

SUBCOMMITTEE HEARING ON THE ROLE OF AUTOMOBILE DEALERSHIPS IN RURAL ECONOMIES

HEARING

BEFORE THE

COMMITTEE ON SMALL BUSINESS UNITED STATES HOUSE OF REPRESENTATIVES

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**SUBCOMMITTEE ON RURAL DEVELOPMENT
ENTREPRENEURSHIP AND TRADE HEARING ON
THE ROLE OF AUTOMOBILE DEALERSHIPS
IN RURAL ECONOMIES**

Wednesday, September 16, 2009

U.S. HOUSE OF REPRESENTATIVES,
COMMITTEE ON SMALL BUSINESS,
Washington, DC

The Subcommittee met, pursuant to call, at 10:09 a.m., in Room 2360, Rayburn House Office Building, Hon. Heath Shuler [chairman of the Subcommittee] presiding.

Present: Representatives Shuler, Dahlkemper, Bright, Luetkemeyer, Thompson.

Chairman SHULER. I will now call this hearing to order.

Earlier this year, the House Small Business Committee held a hearing examining how small parts manufacturers are faring during the reconstruction of the automotive industry.

During today's hearing, the subcommittee will look at another vital link in the automotive supply chain, automotive dealers. Traditionally, our domestic automotive makers will rely on a network of 20,000 local dealers throughout the Nation to sell vehicles to the American public. These entrepreneurs are the nexus between manufacturers and car buyers, making them a critical component in the overall automotive sector.

These small businesses are also an important source of employment. Nationally, dealerships employ more than 1 million workers and support a payroll of \$54 billion. On average, each new car dealership employs 54 people and supports a payroll of \$2.6 million. These employees, in turn, spend their wages buying goods and services from local businesses.

In rural areas, like western North Carolina, the economic role of auto dealers is magnified. Beyond providing a source of livelihood for their workers, these dealers also offer rural America an important service. Often, the closest dealership can be as far as 50 miles away. This means that dealers that choose to service rural areas are an important option for Americans looking to purchase new vehicles.

These dealers also service vehicle warranties. In rural America, public transportation is often not readily available. In short, if you live in rural America, you are more likely to drive to work, to bring your kids to school, or to pick up groceries than if you live in a big city. And on average, the distance you drive is likely to be greater

than it is for Americans who live in congested areas or urban areas.

Unfortunately, in recent years, automotive dealers have encountered unprecedented economic pressures. Plunging sales have hit all parts of the automotive industry hard. The number of cars and light trucks sold in the U.S. declined by almost 3 million between 2007 and 2008.

In 2008, things went from bad to worse, as a combination of rising gas prices, the credit crisis, and a recession put a serious pinch in automotive sales. The U.S. auto sales fell to a 26-year low that year, and the industry estimates sales could drop by 3 million more this year.

Of course, automotive dealers are not alone in facing these challenges. All of the American automotive industry is undergoing significant reconstruction, and the entire sector is responding to this climate. GM is eliminating several brands. Both Chrysler and GM are closing plants and will employ fewer workers. During the first six months of this year, at least 15 auto parts suppliers have sought Chapter 11 protection, including the two largest suppliers.

As the committee heard earlier this year, an increased number of small auto parts suppliers are going out of business. These changes are causing hardships in communities across this Nation.

It is my hope that today's discussion can highlight the importance of auto dealers in rural communities. While they are just one link in the chain of the automotive industry, the small businesses play a critical role in small town America. I think today's hearing is timely, and I want to thank our witnesses for being here today. With that, I will defer to the ranking member, Mr. Luetkemeyer, for his opening statement.

[The statement of Chairman Shuler is included in the appendix.]

Mr. LUTKEMEYER. Good morning.

And thank you, Mr. Chairman, for holding this hearing to examine the impact of the auto dealer closings on rural communities. I would like to extend a special thanks to each of our witnesses who have taken the time to provide this committee with their testimony. This is undoubtedly a difficult issue to examine. The health of the American auto industry is directly tied to the economic health of our nation.

On a smaller scale, but no less important, the financial well-being of local auto dealerships, especially in rural areas, is very closely tied to the economic health of our own small towns and farm communities. Automobile manufacturers rely on an extensive network of approximately 20,000 independently-owned dealers for sales and service to their vehicles. Dealers provide the local connection between manufacturers and car buyers, and the dealership system is one of the several key players in the complex web of relationships that make up the U.S. automobile industry.

While there is a consensus about the overall role and value of the dealer network, manufacturers and dealers have demonstrated that there is a wide gulf between them on the appropriate size of that network, the flexibility of the dealerships in running their business, and the GM and Chrysler visions of how the dealer network should perform going forward.

In June 2009, Chrysler eliminated 25 percent of its dealer network to 789 dealers. GM has announced it will reduce its dealer network from 6,000 to approximately 3,600 in October 2010 when its contracts with dealers from around the country are up for renewal.

According to the National Automobile Dealers Association, the GM and Chrysler dealerships slated for elimination have more than 100,000 employees. This is a very important issue, especially for members who represent rural areas where there may have been only one or two GM and/or Chrysler dealerships to serve one or more counties. This could lead to drive times or tow times of well over an hour to get some service done.

Additionally, given the abysmal employment statistics we have been seeing for well over 1 year now, this restructuring, while hopefully benefiting the nation as a whole in the long-term, will undoubtedly increase the numbers of unemployed workers. Clearly, closing dealerships will translate into job loss, an economic hit to many regions, particularly rural ones.

The broader impact on the communities they serve must also be taken into consideration. For example, car dealerships are local businesses and pay billions annually in State and local taxes. They provide significant employment opportunities to the communities in which they operate.

In addition, on average, each dealership makes \$25,600 in charitable contributions to its community according to the NADA. From monetary donations to local charities to sponsoring the local Little League team, these activities, while harder to quantify, make dealers an integral part of their communities.

I am looking forward to today's testimony. And again, I would like to thank Chairman Shuler for holding this hearing and everyone for being here. I yield back.

Chairman SHULER. Thank you, sir.

Does any other member wish to be recognized for opening statements?

We will now move to our panel. We will now move to testimony from our witnesses. Witnesses will have 5 minutes to deliver their prepared statements. The timer begins when the green light illuminates. When there is 1 minute remaining, the yellow light will come on. And when time is up, the red light comes on, but obviously, we have got a rather small hearing today, so we will be a little bit lenient on that. So hopefully you can fully explain your testimonies.

Chairman SHULER. I would now like to introduce our first witness, Mr. Daniel Allison.

He is the owner of Allison Chevrolet in Sylva, North Carolina. It was founded by Dan Allison, Senior, in 1935. From that time, three generations of Allison families have been involved in running the company.

Mr. Allison, you will have 5 minutes to deliver your testimony.

STATEMENT OF DANIEL ALLISON

Mr. ALLISON. Thank you.

Chairman Shuler, Ranking Member Luetkemeyer and committee members, thank you for your willingness to address these economic

impacts of the closings of automobile dealerships in rural communities.

Thank you also for allowing me to present my views and to tell my story. My name is Daniel Allison, and I am the president of Allison's Incorporated, a family-owned Chevrolet dealership located in Sylva, North Carolina, in the southwestern mountains of North Carolina.

Our relationship with General Motors began in 1935, when my grandfather established Allison's as an Oldsmobile dealership. From that time until recently, three generations of the Allison family have proudly and loyally partnered with General Motors. This partnership has been profitable for both GM and Allison's.

Small rural dealerships like mine offer automakers like General Motors an important competitive advantage. They are usually located in areas where there are very few, if any, new car dealerships, and most often no import car dealerships.

Since 1935, Allison's has supported the local economy by providing stable employment in one of the more economically depressed regions of North Carolina. Even today, when the unemployment rates in our market area range from 8.3 percent in Jackson County, and 9.7 percent in Swain County, to a high of 14 percent in Graham County, 16 people and their families depend on us to provide them with a good living wage and with much needed benefits, such as a health care plan and a simple IRA retirement plan.

Our business generates significant Federal, State, and local tax revenues. In 2008, our annual payroll was over \$670,000, and we paid over \$233,000 in payroll taxes. We sold 150 new Chevrolets and 163 used vehicles. These sales generated over \$147,000 in North Carolina highway use tax. Our service and parts sales generated over \$25,000 in sales tax, and the property taxes we made were over \$9,000. A good portion of all these taxes, of course, returned to our community through the services provided by the Federal, State, and local governments through their services.

Allison's, Incorporated, like all small rural dealerships, is of great economic importance to its local community. We do regular business with several local, regional, and national banks, with at least four local and State credit unions, with 10 or more local insurance agencies, three area radio stations, three community newspapers, three local auto parts stores. And in addition to this, our business and its employees spend money with our local grocery stores, building supply stores, restaurants, and other local retailers.

Small rural dealerships and their employees provide critical support to the communities they serve by volunteering their time and contributing their money. As a part of the fabric of our community, Allison's, Incorporated, and its employees have for 74 years supported our area schools, churches, hospitals, community assistance organizations, youth and high school athletic and music programs, as well as victims of disaster, disease, and economic loss.

We are also regular supporters of Southwestern Community College and Western Carolina University. I was raised to believe that being a good neighbor and serving your community is the right thing to do. Doing so also makes good business sense, and it cre-

ates tremendous goodwill for General Motors in our local communities.

The relationship between automakers and their rural dealerships is mutually beneficial. Therefore, I hope that my dealership and the thousands of successful rural dealerships across America can continue helping their communities grow and prosper. On behalf of our dealership, its employees and customers, and of all small rural dealerships, I sincerely appreciate your time, interest, and concern. Thank you.

[The statement of Mr. Allison is included in the appendix.]

Chairman SHULER. Thank you, Mr. Allison.

At this time, I will recognize the ranking member for the purpose of introducing his witness.

Mr. LUETKEMEYER. Thank you, Chairman Shuler.

Next up we have Mr. Don Thomas. He is the owner and president of Thomas Motors, Incorporated, in Moberly, Missouri. He has spent his entire life and raised his family in rural Missouri, has been a General Motors dealer for over 34 years, selling Chevrolets, Buicks, Pontiacs, Cadillacs, and GMC cars and trucks.

Thomas Motors is a family-owned-and-operated business that recently renovated its entire operation, from the exterior of the building to the service department and the showroom.

Welcome, Mr. Thomas. I look forward to your testimony.

STATEMENT OF DONALD THOMAS

Mr. THOMAS. Chairman Shuler, Ranking Member Luetkemeyer, and members of the subcommittee, thanks for having me.

My name is Don Thomas. I am owner of Thomas Motors in Moberly, Missouri. I have spent my entire life in rural Missouri, 15 miles from my dealership. I have been a GM dealership since 2005. We represent Chevrolet, Buick, Pontiac, Cadillac, and GMC. We have no non-GM brands.

We are a family-operated business. We treat our customers and our employees fairly. I think that is reflected in our customer satisfaction scores of the dealership and the tenure of our employees.

We comply with all the GM operational policies and procedures, and we compete fairly with GM and non-GM dealers. Sales have fallen since 1975 due to the overall decline in the domestic auto sales. But even in a down economy, our unit sales and profits are good. This year, to date we have sold 117 new vehicles, including our GM program cars in addition to our used cars.

We have a modern, updated facility. Our location is excellent. We are on a new divided highway just a mile from the shopping center, just a mile south of the junction. We have got a new modern facility, updated facilities, 21,000 square foot. We have 12 service bays. Our showroom will accommodate five vehicles. We have 4 acres of paved parking.

In 2000, GM came out with a project they called Image 2000 Upgrade, Project 2000. We have complied with that. We spent a little over \$300,000 on our facility. In 2004, we finished the renovations; spent another a little over 200,000. We paid for that all out of the dealership profits. Our dealership is debt-free.

Thomas Motors is the only dealership in a seven-county area. Those seven counties consist of approximately 200,000 people. The

local fire departments, schools, farmers, everybody around, they depend on us for service. Since July of this year, January to July, we have completed 2,600 repair orders for GM vehicles. Now I have calculated the distance if we weren't here that those customers would have had to have driven to get the their respective car worked on, make and model, and they would have had to have driven in excess of 55 miles one way. I have talked to many of my loyal customers from Moberly and surrounding areas, and they said they simply would not drive, could not drive the 45 or 50 miles one way at minimum to get their car worked on.

Randolph County is a population of 30,000 people. The income is approximately \$40,000. It is a rural area, but it is a thriving area. Just across the street from us they just opened up a new Lowe's home store, brought 120-some new jobs. They just opened up a new biodiesel plant in our town, the first one in our State, brought over a hundred-plus jobs. The hospital, which is right next door to us, just completed a big renovation. The airport, they added on; now it is a regional airport. Moberly has got a Ford Lincoln Mercury dealership. It has a Chrysler Dodge and Jeep dealership. The courthouse is here. It has two colleges, training center; prison is here. It has got eight major banks. It has got three radio stations. You know, it has got Norfolk & Southern has got a terminal here.

There are seven or eight factories. There are approximately 7,000 people working in Moberly. The elimination of Thomas Motors I think would have a very negative impact on the entire area. We have 25 employees. We hire some school help when school is out just to give them a job. Our payroll is in excess of a million dollars a year.

In June of this year, I received a letter from GM saying that our franchise was going to be wound down by 2010. We can stay in business until then selling the cars we have. We can buy or dealer trade for 2010 units, but we can't order from the factory.

The thing that really concerns me when I get this letter, there is no objective criteria whatsoever how they made that decision. When GM filed bankruptcy, they filed in the U.S. Bankruptcy Court in New York. They told the Court they were going to use a dealership evaluation process. They would objectively consider the dealership sales, the customer satisfaction, the capitalization, the profitability, the dealer return on investment, the customer convenience, the drive-time metrics, shifting market demographics. If you look at that, look at those facts, we excel on every one of them but one. If we had known we had a deficiency in vehicle registrations, we could have corrected that.

If they had only used the objective criteria that they said they were going to use, if they would look at us and use those criteria, there would be no question we would be there. Our profit the last 10 years has been in excess of \$275,000 a year when you add back our LIFO deduction and the excess allowable IRS deductions. Our capitalization is in excess of \$1.5 million. That is a million dollars more than GM guidelines. Year-to-date this year, even in a down economy, our profit is in excess of \$190,000.

We live in a rural community. I don't know how many ball teams, school uniforms, scholarships, all the things we contribute to. There is no telling how many dollars. You know, the school I

graduated from needed a van just here a while back. They didn't have any money, so I just gave them one. I am sorry. We donate to everything. If we weren't there, I don't know what the Moberly community would really do.

Those people can't drive 50 or 75 miles to get their car worked on. You know, we provide the city with lost of their vehicles. Just the other day, they came out and asked me to bid four vehicles for the city. I couldn't do it. I couldn't bid them because we can't get them. They said they don't know what they are going to do. If we are gone, they won't have competitive bidding. They have expressed great concern what they are going to do. They will just have to buy them because they can't buy what they can't get serviced, and the Ford dealer will get them all.

You know, GM just came up with a deal here just the other day. I can't understand it; they had a deal they are going to pay the General Motors dealers, that is the going-forward dealers, to upgrade their facility. They are going to work with GMAC to get them more floor planning.

I have been running the business for 35 years. My place is paid for. I have done all the upgrades. I don't need GM to help me with my floor planning. I got it. I mean, I don't need their help.

You know, I have done everything that GM has asked me to do. Our CSI score and our SSI score is above the zone; it is above the region. That is a questionnaire or survey that GM sends out to all the GM customers and gets feedback. We are ahead of them always.

GMAC tiers their customers; that is the wholesale group that does floor planning for dealers. They have three tiers. We have got the highest rating GM offers. Since January of this year, General Motors has lost six dealerships within a 100-mile radius of me. And I can tell you, some of them have cost GMAC a lot of money. But still they want to pour more money into some of these dealers that can't make it. I just don't understand.

I have tried to figure the reasoning, what GM could be possibly thinking about to get rid of a dealers that are making money, that are doing what they are supposed to do. I just dealer traded just in the last 3 or 4 weeks with some so-called going-forward dealers. Got a letter they are going to stay. They are going to stay in business. One of them, GMAC was holding their MSOs. I don't know how in the world they are going to stay. Another one, GMAC had them cut off; they couldn't take any cars back. Another one, GMAC, they were full. I could get their car, but they couldn't take something back either.

Now how in the world is General Motors going to take our tax money and put it in those dealers and help prop them up when they got dealers like me and I don't need any of their help? I have done everything they have asked me to do. And I am selling their cars and making money. I got over a million dollars a year payroll. I just had a conversation just a few days ago with a branch manager of GMAC. He told me he had 200 dealers that he had sent demand letters to. He said a lot of those, some of those he said were going-forward dealers. He said they had to pay off within 30 to 60 to 90 days. He said they can't stay; they are going out of business, but part of them got going-forward letters. He said I have got

200 more on a watch list that are going to be cut off after that. I just don't understand it.

If I am gone, if I am out of Moberly, there will never be another GM dealer there. You know, it cost \$2 million to build a dealership like mine. And where are they going to get the money? If they had the money, they wouldn't put it in there, seeing what GM has already done to them. They are losing money. And if they had to go borrow the money, they wouldn't do it. And GMAC—GM is working a deal with GMAC. Now they are going to help those dealers get more money. It is just going to take more tax money and throw good money after bad.

If the dealers can't make money, if they can't stay, they can't stay. You can't keep propping them up. But if a dealer that is making money and doing business, why do they want to kick him out for? You know, we have got people that—I just did a deal just Thursday, I knew I was coming down here, to see how long it would take for a customer to go for his service. I had him start at the Post Office in Moberly and drive to Columbia. He left at 7:30. I told him drive down and turn around and drive back. See how long it took. It took him 2 hours and 10 minutes. If you ever went to Columbia, where there are 200,000-plus students, and tried to get there at work time and see how much traffic you got and how long it takes, how is a farmer going to go and do that?

I mean, this is not just getting rid of me or Thomas Motors, it is the whole community. You know, I have got 25 people, that my payroll is over a million dollars a year. I don't understand it. We have got a good business. I have excelled in everything GM has ever asked me to do. I need no help from them financially. My business needs no help financially. I got a new, modern place. Moberly is growing. They have got so much to offer. But still they want to get rid of us. And there will never be another GM dealer in Moberly if I am gone. Where are those people going? Ford is going to get them all.

[The statement of Mr. Thomas is included in the appendix.]

Chairman SHULER. Thank you, sir, for your testimony.

Mr. THOMAS. Thank you for allowing me to speak.

Chairman SHULER. Yes, sir.

Our next witness is Ernie Goss. He is the MacAllister Chair and professor of economics at Creighton University in Omaha, Nebraska. Dr. Goss has published over 80 research studies focusing primarily on economic forecasting. Dr. Goss's research spans local, regional, and national perspectives. He has done an extensive review of the American automotive industry.

Dr. Goss, thank you for being here today, and I look forward to hearing your testimony.

STATEMENT OF ERNIE GOSS, PH.D.

Mr. GOSS. Thank you, Chairman Shuler, and distinguished members of the subcommittee. I want to thank you for inviting me to appear before you today to discuss the economic issues related to the closure of GM and Chrysler dealerships across the Nation. My testimony will identify some of the community benefits and costs associated with the closures.

Up to this time, the media has focused on the private cost and private benefits related to shuttering more than 1,900 dealerships across the U.S. For example, GM's CEO Fritz Henderson recently claimed a savings of \$928,000 per closed dealership. There was no mention of the cost or benefits to the public.

To date, taxpayers have invested more than \$64 billion in Chrysler and GM. And that doesn't include GMAC and the suppliers as well. Currently, less than 1 percent of GM and Chrysler stock shares are held by investors other than the U.S. Federal Government. Thus both GM and Chrysler are essentially 100 percent, plus or minus 1 or 2 percent, taxpayer-owned.

As public corporations, public costs and public benefits of corporate decisions must be an input into the decision-making, including the decision to shutter dealerships. These closures will result in a loss of thousands of jobs, both direct and indirect, and produce severe economic hardships in many communities across the country in the form of plummeting tax collections, tumbling charitable contributions, and sinking local real estate values.

Losses will be particularly acute and difficult for small towns and rural communities of the Nation, where automobile dealerships are an integral part of the area economy. At this time, neither GM nor Chrysler is offering assistance to the affected communities or to closed dealerships, at least to my knowledge. This departs from GM's 2004 dispensation of Oldsmobile, costing GM approximately \$1 billion, with a significant portion of that \$1 billion going back in the form of vehicle repurchases.

With public ownership comes public responsibility. As such, the analysis of the closures must include the public costs and benefits of the dealership termination. Across the country, these dealerships employ hundreds of people in good-paying jobs. They support the infrastructure of many communities by sponsoring sports teams, raising funds for needy projects, and contributing to local charities.

In many cases, the targeted dealerships have been a huge part of the community for generations. What I am contending is that both private and public costs be part of the decision-making process. Thus far, to my knowledge, there has been no cost-benefit analysis conducted as part of the dealer termination process. That is, while the private benefits may or may not exceed the private costs, there has been no explicit examination of the public costs, especially for rural communities where these dealerships are very important.

I will provide a brief examination of one announced closure, one termination of Meyer-Earp Auto in Auburn, Nebraska, a community of 3,400 residents in southeast Nebraska. Each month since 2005 I have conducted a survey of bank CEOs in rural parts of 10 States with an average community size of 1,300. States included are Colorado, Iowa, Kansas, Illinois, Minnesota, Missouri, Nebraska, North Dakota, South Dakota, and Wyoming.

In May of 2009, I asked the bank CEOs whether dealership closures would have a significant impact on their area communities. In those communities slated for dealership closure, the impacts were judged as negative and very significant. In total, and this is total, one-third of the bank CEOs expect the closures to have a negative impact on their local communities.

In an effort to gauge the impact of just this one closure, I simulated the closure of Meyer-Earp using input-output analysis. According to my estimates, Auburn will lose, now this is a very small community, \$680,000 per year in yearly sales, more than \$260,000 in wages and salaries, and in excess of \$54,000 each year for self-employment income. Additionally, the area will lose 6.8 jobs and tax collections of \$77,000. And I am just including only new car operations there.

In summary, the lack of analysis and transparency, the lack of analysis and transparency in the decision-making process is troubling and could produce costs to the public greatly exceeding the benefits. As stated by one Nebraska bank CEO in our May 2009 Rural Mainstreet survey, this is his quote, "I have yet to see the real cost to Chrysler and GM in keeping rural dealerships open."

Mr. Chairman and members of the committee, thank you for having me here today, and I look forward to any questions that you may have. Thank you.

[The statement of Mr. Goss is included in the appendix.]

Chairman SHULER. Mr. Goss, thank you so much for your testimony.

Really good testimony by a great panel here.

And Mr. Thomas, our heart goes out for you. I know how much you have done for your community, and I can relate to growing up in a small town like that, as Mr. Allison has always performed just incredibly well when it comes to the youth programs and the arts and sciences and the athletics of our communities. When people need help, it is supplying those vans and sometimes just, you know, letting them use it for a day or so. I know how sometimes getting people to where they need to go means a tremendous amount. And when you have that type of payroll and you have that type of impact to a community, especially a growing community, wow.

We actually had a Lowe's going to go up in my hometown where I live now, but they said, no, it is just not going to—and we feel like we are a growing community. They said, well, just not now, so even though the property was already graded and ready to go. So that just goes to show to me that you are in a growing community.

I guess, Dr. Goss, one of the first questions I have is, when you look at the overall impact in the communities, especially the rural areas, what is the impact to these communities when one dealership goes? And then to the people? I mean the things that we don't hear about. You know, it is the buying the goods and services. What overall impact? How big a shadow does it cast when you lose a company such as this?

Mr. GOSS. Well, Chairman Shuler, obviously, as Mr. Allison and Mr. Thomas have testified to, very significant. So the decisions of travel time, for example, that is not in the matrix of decision-making. And I think the biggest problem, one of the largest problems from my standpoint is lack of transparency. The banks that we survey are complaining loudly about, where is the analysis? Where did GM—it seemed to be arbitrary and capricious. But to your question, you have got retail sales, and the retail sales spills over into wholesalers, which spills over into restaurants, and so on and so forth. You have got very significant impacts.

And again, it is particularly large relative to the economy in these small communities where there may be no other dealership. In, for example, Auburn, Nebraska, there is no other dealership there. This is their dealership. And by losing their license, by losing the dealership franchise, it is going to be quite significant, and it will ripple across the community.

But also you have got in this part—that part of the country, I should say, the part I live in, you have got farmers who use the dealerships as well for buying parts for repairs that doesn't really show up, in my analysis, and I would argue doesn't show up in GM or Chrysler's analysis. But I have to say, I have yet to see Chrysler and GM's analysis. This, again, we have gone from—we went from \$11 a barrel oil in 1998 to \$147 a barrel last year. In other words, we have got this very large volatility in lots of factors, yet we are making decisions, or GM and Chrysler is making decisions that will last forever for these communities.

These are communities in the middle section of the country, perhaps not on the East Coast and North Carolina, but in Missouri and Nebraska, where population losses are quite significant and something we need to pay attention to, and depopulation. So this is another nail in the coffin, in some cases, for some of these communities. And again, without transparency, without analysis, we are talking about two corporations that got \$64 billion, yet we, at least I haven't and the bank CEOs that I survey have not seen, what is the analysis? Where is the cost? You are taking taxpayer money, yet you have yet to show to the public where you are giving back. In other words, this looks like a taking.

Now I am talking about the bank CEOs that I survey. I am coming at it as an economist, pretty sterile, as you can probably imagine but nonetheless trying to get at it. And even I have yet to see the analysis. I mean, maybe GM and Chrysler can show that, but it is yet to be—those out there, those of us in the hinterland have yet to see it.

Chairman SHULER. Well, and unfortunately, in small communities I think these two gentlemen have stated obviously their financial strength and not having debt. But if there are some of these communities, I guess the TARP funding is there for some of the people from the banks that are going to be having to lose obviously the revenue and when they are not having the businesses, not having—no one—the dealerships not able to pay the loan back. So, obviously, we have certainly created a mess, no doubt about it.

Mr. GOSS. And speaking of the TARP revenues, sorry for interrupting there—

Chairman SHULER. That is all right.

Mr. GOSS. —but a lot of the feeling out there, at least I do three surveys of purchasing managers and bank CEOs, a lot of the feeling is that we have done business, yet we have gotten no TARP funds, and now we are being, in the case of auto dealerships, being punished even though we are a viable, going concern. Show us, where is the analysis? Show us why this is happening, because again, as Mr. Allison and Mr. Thomas have demonstrated, or at least discussed, playing by the rules, not getting TARP funds, yet being shuttered anyway. That message is getting—is loud and clear

in our surveys each month. So I am very concerned about, without transparency, without any analysis, at least from what I have seen.

Chairman SHULER. Mr. Allison, can you talk briefly about the process that you are having to go through now and some of the obstacles with your employees and the benefits that they have and health insurance? And can you just briefly touch on that? I know you told me the story about how you kind of read the FedEx with your employees and kind of the openness that you had with all your folks.

Mr. ALLISON. Yes, sir.

Thank you for the question. The first thing is I guess we pride ourselves on offering not just a good wage but a complete, or as complete as possible, benefit package. We try to stay at least with the competition both in the industry and, you know, the other similar industries in our community and most of the time try to have a better package so that we can attract the best people.

With that being said, Mr. Thomas's experience I am sure has been multiplied, you know, countless times with a lot of us dealers. And we are no exception. The way that we were notified that we wouldn't go forward with GM like the other dealerships is that they literally delivered the letter via FedEx. And in Sylva, North Carolina, that FedEx comes right to the door of Allison Chevrolet, and right up to the cashier's window. So everyone that is in the dealership, employees and customers, immediately knew about it. When it came in, I was actually with my son at the doctor's office in Asheville, which is about 50 miles away. And the office manager called me and said, we got a letter, got a FedEx. And I said, well, I am just about finished. If you would have people just patiently wait, and I will be there in about an hour.

So when I got there, I said, give me just a few minutes and let me read through this letter, and then we will talk about it. So we kind of chose to do something differently than maybe GM had suggested, which was to hold that information kind of close to your chest. I felt like the most honest and fair thing I could do with the employees and the community was just tell the truth. And so, with that, we have kind of embarked on the process, which has been somewhat lengthy and definitely harrowing, of trying to appeal. And these appeals are made really just through e-mail and to we don't know who.

Chairman SHULER. What is the actual cost? I mean, how much do you give back to the auto manufacturer, the automaker versus how much you actually cost them? I am only assuming there has to be some costs relative to what every dealership actually costs the maker, automaker.

Mr. ALLISON. That is the thing that I fail to see. On a monthly basis, we pay for all kinds of things that relate us to GM. We actually pay for delivery of our parts to repair cars from General Motors. We pay for our service training, for our sales training. We even pay to go to a dealer meeting. If we don't send someone that we have signed up for service training, then we are charged a fee, a no-show fee. We pay for every poster, every piece of literature, sales literature. We pay for the books that we train ourselves out of and use as a comparative analysis for, you know, to talk to the customers with. We pay for using the ability to communicate via

the computer with General Motors, to record our sales and to order our parts and that kind of thing. So I don't know, it probably runs on an average month a little over \$3,000.

Chairman SHULER. That you pay them?

Mr. ALLISON. Yes, sir.

Chairman SHULER. And how much do you think you are costing them a month?

Mr. ALLISON. I fail to see that I am really costing them anything. Our relationship, as far as their calling on us, is through the telephone.

Chairman SHULER. So when they deliver a vehicle, you have basically paid for it then?

Mr. ALLISON. Yes, sir.

Chairman SHULER. So whether you sell it or it sits on the lot for 10 years, it really is no impact to them.

Mr. ALLISON. That is exactly right, other than the fact that, to be fair, that if we didn't sell it and had an accumulation of those vehicles, ultimately we wouldn't order any more.

Chairman SHULER. Right. Got it. Have you ever failed to have someone—vehicles on your lot for an extended time far exceeding what you expected to order? I mean, obviously during this last couple years, it has been very difficult.

Mr. ALLISON. Yes, sir. And occasionally you will get a vehicle for whatever reason that just seems to stay. But for the most part, they move rather quickly.

Chairman SHULER. At this time, I will yield to the ranking member, Mr. Luetkemeyer, for his questions.

Mr. LUETKEMEYER. Thank you, Mr. Chairman.

Follow-up with Mr. Allison. Do you sell any other brands of vehicles?

Mr. ALLISON. No, sir. Just GM presently.

Mr. LUETKEMEYER. Just GM products. What is the size of your market area that you have? You said six counties, I think you said? Is that right?

Mr. ALLISON. It is actually three counties. It is the majority of Jackson County, all of Swain County, and the greater portion of Graham County.

Mr. LUETKEMEYER. Do you have a population figure on what all—how much—how many people it would be?

Mr. ALLISON. Jackson County is about 39,000 people. About 60,000 or 64,000.

Mr. LUETKEMEYER. What is the average length of employment for someone who has been with you?

Mr. ALLISON. I have employees that have been well over 20 years. I think the youngest as far as service is probably 2 years, year-and-a-half.

Mr. LUETKEMEYER. Okay. So, in other words, you have been there a long time?

Mr. ALLISON. Yes, sir.

Mr. LUETKEMEYER. People who work with you have been there a long time.

Mr. ALLISON. Yes, sir.

Mr. LUETKEMEYER. They are well trained. You pay for the training.

Mr. ALLISON. Yes, sir.

Mr. LUETKEMEYER. At this point, you don't really cost the company any money per se.

Mr. ALLISON. No, sir.

Mr. LUETKEMEYER. Let me follow up with a question, Mr. Chairman, here. At what point do you actually purchase the vehicle? When it comes off—if you have ordered one, at the point that it comes off the assembly line, do you own it or when it comes on your lot?

Mr. ALLISON. It is actually shortly thereafter being assembled. So shortly after it has come off the assembly line, then we have purchased the vehicle.

Mr. LUETKEMEYER. Okay. So the company charges your account, I assume?

Mr. ALLISON. Well, generally if you pay for it in cash, they charge your account. If you are paying for it, like I do, through General Motors Acceptance Corporation, or GMAC's floor plan, then they charge your floor plan.

Mr. Luetkemeyer. Okay. Okay. Very good.

Mr. ALLISON. Yes, sir.

Mr. LUETKEMEYER. Mr. Thomas, I know that you have been also been profitable. What is the average length of your employee employment?

Mr. THOMAS. I have three people that have over 30 years. I have seven people that have got over 13 years. I got three with over 10.

Mr. LUETKEMEYER. What do you think the average wage is of your employee? You said you had a million dollar payroll?

Mr. THOMAS. Oh, \$40,000, they will average \$40,000. My salesmen in the high 50s. My service manager and parts manager in the high 40s. Our techs all in the 40s. Our lowest paid would be naturally the boys in the cleanup department, and they will make in the 20s.

Mr. LUETKEMEYER. So I think you said a while ago the average citizen's income in your area was \$40,000?

Mr. THOMAS. \$40,000.

Mr. LUETKEMEYER. So most of your employees are average to above average?

Mr. THOMAS. All of ours with the exception of the three folks in our used car cleanup department. But all of our people will—yeah, I have got, oh, five or six that make well over 50.

Mr. LUETKEMEYER. Okay. What kind of impact is there going to be on those lives?

Mr. THOMAS. I don't know. They don't have a place to go. They won't have a place to go. They will have to go to—I don't know where they would go. They would have to go to Columbia would be what I would assume would be the closest place, and that is, you know, an hour and something. I don't know where they would go.

Mr. LUETKEMEYER. You also don't sell any other brands, is that right?

Mr. THOMAS. GM is all I have.

Mr. LUETKEMEYER. Okay. Very good.

Dr. Goss, where do you think this needs to go? I mean, you have studied this. You have seen that basically there is no cost to the

car companies for the dealerships, yet they are canceling dealerships.

You know, I have got a little bit of a financial background. And to me, when you have a manufacturer, you need to have a distribution system. I mean, it is a pretty important part of being able to sell your product to have a distribution system.

You know, we were talking to Mr. Thomas this morning before the hearing, and he was telling us, you know, and in his testimony as well, how difficult it is going to be for people to buy his particular brand. There is going to be a void there. Other dealers may come in, but there is some, you know, brand loyalty there. Where do you see this going as far as, are these companies just going to fall back and retrench, or are they making some really bad business judgments here by cutting their distribution system off? What do you think?

Mr. GOSS. Yes, sir, I don't think it be would the first time GM and Chrysler have made some bad decisions, if I may say that. And of course, I believe at least—now, again, the problem I have, and I think most economists and most representatives have, is, where is the analysis? Where is the transparency? And the motivation, at least looking at it from GM's standpoint and Chrysler's standpoint, is economies of scale and the ability to reduce competition between dealers, and thus what we call in economics get the consumer surplus. In other words, the consumer surplus that goes now to the consumer would now go to GM and Chrysler, which of course we in economics don't think highly of that. We like competitive markets. So my concern is that this reduces competition. And certainly I think that is the intent, one of the goals is to reduce competition, what they see as economies of scale.

I don't know if there is economies of scale in terms of dealerships. They have yet to show the analysis, the transparency. And from the non-economist, even for the economists and the dealers out there that are being closed, but especially the individual has yet to see, well, why? What is driving this? Where is the transparency? Why is my dealership going and another is staying?

The travel times, as Mr. Thomas has indicated, are quite significant. The impact that is not even a part of it is the farmers who in fact do get repairs at many of these dealerships, at least in the mid-section of the country. So I think, again, that that is the motivation. And the impact, unfortunately, for the consumer is going to be certainly negative. There is no way you can reduce the number of dealerships and have the consumer better off.

Mr. LUETKEMEYER. One other follow-up question before I finish up here. You talked about the lack of competition. I realize there are other automobile options out there. However, in a lot of rural areas, they are limited. So therefore, does this, because of the lack of competition, do you see the opportunity for increased prices on other makes and models than in a certain area? Is that a possibility, or is that—because of the other competition that is available that would not occur?

Mr. GOSS. Yes, sir, not just a possibility; it is going to happen. That, again, I think is a lot of the motivation for what is going on here. And that is certainly a concern as an economist. And back to my point about the volatility that we have seen, and we are mak-

ing decisions for generations. In other words, these dealerships have been in business for generations, yet GM and Chrysler are making decisions that will be with these communities forever. And the idea that somehow another dealer will come in, many of these communities will not see that. For example, in Auburn, Nebraska, the community I discussed, it is very unlikely, or I would say somewhere between a zero and 10 percent likelihood that there will be another dealership that will replace the one that is closed.

Mr. LUETKEMEYER. If Mr. Chairman would indulge me one more minute, just one follow-up question with regards to the appeals process that you gentlemen have to go through or are trying to attempt to work your way through, is there a process set up that you can present your case? Is there a board of review? Is there a group of people that you can talk to? Is there an individual that will make it? Or is it just a fiat from above that has been dictated to you and this is what it is going to be?

Mr. THOMAS. That is it.

Mr. LUETKEMEYER. That is it.

Mr. ALLISON. Yes, sir, thus far, that has been the outcome.

Mr. LUETKEMEYER. So regardless that you are profitable, made sales quotas, all the other criteria that they look at and judge the quality and capability of your agency to survive and deliver quality service, those things are not able to be discussed with anybody at a higher level and appeal their decision?

Mr. THOMAS. No.

Mr. ALLISON. In one of my e-mail communications that I sent to General Motors, I literally asked them, is there someone I can speak to, a person? And would you be willing to come down and talk to me? And really those questions weren't answered directly.

Mr. LUETKEMEYER. Well, Mr. Chairman, from the standpoint that we are looking at the impact on rural areas, and these gentlemen have got good numbers from the standpoint of customer service, it looks like we have certainly got some work to do.

Thank you, gentlemen, for your testimony.

Thank you, Mr. Chairman.

Chairman SHULER. Thank you, sir.

At this time, I would like to recognize Mr. Bright from the great State of Alabama.

Mr. BRIGHT. Thank you, Mr. Chairman, for this opportunity. Thanks for this hearing today and the testimony.

Guys, thank you all greatly for the testimony that you have given us today. It is kind of awakening to hear your testimony. And I don't think there is a person in this room today that can testify or even say that it is a mystery to us as to why Chrysler and GM is in the shape today that they are in. Making decisions like they have made as it relates to each one of your dealerships is unconscionable.

And Dr. Goss, thank you for your testimony, too. And I would like for you, if you would, to tell me if in the communities that you have seen and investigated out there you have seen any Federal stimulus moneys or anything invested by GM or Chrysler in these communities to offset the value and the benefits and the assets that these two dealerships will take with them when they quit selling the GM product out there or the Chrysler product out there?

Is there anything that you have seen during your investigation to substitute for those benefits?

Mr. GOSS. Each month we do a survey of three—we do three different monthly surveys of about probably 15 States, and we ask that very question. And the answer is about 10 to 15 percent respond yes, so that is meaning 85 percent say no. So that is one of the real issues that they see, the bank CEOs, purchasing managers. And these are all businesses that we are surveying, not consumers.

Mr. BRIGHT. Dr. Goss, thank you very much.

Mr. Thomas, Mr. Allison, thank you for your time today. Thank you for your very valuable testimony. It is awakening. And people need to pay closer attention to what you have had to say here today.

And I really tend to look closely at what, and Mr. Chairman, what we need to do is investigate closely the analysis used by GM and Chrysler in making these decisions. And if it is determined that they are creating areas of competition out there, or eliminating and shaping competitive districts out there by way of taking away the livelihood of dealerships like Mr. Thomas and Mr. Allison, I think that breaches on criminal activity as far as I am concerned. And that is all I have to say.

And Mr. Chairman, thank you very much again for this hearing. And I will yield back the remainder of my time.

Chairman SHULER. Thank you, sir.

At this time, I would like to recognize Mr. Thompson from Pennsylvania.

Mr. THOMPSON. Thank you, Chairman, and thank you ranking member, for putting this hearing of this subcommittee together.

And you know, Mr. Thomas, Mr. Allison, having grown up in a small family-owned business, it wasn't a car dealership, but knowing what a central role I am sure you have in your communities, my heart goes out to you with this being imposed upon you pretty arbitrarily by the looks of things.

You know, I scratch my head, and I wonder about an economic model that abandons successful, proven businesses with a track record. I just don't understand. And we have had this impact in the Fifth District of Pennsylvania as well, so I appreciate the opportunity to begin to try to understand.

I will start with Dr. Goss. Is there any transparency at all of what criterion has been used? And you know, given the fact in your statement we are—you know, GM and Chrysler are 100 percent, plus or minus a couple percentage points, government-owned, is there any transparency in terms of what criterion was used, and who is making these decisions?

Mr. GOSS. I have yet to see it. Now, that doesn't mean it doesn't exist. But I have yet to see that analysis. And the problem, as I see it, is the reduction in competition that is going to result, that will result in higher prices to the consumer, and the idea that there are economies of scale. But with the speed that this came down, I am really concerned that there was not any analysis, that it was done by some sort of math. I have no idea if that is what it was. And saying there is no—let's eliminate this dealership, that will provide more business for this dealership that is 35 miles over, and

that is probably the way it was done without any serious look, examination of what it does to the communities that are affected, what it does to the profitability of the dealerships, but more I think—and again, I am not—I am a little suspect of any analysis that may have been done because of the speed that we would have had to have seen. This came in May. I think Chrysler's decision was in May. So this was very quick. [11:08 a.m.]

Mr. THOMPSON. You made a statement that really there was no cost-benefit analysis. And the question in terms of even the capturing market share, Thomas Motors sounds like you are going to drive at least 2 hours for somebody who wants to buy a vehicle that is readily available in that radius that you service today.

I just throw this out there. I represent a very rural district, as a lot of my colleagues do. Is there any bias towards closing rural dealerships? Any evidence of that?

Mr. GOSS. I don't know that for certain, but I would suspect that there is that bias. And, of course, what it results in is a cost that is borne by the consumer by traveling greater distances which will be, I think—according to GM and Chrysler, they would get to put that into their price, the new dealership, the ones that the individual, the businesses will have to make use of. And so I think that is the intent.

But I would question even that. I am just not certain that there has been any really analysis, even from the private benefit and private costs, let alone putting in the public benefit and the public cost.

So, again, the swiftness with which this took place makes many of us question the decisions.

Mr. THOMPSON. Mr. Allison, you had talked about, within the appeal process was rather anonymous. You send an e-mail you don't know where it went to, and that is an anonymous way to communicate. We all probably get those kinds of e-mails and people don't give their names when they give us feedback. But it is said that now that you are dealing with a company that is, say, 98 percent government owned and you get that—here is my question.

Was that—and you all, you both have had decades, generations, of experience, of dealing with communications with GM in particular.

Was that type—is that the standard that you experienced pre-government involvement with GM?

Mr. ALLISON. No, sir. And I was not quite technically correct.

There was a telephone contact set up that literally explained to you step by step, but there really wasn't any full explanation. They were very limited in what they could tell you.

Mr. THOMPSON. Okay.

With the chairman's indulgence, I wanted to take a little different direction, Dr. Goss, for those who have not been voted off the island—maybe they have been watching too many reality shows—those who are going to be participating. I have talked with some of those dealers, as well, and two specific things I wanted to get your reaction to if you are familiar with them.

One is participation agreement—actually, that rolls into one question—I wanted to see what you are hearing about that. I am hearing—you know, dealers—that the new GM, to participate, you

are going to have to build new facilities, you may have to invest capital in the showroom. If you happen to have a foreign line of cars that you have always carried also, that that is being shoved out and you are being dictated that you no longer continue, at least within your showroom, that line of business.

And that kind of rolls into pushing because of government involvement, now that the State laws are circumvented with the State franchise requirement; and I wanted to get your reaction to those.

Mr. GOSS. That is certainly the case, Mr. Thompson. And I am not a lawyer, but nonetheless, it looks like, at least at certain levels, there may be violations of the antitrust laws whereby GM or Chrysler is eliminating competition. And that does work against the consumer, and at least work for those two companies.

But you are talking about eliminating the profitable dealerships. I know I am repeating myself, but in an effort to capture that—the consumer surplus, as we would call it; in other words, consumers having now to travel greater distances—the goal would be for GM and Chrysler to, in fact, capture that. I argue against that.

But, secondly, I am not certain they calculate those things very accurately, given the speed with which it was done.

So there are many problems there, but chief among them is the fact is these are public corporations now, \$64 billion, yet decisions have been made that seem to be contrary to the public interest, at least on the surface.

Mr. THOMPSON. Thank you.

Thank you, Chairman.

Chairman SHULER. Thank you.

At this time would like to recognize the gentlewoman from Pennsylvania, Mrs. Dahlkemper.

Mrs. DAHLKEMPER. Thank you, Chairman Shuler, and thank you for convening this critical hearing on the role of automobile dealerships in rural communities and, really, throughout this country.

And I want to certainly thank the panel of witnesses for your testimony today. It has been very valuable for us to hear your personal stories, as well as you, Dr. Goss, to look at things on a larger scale.

Since I had my first phone call from one of my dealers, I have been trying to understand this issue, and trying to understand exactly how this occurred. And as we seem come today with no conclusion as to exactly what kind of business model was looked at to make these determinations. And personally, my brother-in-law was an executive at Chrysler for many years, and he and I argued many times about the business model that they were using. I argued for about a dozen years, before he finally left the company, about the business model they were using and where they were going.

I have a couple of questions for you, and I just want to try to understand. Would you, Mr. Thomas and Mr. Allison—first of all, when are you looking at time frame for closure of your dealerships?

Mr. THOMAS. 2010. GM says 2010 is when they expect our wind-down. We can't order any new 2010 model vehicles. We can stay in business, and they say we can buy them from another dealer.

Mrs. DAHLKEMPER. You have 2009s, but you cannot get any 2010s, which are probably coming out or have come out already?

Mr. THOMAS. That is right. The only way we can get 2010 vehicles is to get them through another dealer.

Mrs. DAHLKEMPER. So they are not selling any new product?

Mr. THOMAS. None.

Mrs. DAHLKEMPER. So you will wind down next year?

Mr. THOMAS. 2010. October 2010.

Mrs. DAHLKEMPER. But you may not be able to keep your doors open that long because you won't be able to get new product, basically?

Mr. THOMAS. Unless we buy them from other dealers.

Mrs. DAHLKEMPER. Mr. Allison?

Mr. ALLISON. Yes, ma'am, that would be the same for us.

Mrs. DAHLKEMPER. Could you and would you consider selling a different brand?

Mr. THOMAS. I have been offered an import, but I don't want to do that.

Mrs. DAHLKEMPER. Why?

Mr. THOMAS. Well, I have been with GM 35 years. Our customers, our community, depend on GM vehicles. I don't want to start switching them and try to go to—I just don't want to do it.

I don't want to retrain our employees. I don't want to change our customers, GM loyal people. I think they are going to change, but—

Mrs. DAHLKEMPER. You mentioned the Ford dealership, and you think they will go to Ford because there is—obviously, convenience being probably the biggest factor there.

Mr. THOMAS. Exactly. Exactly.

Mrs. DAHLKEMPER. Do you think there will be another individual in your town who would say, Well, Mr. Thomas is not here any longer and there is only Ford, so I am going to come in and I am going to sell—you know, whoever, Honda, Toyota, whoever?

Mr. THOMAS. I don't think that there will be another dealer—never is a long time, but I think in this environment, in this economy, I think it is going to be a long time before this economy straightens out. And the cost now to start a new dealership would be prohibitive.

Mrs. DAHLKEMPER. Mr. Allison, can you comment on that?

Mr. ALLISON. Yes, ma'am. I, like Mr. Thomas, if we don't go forward with General Motors, there would only be Ford in our town. And I agree, the costs would be astronomical to establish a brand-new dealership from scratch.

Mrs. DAHLKEMPER. Can you use your same facility if you wanted to? You own that building, right?

Mr. ALLISON. Yes, ma'am, we do.

Mrs. DAHLKEMPER. So you certainly could, but you would have to retool.

Mr. ALLISON. That would be an option. But like Mr. Thomas, probably the most loyal General Motors dealers are the small dealers. We literally eat, breathe and live GM.

Mrs. DAHLKEMPER. I guess my question is, then, as you were—as we were looking at the automobile industry in this country failing really in their business model, did you have any concerns about that, long term? Were you concerned about where the business

model was going as we see our foreign competitors were take a bigger and bigger share of the market?

Mr. THOMAS. Yes, I do.

Mrs. DAHLKEMPER. I guess I am just trying to understand the loyalty. If you can explain that to me a little bit, why you would not go with some other dealer.

Mr. ALLISON. I certainly would not close out that alternative at all. But it is just that my first wish would be to continue forward with General Motors, as would the people in our community and, certainly, our employees.

Mrs. DAHLKEMPER. Dr. Goss, do you have any comment on this, because you seem to know a lot of what is going on in many different areas.

Mr. GOSS. Well, at this juncture, as everyone in the room knows, this is a tough time for the economy.

These decisions are being made at a critical time for many of these communities, and many of the communities that we survey—I survey 15 States, a lot of rural areas—they are under tremendous stress, and this is just another nail in some cases in the coffin. And I am not certain you can move that quickly and not suffer some significant long-term generational impacts.

Mrs. DAHLKEMPER. There is a piece of legislation—there are 271 sponsors on it—that I have signed on to called the Automobile Dealer Rights Restoration Act of 2009. Are you familiar with that piece of legislation?

Mr. THOMAS. Yes, I am.

Mrs. DAHLKEMPER. Obviously, there are many in this Congress that are concerned. I have many dealerships in my district that have closed, and I am continuing to try to understand. Staying on it—my time is expired, but what would the costs be if you wanted to start up a new dealership with a different brand? Just—can you give me kind of a ballpark?

Mr. THOMAS. I talked to one that—out-of-pocket, about \$700,000 for the one I talked to for their initial package. That does not include inventory. That includes training, signage, some of the equipment they require you to buy. The initial package, about \$700,000.

Your facility has to meet their specifications, so you have to change, redesign and make your facility meet theirs. Like GM, GM wants theirs to all look the same. You would have to do the same. I would have to do, not the same thing I did to my building in 2000. But I would have to redo it, reshape it, recolor it. And my building is all stucco. I would have to redo all the signage, all the fascia.

Mrs. DAHLKEMPER. So basically the investment that you put there, there is no value to that?

Mr. THOMAS. No.

Mrs. DAHLKEMPER. And you would have to outlay a very, very large sum of money?

Mr. THOMAS. Well, based on the one that I have looked at is \$700,000.

Mrs. DAHLKEMPER. Have you looked at anything Mr. Allison?

Mr. ALLISON. Yes, ma'am, and my experience is similar to Mr. Thomas'. Obviously, the outlay would be—we already have facili-

ties, so it would be to retrofit or change the facilities to meet their requirements.

Mrs. DAHLKEMPER. Thank you very much for your testimony.

Thank you, Mr. Chairman. I yield back.

Chairman SHULER. Thank you.

I think one thing that really struck me in the testimony was loyalty. You guys have one store, one location. Most of the big dealers have, what, multiple? I mean, some of them are very close friends of mine. They have multiple dealerships, multiple brands, foreign and domestic.

So you decided to stay with that American-made vehicle. Hopefully, these dealerships that are in front of us—and maybe there are some automakers' representatives here today. That goes a long way with me, people that are going to be loyal to a particular brand, to service them with the integrity and character that I know that Mr. Allison has had. I am sure Mr. Thomas has, as well.

That goes a long way with me, and hopefully that can—that will go a long way with the automakers. So we have a lot of work to do, I think.

As you can tell, there is minority on one side and majority on the other, and you probably couldn't tell with the question which side anyone was on from the standpoint—this is not political, this is about creating jobs.

I mean, the bailout happened. I guess it is all the more reason that I think my vote was right when I didn't vote for the bailout, because it is about families, creating jobs. And maybe I don't fully understand it, and hopefully I will get educated, as well, from the understanding—from the automakers' standpoint. Maybe that is where I need to educate myself for the reasons of why they are being shut down. It is hard when we have great testimony from you to understand that analogy.

So when it comes down to making sure that we have representatives in our communities, three generations and a fourth that is here today, I hope. I know your son is here today. Hopefully. That would be a fourth generation to be able to sell that GM product.

Mr. ALLISON. Yes, sir.

Chairman SHULER. We need to make sure.

And one of the things we need to do is make sure—we have to ensure—I don't want us to lose GM, Chrysler, Ford; that would be devastating to our country. We need to continue to produce things in this country. We far import way too much. And so I respect your loyalty more than anything and what you have given back to our communities.

And so, does any other member have any other follow-up questions or comments?

But I do want to thank you all for your participation. And I hope I get educated so—on some of the things, and maybe I can relay some of the messages to you. That will be part of—we will all try to gather as much information to educate ourselves. There are always two sides to the story, and I want to be able to see both sides and understand the issues that we have in front of us.

But loyalty goes a long way for me. So, hopefully, you guys will get an appeal process that will be beneficial to you, long term for the families and the people of the community.

I ask unanimous consent that the members will have 5 days to submit statements and supporting materials for the record.

Without objection, so ordered. This hearing is now adjourned.

[Whereupon, at 11:28 a.m., the subcommittee was adjourned.]

HEATH SHULER, NORTH CAROLINA
CHAIRMAN

BLAINE LUETKEMEYER, MISSOURI
RANKING MINORITY MEMBER

Congress of the United States
U.S. House of Representatives
Committee on Small Business
Subcommittee on Rural Development,
Entrepreneurship and Trade
2501 Rayburn House Office Building
Washington, DC 20515-0515

STATEMENT

Of the Honorable Heath Shuler, Chair
U.S. House Committee on Small Business
Subcommittee on Rural Development, Entrepreneurship, and Trade
Subcommittee Hearing: *"The Role of Automobile Dealerships in Rural Economies"*
Wednesday, September 16, 2009, 10:00 a.m.

Earlier this year, the House Small Business Committee held a hearing examining how small parts manufacturers are faring during the restructuring of the automobile industry. During today's hearing, the Subcommittee will look at another vital link in the auto supply chain: automobile dealers.

Traditionally, our domestic automobile makers have relied on a network of 20,000 local dealers throughout the nation to sell vehicles to the American public. These entrepreneurs are the nexus between manufacturers and car buyers, making them a critical component in the overall automotive sector.

These small businesses are also an important source of employment. Nationally, dealerships employ more than one million workers and support a payroll of \$54 billion. On average, each "new-car" dealership employs 54 people and supports a payroll of \$2.6 million. These employees, in turn, spend their wages buying goods and services from other local businesses.

In rural areas like western North Carolina, the economic role of auto dealers is magnified. One of our witnesses today, Allison's Chevrolet, is located in Sylva, North Carolina. Allison's provides jobs to 16 employees and their families. In a town of just 2,400 people, that is a significant number of employees.

Beyond providing a source of livelihood for their workers, these dealers also offer rural Americans an important service. Often, the closest dealership can be as far as 50 miles away. This means that dealers that choose to serve rural areas are an important option for Americans looking to purchase a new vehicle. These dealers also service vehicles with warranties.

In rural America, public transportation is often not readily available. As a result, rural Americans, on average, drive 3,700 more miles per year than their urban counterparts. In short, if you live in rural America, you are more likely to drive to work, to bring your kids to school or to pick up groceries than if you live in a big city. And, on average, the distance you drive is likely to be greater than it is for Americans who live in condensed, urban areas.

Unfortunately, in recent years, automobile dealers have encountered unprecedented economic pressures. Plunging sales have hit all parts of the auto industry hard. The number of cars and light trucks sold in the U.S. declined by almost 3 million between 2007 and 2008. In 2008, things went from bad to worse as the combination of rising gas prices, the credit crisis and a recession put a serious pinch of automobile sales. U.S. auto sales fell to a 26-year low that year and industry estimates suggest sales may drop by 3 million more this year.

Of course, automobile dealers are not alone in facing these challenges. All of the American automobile industry is undergoing significant restructuring as the entire sector responds to this climate. GM is eliminating several brands. Both Chrysler and GM are closing plants and will employ fewer workers. During the first six months of this year, at least 15 auto parts suppliers have sought Chapter 11 protection, including the two largest suppliers. As the Committee heard earlier this year, an increasing number of small auto parts suppliers are going out business.

These changes are causing hardship in communities across the nation. It is my hope that today's discussion can highlight the importance of auto dealers to rural communities. While they are just one link in the chain of the automotive industry, these small businesses play a critical role in small town America. I think today's hearing is timely and I thank our witnesses for being here.

Statement of Mr. Daniel Allison
President
Allison's Inc.

Before the House Small Business Committee
Subcommittee on Rural Development, Entrepreneurship and Trade

"The Role of Automobile Dealerships in Rural Economies"

September 16, 2009

Chairman Shuler, Ranking Minority member Luetkemeyer, and committee members: Thank you for your willingness to address the economic impacts of automobile dealerships in rural communities. Thank you also for allowing me to present my views and tell my story.

My name is Daniel Allison. I am the President of Allison's, Inc., a family-owned Chevrolet dealership located in Sylva, NC. Our relationship with General Motors began in 1935 when my Grandfather established Allison's as an Oldsmobile dealership. From that time until recently, three generations of the Allison family, have proudly been loyal partners with General Motors.

And I believe this beneficial relationship has gone both ways. Small rural dealerships like mine offer automakers like GM an important competitive advantage – they're usually located in areas where there are very few if any new car dealerships and most often no import dealers.

For three generations, Allison's, Inc. has benefitted the local economy. It has provided stable employment in one of the more economically depressed regions in North Carolina. Even today when the unemployment rates in our market area range from 8.3% in Jackson Co. and 9.7% in Swain, to as high as 14.0% in Graham, 16 people and their families depend on us to provide them with a good living wage and much needed benefits such as a healthcare plan and a simple IRA.

We have done significant amounts of business and bolstered federal, state, and local tax revenues. In 2008 our annual payroll was \$670,269.20 and we paid \$223,196.79 in payroll taxes. In 2008, we sold 150 new Chevrolets (4.1 million net sales) and 163 used vehicles (2.5 million net sales) the majority of which were GM makes. These sales generated \$147,304.90 in highway use tax. Our service and parts sales in 2008 generated \$25,855.51 sales taxes. The property taxes we paid in 2008 were \$9,186.10. A good portion of all these taxes benefit our community by helping our Federal, State, and local governments to provide us with their services.

Allison's, Inc. like all small rural dealerships is of great economic importance to the local community. We do regular business with several local, regional, and national banks, with at least four local and state credit unions, with ten or more local insurance agencies, three area radio stations, three community newspapers, and three local auto parts stores. In addition to this, our business and its employees spend money with our local grocery stores, building supply stores, restaurants and other local retailers.

Small rural dealerships and their employees provide critical support to the communities they serve by volunteering their time and by contributing their money. As part of the fabric of our community, Allison's and its employees have for 74 years helped support our area school systems, churches, hospitals, community assistance organizations, youth athletic and music programs, high school athletic and music programs, charities, and

benefits for victims of disaster, disease, and economic loss. We are also regular supporters of Southwestern Community College and Western Carolina University.

I was raised to believe being a good neighbor and serving your community, is the right thing to do. Doing so also makes good business sense and has created tremendous goodwill for GM in our local communities.

Since there is so much mutual benefit in the relationship between automakers and their rural dealerships and the communities they service, I am hopeful that my dealership and the thousands of successful rural dealerships across America will be able to continue in their businesses.

On behalf of our dealership, its employees and customers and all small rural dealerships, I sincerely appreciate your time, interest, and concern.

BEFORE THE HOUSE OF REPRESENTATIVES COMMITTEE
ON SMALL BUSINESS
SUBCOMMITTEE ON RURAL DEVELOPMENT, ENTREPRENEURSHIP
AND TRADE

IMPACT OF CLOSING GENERAL MOTORS DEALERSHIPS ON RURAL
AMERICA

HEARING TESTIMONY OF DON THOMAS,
PRESIDENT OF THOMAS MOTORS, INC. OF MOBERLY, MISSOURI

SEPTEMBER 16, 2009

Chairman Shuler, Ranking Member Luetkemeyer and Members of the
Subcommittee

My name is Don Thomas, owner of Thomas Motors, Inc., in Moberly, Missouri. I have spent my entire life and raised my family in rural Missouri. I live in a small town on a farm approximately fifteen miles from my dealership. I feel honored and privileged to be speaking before you today.

I have been a GM dealer since 1975. The dealership represents only Chevrolet, Buick, Pontiac, Cadillac, and GMC. We do not represent any non-GM brand.

We have a family operated business that treats its customers and employees fairly, which is reflected in the customer satisfaction scores of the dealership, the tenure of our employees and low rate of employee attrition. Thomas Motors also prides itself in complying with GM's operational policies and procedures and competing fairly with other GM and non-GM dealers.

While sales have fallen since 2005, due to an overall decline in domestic auto sales, even in a down economy, our unit sales and profits remain strong. This year our new and current year program vehicle sales total 117 as of August 31, 2009. This is in addition to used vehicle sales.

We have a modern updated dealership that fronts on U. S. Highway 63, a four lane

divided highway which is the main north-south artery in the state. The facility has excellent visibility from both directions and is easily accessible to customers. The dealership is located less than a mile from the local shopping mall, and just south of the intersection of U. S. Highway 24.

The dealership's facility consists of 20,874 square feet of space, of which 2,889 square feet is devoted to sales operations, 9,450 square feet is utilized by service operations, the parts department occupies 4,800 square feet, and the body shop occupies 3,168 square feet. We can accommodate the indoor display of 5 new vehicles. The service department has 12 service bays and the body shop has 4 service bays.

At GM's request, in 2000 we completed the GM Image Upgrade called Project 2000, at a cost of \$300,000.00. In 2004, the dealership renovated the exterior of the facility and upgraded the service department at a cost of \$200,000.00. These improvements were all paid for from dealership profits. Our dealership remains debt free.

Thomas Motors is the only GM dealership within a seven county area. Farmers, businesses, local fire departments and law enforcement, schools, the elderly and ordinary people depend on us. From January to July, 2009, our service department completed in excess of 2600 GM repair orders for repair service and warranty work. I have calculated the distance the average of those customers would have driven to the nearest GM dealership for their respective make of vehicle and it is 55 miles, one way.

I have talked to many of my loyal Moberly customers and am told they simply will not drive to Columbia or other locations for sales and service work on GM vehicles. This would involve a 90 mile round trip minimum with a possibility of at least 2 trips with 2 cars, depending on what service work is performed.

The population of Randolph County is estimated to be in excess of 30,000 residents. The median family income is estimated to be nearly \$40,000.00.

It is a rural but thriving community. In 2009, Moberly is adding a new Lowes with 120 new jobs and a biodiesel plant with over 100 new jobs. The local hospital is adding a major addition in 2009 which should increase employment. Moberly just

completed an airport upgrade and runway addition, which will allow large jets to land.

Moberly is home to Moberly Area Community College and Central Christian College. The Moberly Training Center, a minimum security prison, hires 2,000 employees. Norfolk & Southern Railroad has a terminal in Moberly. Orscheln Industries has over 1,000 employees. Scholastic has over 500 employees. GE Capital has over 300 employees. Dolphin Capital has over 300 employees. Mid Am Building Supply has over 300 employees. The community of Moberly and Randolph County, Missouri provides an excellent customer base for the dealership.

The elimination of Thomas Motors will have a very negative impact on the area. We have 25 employees who are afforded medical benefits. Our payroll is over one million dollars annually. Most of our employees have been with us for a very long time.

In June of this year, I received an unsigned generic letter from GM, advising me that our franchise was to be wound down by October 2010. As a result we have been unable to order any new 2010 units.

One thing that disturbs me is being told to wind down my long established General Motors franchise without benefit of any substantive or objective criteria in support of that decision.

In its bankruptcy filing in the United States Bankruptcy Court for the Southern District of New York, GM told the court it would utilize a Dealership Evaluation Process which would objectively consider Dealership Sales, Customer Satisfaction Index, Capitalization and Profitability and would examine, among other things, Dealer Throughput, Dealer Return on Investment, Customer Convenience, Drive-Time Metrics and Shifting Market Demographics.

If you look at the facts I just read to you, Thomas Motors would excel in every aspect except one, and we can correct that over night, if GM's own criteria was objectively applied. We strongly feel the wind down of our dealership has certainly not been based on objective criteria. If we were afforded a legitimate review based on objective criteria, there would be no question our dealership would be granted a continuing franchise with General Motors.

Our history of annual profitability is in excess of \$275,000.00 per year the past 10 years, after adding back the non cash LIFO deductions and excess allowable IRS deductions. Our capitalization is nearly \$1.5 million, which is \$1 million more than GM guidelines. Our dealership has a year to date profit in excess of \$190,000.00. We are well on our way to another profitable year for 2009.

New car dealers are a vital part of any rural community. It would be impossible to guess as to how many ball teams, golf tournaments, and school activities we have sponsored. We have purchased ball uniforms, donated door prizes, and given school scholarships, not to mention donations to the YMCA, the county fairs, church functions, civic functions and the list goes on.

For example, recently the Madison School District, where I live, was in need of a van that had not been included in their budget. I gladly donated the van. The volunteer rural fire department was badly in need of a truck and donated it as well. These are just a few of the many things that we do in the community. It goes without saying smaller communities rely on business support.

The impact of the wind-down and non-renewal of Thomas Motors, Inc.'s operating agreement will have a devastating effect on the Moberly market area. We are the sole provider for most of the sales and service for city vehicles, and law enforcement, and service most of the school buses for many school districts. The possibility of GM losing these vehicles sales to another non-GM franchise is very high without our dealership in Moberly to sell and service the existing and future purchases of vehicles for the community.

City officials have advised me that if my dealership is lost, the competitive bidding for public vehicles will no longer exist. They have expressed great concern over the impact this will have on their vehicle costs.

Recently GM came up with a plan to pay "going forward dealers" to make upgrades and improvements and to work with GMAC Financial for additional floor plan. I've been running a successful dealership, making money, completing all updates, paying taxes, providing a steady work place and I don't need GM's financial assistance to run my dealership.

We live in the heartland. When a farmer's truck breaks down he doesn't have the time to take it over an hour away for repairs. When local policemen, the county sheriff, the fire chief or grandma drops by, we are always here for their service. I would dare to guess how many of our customers have had tears in their eyes wondering what they are supposed to do. This is just not about Thomas Motors or the 25 families that have devoted their life to Thomas Motors...this affects the entire community. Eliminating a GM dealership in this rural community would be like closing a school or post office.

In closing, my life for the past 35 years has been with General Motors. I have complied with all their suggestions and requirements. I began with constructing a new facility, completed image and improvement updates, and complied with all training and special tool requirements. Thomas Motors has maintained CSI and SSI ratings above zone and region, which are based on customer surveys taken by GM. We have the highest GMAC rating.

Since January of this year GM has lost 6 dealerships within 100 miles of my dealership, and some of them have cost GMAC a lot of money. I have kept steady employment and made money every year. I've tried to understand the reasoning behind GM's decision to no longer continue our relationship, but am unable to come up with a sensible conclusion. Thomas Motors has met their requirements for 35 years. It is not reasonable to discontinue a relationship that has benefited us all. The simple fact is GM needs more like us.

Once again, I thank you for allowing me this opportunity. It has truly been an honor.

WRITTEN TESTIMONY
of Ernest Goss, Ph.D.
Director of the Economic Forecasting Group, Creighton University
TO THE
COMMITTEE ON SMALL BUSINESS
SUBCOMMITTEE ON RURAL DEVELOPMENT, ENTREPRENEURSHIP AND TRADE
September 16, 2009

Mr. Chairman Shuler and distinguished members of the Subcommittee, I want to thank you for inviting me to appear before you today to discuss economic issues related to the announced closure of General Motors (GM) and Chrysler dealerships across the nation. My testimony will identify some of the community benefits and costs associated with the closures. Up to this time, the media focus has been on the private costs and benefits related to shuttering more than 1,900 dealerships across the U.S. For example, GM CEO Fritz Henderson recently claimed a savings potential of \$928,000 per closed dealer.¹ There was no mention of the costs and/or benefits to the public.

To date, taxpayers have invested over \$64 billion in Chrysler and GM.² Currently, less than one percent of GM or Chrysler stock shares are held by investors outside of the U.S. federal government. Thus, both GM and Chrysler are essentially 100 percent taxpayer owned. As public corporations, public costs and benefits of corporate decisions must be an input to decision-making, including the decision to shutter dealerships.³

These closures will result in the loss of thousands of jobs, both direct and indirect, and produce severe economic hardships in many communities across the country in the form of plummeting tax collections, tumbling charitable contributions and sinking local real estate values. The losses will be particularly difficult for small towns in rural portions of the nation where automobile dealerships are an integral part of the area economy. At this time, neither GM nor Chrysler is offering assistance to the affected communities or to the closed dealerships. This

¹ <http://www.thedetroitbureau.com/2009/06/general-motors-claims-1-million-in-costs-to-keep-each-cancelled-new-car-dealer-open/> (accessed September 12, 2009) Michael Robinson, GM's general counsel for North America, testified that the automaker would save \$2.5 billion annually in "subsidies" such as dealer-support payments and costs such as local advertising assistance by terminating 1,300 franchises by the end of next year.

² GM and Chrysler received \$49.9 billion and \$14.3 billion, respectively, from TARP funds. This does not include \$16.9 billion in aid to GMAC and auto suppliers.

³ At stock market closing on September 11, 2009, GM had 610.56 million shares outstanding with a value of \$0.78 for a total corporate value of slightly over \$476 million. This represents less than one percent of the U.S. government's investment of \$49.9 billion.

departs from GM's 2004 dispensation of Oldsmobile, costing GM approximately \$1 billion with a significant portion going to dealers in the form of vehicle repurchases.

With public ownership comes public responsibility. As such, the analysis of the closures must include the public costs and benefits of the dealership termination. Across the country, these dealerships employ hundreds of people in good-paying jobs. They support the infrastructure of many communities by sponsoring youth sports teams, raising funds for needy projects and contributing to local charities. In many cases, the targeted dealerships have been an integral part of their community for generations. What I am contending is that both private and public costs be a part of the decision making process.

Thus far, to my knowledge, there has been no cost-benefit analysis conducted as part of the dealer termination process. That is, while the private benefits may or may not exceed the private costs, there has been no explicit examination of the public costs, especially for rural communities that depend heavily on each and every job. I will provide a brief examination of one announced termination, that of Meyer-Earp Auto in Auburn, Nebraska, a community of 3,400 residents in Southeastern, Nebraska.

Case Study: Impact of the Closure of Meyer-Arp Auto in Auburn, Nebraska

Each month since 2005, I have conducted a survey of bank CEOs in rural areas of ten states with an average community size of 1,300. States included in the survey are: Colorado, Iowa, Kansas, Illinois, Minnesota, Missouri, Nebraska, North Dakota, South Dakota, and Wyoming. In May 2009, I asked the bank CEOs whether the dealership closures would have a significant impact on their area economies. In those communities slated for dealership closure, the impacts were judged as "very negative" and "significant." In total, one-third of the bank CEOs expects the closure to have a negative impact on their local economies.

In an effort to gauge the impact of one closure, I have simulated the closing of Meyer-Earp Auto in Auburn, Nebraska. It was announced publicly that this dealership license would be terminated. In the table below, you see the estimated yearly impacts from the closing. These estimates do not include the negative impact on the real estate market, the schools, and non-profit organizations in the community.

According to the estimates, Auburn will lose almost \$680,000 in yearly sales, more than \$267,000 in wages and salaries, and in excess of \$54,000 in self-employment income.

Additionally, the area will lose 6.8 jobs, and tax collections will decline by more than \$77,000 each year.

<u>Industry</u>	<u>Output</u>	<u>Wages & salaries</u>	<u>Self-employment income</u>	<u>Jobs⁴</u>
Ag, Forestry, Fish & Hunting	\$1,583	\$109	\$237	0
Mining	\$2	\$0	\$1	0
Utilities	\$0	\$0	\$0	0
Construction	\$2,682	\$958	\$170	0
Manufacturing	\$1,736	\$297	\$117	0
Wholesale Trade	\$3,765	\$1,607	\$0	0
Transportation & Warehousing	\$5,228	\$2,362	\$386	0.1
Retail trade	\$565,020	\$237,067	\$49,339	5.7
Information	\$6,591	\$1,350	\$185	0.1
Finance & insurance	\$11,551	\$2,713	\$236	0.1
Real estate & rental	\$2,063	\$106	\$245	0
Professional- scientific & tech services	\$2,451	\$750	\$332	0
Management of companies	\$1,381	\$302	\$0	0
Administrative & waste services	\$5,340	\$2,899	\$57	0.1
Educational services	\$293	\$89	\$3	0
Health & social services	\$16,238	\$7,552	\$1,903	0.3
Arts- entertainment & recreation	\$904	\$124	\$214	0
Accommodation & food services	\$11,225	\$2,685	\$196	0.3
Other services	\$7,835	\$2,691	\$422	0.1
Government	\$33,356	\$3,954	\$0	0
Total	\$679,244	\$267,615	\$54,043	6.8

Source: Implan Multiplier System

In summary, the lack of analysis and transparency in the decision process is troubling and could produce costs to the public greatly exceeding the benefits. As stated by one Nebraska bank CEO in our May 2009 Rural Mainstreet survey, "I have yet to see the real costs to Chrysler and GM in keeping rural dealerships open."

Mr. Chairman, and Members of the Committee, thank you for having me here today to discuss this important economic and social matter. I look forward to answering any questions you might have.

⁴Fractional jobs represent part-time jobs.

