



Tennessee Collision Repairers Association

[www.tncollision.net](http://www.tncollision.net)

## NEWSLETTER

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### NEWS:

- **EPA** publishes National Standards for Hazardous Air Pollutants: Paint Stripping and Miscellaneous Surface Coating Operations at Area Sources. 40 CFR Part 63, EPA-HQ-OAR-2005-0526; FRL-8466-6, RIN 2060-AN21. See summary and comments on page 2.
- **Mitchell International** Mitchell Industry Report Shows Declining Effective Materials Rates on page 4.
- **State Farm** initiates Electronic Parts Purchasing in two Test markets...Story from Collision Week on page 6.
- **Presidents Report** page 10.
- **SCRS Survey Results and Related Article:** [Follow this link](#) or go to [SCRS Website](#) and see News Releases
- **Next Meeting:** Tennessee Technology Center at Jackson, McKellar-Sipes Regional Airport, Jackson, Tennessee. 6:30 meal, Meeting starts at 7:00.



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EPA:

***The following article describes the new EPA Regulations that will become effective soon. This regulation will have an impact on your business. If you do not now have an approved paint booth, now is the time to start shopping around. Other ramifications shown in the article can have an impact as well.***

## **EPA Completes Draft of Proposed Paint Regulation**

**Long awaited rule adds new requirements for spray booths, spray guns, ongoing training and annual reporting for every repair facility in the country.**

The U.S. Environmental Protection Agency (EPA) has posted the draft of its soon to be published regulation establishing new requirements for automotive refinish designed to reduce the emission of Hazardous Air Pollutants (HAPs) by the industry. The EPA is concerned with the release of toxic metal compounds that contain cadmium, chromium, lead, manganese and nickel. The rule establishes specific requirements designed to reduce the release of these HAPs that includes spray booth specifications, spray gun efficiency standards, gun cleaning procedures, reporting requirements and ongoing painter training for anyone who sprays coatings.

Not yet published in the Federal Register, the rule will first be subject to a 30 day public comment period before being finalized and made effective.

### **Rules Summary**

According to the draft, all shops will be responsible for meeting the following requirements:

1. Certify that all painters have completed hands-on training in the proper application of surface coatings. The training must cover specific items such as spray gun setup, surface prep, spray booth and filter maintenance, transfer efficiency, environmental compliance and more. Spraying coatings is prohibited by persons who are not certified, with an exception made for students learning to spray in an accredited program and supervised by an instructor who is certified according to these rules. Painters must be certified within 60 days of hire and recertified every five years. Training certification goes with the painter, not the shop.

2. Spray booths for the painting of entire vehicles are required to be fully enclosed with "four complete walls" and a "full roof" and a filter system fitted with polyester fiber or fiberglass filters (or equivalent) that is demonstrated to achieve at least 98 percent capture of paint overspray. The booth must also be ventilated at negative pressure. Prep stations for painting parts or vehicle subassemblies must have a full roof, at least three complete walls or complete side curtains, and must be ventilated so that air is drawn into the booth.

3. All spray-applied coatings must be applied with a high-volume, low-pressure (HVLP) spray gun, electrostatic application, or a technology with a transfer efficiency equivalent to an HVLP spray gun.

4. All paint spray gun cleaning must be done with either non-HAP gun cleaning solvents, or with a fully enclosed spray gun cleaner. Hand cleaning of parts with HAP-containing solvent is permitted but spraying solvent through the gun is prohibited. The EPA is proposing to allow two years from the date the rule is published for all shops to come into compliance with these rules.

### **The Cost to Shops**

In conducting its field research for this rule, the EPA found that training of the painter is essential in achieving a high rate of transfer efficiency. The regulator specifically noted the effectiveness of the Spray Technique Analysis and Research (STAR) program study which originated at the University of Northern Iowa Waste Reduction Center. It also noted similarly effective training by I-CAR and paint system manufacturers. The good news is that the EPA estimates that the proposed standards, though perhaps requiring some initial investment in equipment and training, will have no net annual cost to the shops. The EPA believes the initial cost of complying with the proposed standards would be offset and recovered over time by cost savings as a result of more efficient use of labor and materials. For example, the initial costs for training and more efficient spray guns would be more than offset by the savings realized through reduced paint consumption.

The estimated cost for training, the EPA estimates, is \$1,000 per painter, which covers tuition cost and labor cost for 16 hours of training time. Using census data, the EPA estimates that about 18,000 painters would need to be trained every year on an ongoing basis. Data from the STAR training programs indicate that painters who complete this training can decrease the amount of coating sprayed by about 20 percent per job. Doing the math, the EPA estimates that the cost of training over five years would be covered if the facility only reduced its coatings use by one percent. EPA estimates that about 5,000 facilities would need to purchase and install an enclosed spray gun washer at a cost of about \$1,800 for each facility. However, the EPA notes that this cost would be offset over time by reduced labor to clean spray guns and reduced costs for solvent purchase and disposal. Spray gun washers are automated and are also capable of reusing solvent to minimize solvent consumption and waste disposal.

The proposed standards specify that certain types of filters have to be used on the spray booth exhaust, and these filters are not addressed by current OSHA standards. Some shops may need to replace their current filters for ones with higher paint overspray capture efficiency, but the higher efficiency filters are readily available and will not result in an additional cost. The EPA estimates the annual cost for recordkeeping and reporting would only average about \$220 per

facility per year, however the EPA estimates that about 5,000 surface coating operations would need to install new spray booths to comply with the proposed standards. The Automotive Service Association (ASA) has been very involved, along with many other industry participants, with the EPA on the development of this rule. Bob Redding, ASA's Washington, D.C., representative said, "ASA leaders are reviewing the regulation and will submit comments within the formal comment period." © 2007 by CollisionWeek. All rights reserved

To view full text of this proposed regulation got to to the [TCRA Website](#) and click on Links then EPA.

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#### **MITCHELL INTERNAIONAL:**

***So you think you are charging enough for paint and material? The following article will show how some states are actually receiving less now than they were a year ago. Tennessee faired well in this survey due to rate increases across the state and shops not allowing a material cap, we actually had an increase.***

### **Mitchell Industry Report Shows Declining Effective Materials Rates** © 2007 by CollisionWeek. All rights reserved.

**Repairers suggest data may point toward impact of "paint caps" on the total materials charges paid by insurers. Rates change little as costs increase.**

The Winter 2007 edition of Mitchell International's Industry Trends report indicates that, despite the normal increase in collision repair facilities' materials costs, the effective materials rate earned by shops has declined. Some observers believe this counterintuitive trend may be the result of paint and materials rate caps or thresholds placed on estimates by the insurance industry.

Each quarter Mitchell International publishes their statistical industry report that identifies trends and patterns based on the data they collect through the processing of estimates produced or communicated through Mitchell products.

In their most recent report, Mitchell reports that the average effective materials rate, the total paint materials dollars charged on an estimate divided by total refinish labor hours for the repair, declined in many states during 2006 versus the previous year. This decline was recorded during a time when shops had experienced multiple refinish materials cost increases from suppliers.

The table below contains data drawn from page 22 of the Mitchell report. As the table indicates, collision repair facilities in 23 states and the District of Columbia experienced a decline in their effective materials rate according to Mitchell. The average decline across those 24 markets was \$1.56 per refinish hour. The largest decline was reported in Missouri where the effective rate in 2006 was \$25.11 according to Mitchell, versus \$29.14 in 2005- a decline of \$4.03 or 13.8 percent. Six states show declines of 10 percent or more in the effective materials rate.

What is your effective materials rate and cost?

If you would like to calculate the effective materials rate at your shop, [CollisionWeek](#) has developed a beta test edition of an online tool for subscribers to calculate their own cost per refinish hour as well as the effective materials rate received, and compare those over time, and to posted rates.

The system allows users to calculate their individual rates and costs based upon readily available annual cost and sales data covering a five year period. Users can supply as little or as much information as they desire and the application will generate automatic comparisons between the user's sales and costs.

According to Russell Thrall III, publisher of CollisionWeek, "We hope that by providing this functionality, repairers can gain a clearer picture of their cost structure and how it compares to their posted rates."

Thrall continues, "We would ask our subscribers to try this tool using their own data and provide us with feedback on any issues or improvements."

Increases were recorded in 27 states- averaging \$1.17 higher in 2006 versus 2005. The state with the largest increase was Minnesota, with a reported effective materials rate of \$30.70 in 2006 versus \$24.43 in 2005, an increase of \$6.27 or 25.7 percent. One other state, Rhode Island, showed an increase of more than 10 percent.

Separate research conducted by Quandec Corporation, Collision Week's parent, shows that the national average of refinish materials allowance rates have not materially changed during the period 2004-2006. In that study, the average materials allowance paid by the ten largest insurers that was reported by our respondents was \$25.21 in 2006 versus \$25.29 in 2004.

Given no movement in the average posted rates from 2004-2006 , and reported declines in the effective rate as shown in the Mitchell report covering 2005-2006, repair facilities will experience declining profits without substantial efficiency gains.

Shop operators contacted for reaction to this story have confirmed that refinish materials rates have been relatively flat during the past two years, while they have experienced cost increases from 12-15 percent during that time period.

The data from Mitchell could be a validation of the suspicion that paint caps and thresholds are playing a bigger role as costs increase. According to Dan Risley, executive director of the Society of Collision Repair Specialists, "With the fact that there are caps, or thresholds, that still exist in the industry, when you're seeing the effective rates starting to drop, I think that is more indicative of people hitting the cap or the threshold more frequently than years gone by."

"The number of people complaining about paint caps is on the rise. I have not seen that number declining by any stretch of the imagination," Risley noted in a telephone interview, while indicating that the rise in both costs and complaints seems to leave little other explanation for a declining materials rate. "Shops certainly aren't charging less on their refinish dollars per hour. Nobody has asked for a decrease, I can assure you of that."

**STATE FARM:**

*The following article outlines the latest in State Farm's efforts to get into our business. While on the face, it does not appear to be a problem, it could open the door. We'll see what happens in these test markets.*

## **State Farm to Test Electronic Parts Ordering through Select Service** © 2007 by CollisionWeek. All rights reserved.

**State Farm on Friday 21 September 2007 released initial details of long rumored test of parts ordering program.**

State Farm announced Friday that it will begin testing an "enhanced automotive parts process" during the fourth quarter of this year in two local markets. The test does not change the financial or business relationships the participating repair facilities currently have with their parts supplier, providing the supplier signs on to participate with the electronic system.

According to George Avery, a State Farm claim consultant, State Farm will begin a limited market test of the process with Select Service repair facilities and their vendors in both the San Diego, CA and Indianapolis, IN markets using electronic parts-ordering systems from several vendors.

The test will be limited to OEM crash parts as State Farm states it continues to evaluate its position regarding the specification of aftermarket crash parts and will maintain its current policy of not specifying aftermarket crash parts during this test. However, the company continues to believe that "policyholders benefit when repairers have access to all sources of quality collision repair parts."

According to Avery, "The initial steps in creating the process include building business relationships with part manufacturers, suppliers and electronic ordering system providers for auto parts. It involves electronic ordering and the application of an OEM provided discount. Repair facilities will still purchase parts from who they want and it does not involve their parts profit."

State Farm will test repairers' use of electronic parts-ordering systems that provide access to vehicle information and help increase order accuracy and efficiency. The company believes this new approach will improve both the repair and estimating process.

"While we recognize that this will represent change for the repair industry, it is important to continuously look for ways to create efficiency in the process and provide value for our policyholders and shared customers," said State Farm Claim Consultant George Avery. "As this process developed, we asked for and considered input from members of the collision repair industry. We believe Select Service repairers will have an enhanced ability to obtain quality parts that allows

them to provide customers with the best combination of quality, efficiency and competitive price. And as always, our customers are free to choose which repairer will fix their vehicle.”

Avery and State Farm spokesman Dick Luedke both stressed the distinction that they are testing, not piloting, the new process. “We are conducting a test. We need to truly test the process involved before or if we decide we are moving ahead with a roll out,” explained Avery. “All of our Select Service partners in the markets we are testing the process have agreed to participate and provide us with feedback.”

From Collision Week, Friday, 31 August 2007, © 2007

**Presented below is an article that was written after the SF News Release presented above. The next article has a little more information and insight into this initiative:**

## **State Farm negotiates deal with OEMs on parts**

By Sheila Loftus

State Farm is jumping into the parts purchasing business.

The insurer has negotiated a deal with some of the original equipment manufacturers (OEMs), including GM, Ford, Chrysler, Toyota, Honda, and Nissan, to reduce the manufacturer’s suggested retail price (MSRP) by three percent.

The savings is passed along through the parts departments and State Farm’s Select Service shops, both of which keep their margins the same.

In the end, it is the car manufacturers who have given up the three percent. “And, of course, what they are getting is business from a big company,” said Dick Luedke, a State Farm spokesman.

State Farm is piloting this program in San Diego, Calif., and Indianapolis, Indiana, beginning in the fourth quarter.

In a press release, the insurance giant said it would be testing “repairers’ use of electronic parts-ordering systems that provide access to vehicle information and help increase order accuracy and efficiency. We believe this new approach will improve the repair and estimating process.”

Added State Farm claim consultant George Avery: “While we recognize that this will represent change for the repair industry, it is important to continuously look for ways to create efficiency in the process and provide value for our policyholders and shared customers.”

Luedke said State Farm would neither reveal which car manufactures nor which electronic parts ordering systems are participating in the pilot. However, this reporter has been told by several industry insiders that for all but Toyota, OEConnection® will be used. Toyota has its own electronic parts system.

Just to be clear about how the program will work:

1. Parts margins will stay the same for the Select Service body shops and the parts department; however, the car manufacturers will push through a three percent discount on the MSRP (manufacturers suggested retail price).
2. This represents a three percent savings on the parts for State Farm, which has an overall market share in auto insurance of 17.6 percent. (State Farm is **not** getting a three percent rebate from the parts department or the car manufacturers—just three percent off on the MSRP).
3. Select Service repairers give State Farm the parts discount that they would give any other insurer as required by the Select Service Agreement. Repairers don't have to give the additional three percent, as it is already given to State Farm in terms of the reduced MSRP.

Tony Lombardozi, a New Hampshire repairer, is disappointed with the OEMs who have signed on to this program. He said the repairers went to bat for the OEMs in the Avery case in Illinois. In addition, he said, repairers showed up at some of the National Conference of Insurance Legislators to defend the OEMs against a model aftermarket parts bill being pushed by the Certified Automotive Parts Association. “We did all their inside dirty work and now they have sold us down the river for three percent,” said Lombardozi.

In the press release, State Farm also announced that it was continuing to evaluate its position regarding the specification of aftermarket crash parts. Although it will maintain its current policy of not specifying aftermarket crash parts during the test phase of its new policy, the insurer “believes that policyholders benefit when repairers have access to all sources of quality collision repair parts.”

State Farm’s press release didn’t mention the program it has in which repair facilities are using a State Farm bank credit card to purchase parts. A Select Service shops that has been testing that program talked with this reporter.

State Farm’s Select Service shops will be offered State Farm credit cards, which will give them a one percent credit on the next bill on the amount paid. With the card, shops can charge their purchases of parts and paint.

A repairer who tested the credit card called it a win-win-win situation—beneficial for shops, vendors, and State Farm.

“It allows the shop to have the benefit of postponing the payment and get the one percent rebate,” the shop owner said. “The benefit for the parts vendor is that it is a guaranteed fund. I have heard it from our vendors that accounts receivable are worse than ever. We are in a challenging market, and times are tough for shops. To be able to

know that payment is guaranteed and not have to worry about a check bouncing comes with some value.”

At some of the parts departments where the shop owner had negotiated a deep discount, the parts manager wanted to renegotiate their deal, as the parts department has to pay a service charge in order to accept credit cards. In some cases, the repairer said, he and the parts manager compromised. It was still worth it to the repairer to have use of the money until he paid the bill a month later. He is also using the State Farm credit card to buy his paint.

“Part of it depends on what you can negotiate with your parts vendors,” the shop owner said. “Because with any card, I don’t care if it’s American Express or Capital One or whatever, there is a fee the business pays to use it. We have the same thing. When a customer pays a deductible with a credit card, we pay a fee, and the fees are not consistent. American Express [fee] is quite a bit higher. Visa [fee] is lower. Your vendor has to be receptive to this.”

Added the shop owner: “We even had a couple of situations were they said, ‘Jeez, you negotiated a strong discount with us. We can’t afford to pass on another couple of percent on this.’ So there were a couple of them we negotiated some middle ground. I am thinking that the benefit with one percent and the opportunity to do something else with the money for a month is greater than [the drawbacks].”

State Farm wins in this scenario because it collects the service fee from the merchant who accepts the credit card, although it isn’t State Farm the insurer that wins, but State Farm the banking entity, said the shop owner.

“This does nothing for the claims end of State Farm,” the shop owner said. “Where State Farm benefits is through State Farm banking. They make the fee on it just like Capital One would. That is the only benefit to State Farm. But it is still a benefit because it is a lot of dollars.”

No matter what the credit card holder buys with the card—whether it be automotive parts or toilet paper—he or she receives a one percent rebate, the shop owner said.

One concern collision repairers have raised about the credit card and the electronic parts ordering pilot is the possibility of State Farm using records of shops’ purchasing habits to its advantage.

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## **Presidents Report:**

It is our intent to present pertinent news items and information to the membership through the newsletter. This information comes from many sources and will have the source recognized.

In my Quarterly Meeting with State Farm on 25 September 2007 I raised the subject of Blending Within the Panel. Tom Stafford, along with Ron Simmons stated that State Farm would no longer ask a shop to decrease the labor without having a basis to do so. In other words, someone at the Regional Office or someone higher up the food chain at State Farm Corporate read the information supplied by ASA, CIC and SCRS and determined that they were wrong in requiring a reduction in refinish labor for blending within a panel. This is a victory for our National Allies in my opinion. When asked about Feather, Fill and Block, Tom Stafford says in his opinion the labor time to repair the damage reflects the time for repair and feather, fill and block. This is certainly different than the Collision Industry opinion, but is it worth falling on our sword over. They will not pay for this operation as a separate line item.

Farm Bureau does not ask for Blend Within the Panel reductions in refinish time. To the best of my knowledge the companies that are still in that mode are: Safeco, GEICO, Allied and Nationwide. There may be others and there may be Independent Appraisers out there that are still in that mode. It is up to us to educate them in the proper procedures.

The last TCRA Newsletter was sent out via e-mail to Staff Adjusters for Safeco, GEICO, Farm Bureau, Shelter and Permanent General as well as some Independent Appraisers as well as potential members. If you have e-mail addresses for any other Body Shops, Staff Adjusters or Independent Appraisers that you would like to send the Newsletter to, please sent the addresses to me at [bob.mitchell@mitchellsbodyshop.com](mailto:bob.mitchell@mitchellsbodyshop.com). It costs us nothing to send the Newsletter out via e-mail, but we may gain much by sharing information.

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