

Testimony of James Fleming of Simsbury, Connecticut
Joint Standing Committee on Transportation Public Hearing

State legislative Office Building,

Hartford, Connecticut

February 6, 2015

Good afternoon Representative Guerrero, Senator Boucher, Senator Leone, Representative ODea, members of the Transportation Committee, my name is James Fleming of Simsbury, Connecticut. I am a President of the Connecticut Automotive Retailers Association (CARA). CARA has 270 new car dealer members. Our members employ more than 13,000 employees in dealerships located in nearly every town and city in our state.

I am here to testify in opposition to SB 198 An Act Concerning The Purchase of Electric Vehicles and House Bill 6682 An Act Concerning The Licensing of New and Used Car Dealers.

Granting Tesla a corporate loophole is a Risky business and will circumvent longstanding consumer protections and jeopardize local businesses that have operated under these laws in good faith for over 40 years. Tesla is asking you ...Connecticut's lawmakers to pass a bill that would allow direct sales outside of the current franchise dealership model which has inherit and legal consumer protections.

Connecticut's car dealers have offered to sell Tesla vehicles like we do all other electric vehicles. But Tesla touts its renegade status, and at this point a consumer can buy a Tesla only from the manufacturer in California.

Some of you might remember the Yugo, the car from the '80s that was briefly all the rage? When the company went belly up, Yugo owners were left without a safety net. Since that time this legislature and state have developed and strengthened auto retail licensing and franchise laws so that this does not happen again.

When it comes to recalls, warranties, and securing the lemon law, dealers have been advocates for consumers whenever problems arise or car companies fail. The GM ignition switch recall and the collapse of SAAB are two recent examples in which dealers advocated for consumers. Recalls, warranty work and lemon law guarantees are an expense to a direct sell manufacturer owned retail store...not so to a franchised dealership.

More recently we recognize the names of Saturn, SAAB, Hummer – who expected these successful companies to collapse? Tesla wants to bend the rules while not reaching the same foundation of the three cars I just mentioned.

Tesla is a speculative company and I bring this up not to disparage them... I like the car... but to let you know they hold more potential risk than any other car maker to their business folding.

If Tesla folds tomorrow, there will be a few hundred people in Connecticut very disappointed, but the holders of most these cars are your wealthiest 1% and this is typically their 3rd or 4th car.

If Tesla grows like they predict and they offer a less pricey car, then 5 years from now you may see 20,000 cars on the road. Keep in mind 17,000,000 new cars were sold in the US over the last 12 months. What you should be concerned with is that if or when Tesla folds then, there will be significant damage to people who invested in these cars.

Why do we see this risk? Tesla has yet to earn a profit and has been heavily subsidized by government from the beginning to today, and further, their business finances continue to be supported greatly by a speculative stock price.

Here are the details behind that risk:

- In 2013, Tesla lost \$65M, this was their best year yet, they are not a profitable company. Their CEO Elon Musk recently mentioned 2020 as potentially their first profit year.
- Tesla has stated they are using customer deposits as a source of working capital in their operations. As of their September SEC filing, Tesla was holding \$227 million in customer deposits on future deliveries of autos. Financial disclosures describe these as \$2,500-\$5,000 customer deposits per vehicle for future vehicles to be built....so the balance would equate to roughly 45,000-90,000 new cars. In their SEC filing, they also said they expected to produce 35,000 cars in 2014 and that they had recently produced 1,000 in a week. In other words, Tesla is using customers' deposits to help fund their company, but they are not on track to produce the cars they have deposits for. In many cases consumers will not see vehicles for 12 months after a deposit. As the former commissioner of the Department of Consumer Protection for this state I find that very troubling and so should you.
- Tesla said in their 2014 annual report, "Our growth depends in part on the availability and amounts of government subsidies and economic incentives." Each Tesla earns between \$20,000 - 35,000 in Zero Emissions Vehicle (ZEV) tax credits that the company sells to other manufacturers. In 2013, Tesla sold \$129M ZEV credits. If you then add on state and federal credits, the subsidy nears \$50,000 for each car. The car retails at \$70K ...bare bones, but averages around \$100K for sale. The Tesla is actually a \$150,000 car when you add in

the government subsidy. So the car itself is not making the company any money, their best profit generation is through taking advantage of environmental credits. As policy makers you should be concerned about this in light of the bill before you.

- In 2013, Tesla issued \$450 million in new stock to pay off a \$465 million taxpayer-subsidized loan from the Department of Energy. Sounds good, but in turn, Tesla now owes the premium to Wall Street, not the federal government. Tesla has been pumping its stock through great marketing and excitement about the product, but that cash infusion will dry up if they don't meet Wall Street's expectations. Today, Ford trades at \$15, General Motors at \$33, Tesla at \$218. Ford and General Motors are making a profit. That even makes me, a fairly conservative former Republican Senate Majority leader; nervous ...it should make you all cringe.

I hope Tesla succeeds, it will be good for the promotion of the electrical vehicle market, but we cannot ignore the tremendous risk that the company carries. Again.... especially in light of the extra-ordinary special legislative loophole before you today that will grant them exemptions from our laws unlike that for any other auto manufacturers licensed to do business in this state.

Tesla makes a nice vehicle...I'm not so sure they really know how to sell them. Today, Tesla can work in the existing system in Connecticut and sell its cars here with no changes to the law. My guess is that they will sell more cars if they try that first.

Thanks you for your time and attention, I'm happy to take your questions.

