicle because damage exceeds the three percent rule,
216 ownership of the new motor vehicle shall revert to the manufacturer or distributor, and the new motor vehicle
217 dealer shall have no obligation, financial or otherwise, with respect to such motor vehicle. Should either the
218 manufacturer, distributor, or the dealer elect to correct the damage or any other damage exceeding the three
219 percent rule, full disclosure shall be made by the dealer in writing to the buyer and an acknowledgement by
220 the buyer is required. If there is less than three percent damage, no disclosure is required, provided the
221 damage has been corrected. Predelivery mechanical work shall not require a disclosure. Failure to disclose
222 any corrected damage within the knowledge of the selling dealer to a new motor vehicle in excess of the three
223 percent rule shall constitute grounds for revocation of the buyer order, provided that, within 30 days of
224 purchase, the motor vehicle is returned to the dealer with an accompanying written notice of the grounds for
225 revocation. In case of revocation pursuant to this section, the dealer shall accept the vehicle and refund any
226 payments made to the dealer in connection with the transaction, less a reasonable allowance for the
227 consumer's use of the vehicle as defined in § 59.1-207.11. Nothing in this section shall be construed to
228 exempt from the provisions of this section damage to a new motor vehicle that occurs following delivery of
229 the vehicle to the dealer.

230 F. If there is a dispute between the manufacturer, factory branch, distributor, or distributor branch and the
231 dealer with respect to any matter referred to in subsection A, B, or C, either party may petition the
232 Commissioner in writing, within 30 days after either party has given written notice of the dispute to the other,
233 for a hearing. The decision of the Commissioner shall be binding on the parties, subject to rights of judicial
234 review and appeal as provided in Chapter 40 (§ 2.2-4000 et seq.) of Title 2.2. However, nothing contained in
235 this section shall give the Commissioner any authority as to the content or interpretation of any
236 manufacturer's or distributor's warranty. A manufacturer, factory branch, distributor, or distributor branch
237 may not collect chargebacks, fully or in part, either through direct payment or by charge to the dealer's
238 account, for recall or warranty parts or service compensation, including service incentives, sales incentives,
239 other sales compensation, surcharges, fees, penalties, or any financial imposition of any type arising from an
240 alleged failure of the dealer to comply with a policy of, directive from, or agreement with the manufacturer,
241 factory branch, distributor, or distributor branch until 40 days following final notice of the amount charged to

242 the dealer following all internal processes of the manufacturer, factory, factory branch, distributor, or
243 distributor branch. Within 30 days following receipt of such final notice, the dealer may petition the
244 Commissioner, in writing, for a hearing. If a dealer requests such a hearing, the manufacturer, factory branch,
245 distributor, or distributor branch may not collect the chargeback, fully or in part, either through direct
246 payment or by charge to the dealer's account, until the completion of the hearing and a final decision of the
247 Commissioner concerning the validity of the chargeback.

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