

Department of Public Safety



Minnesota State Patrol Vehicle Crimes Unit



Report to the Legislature

February 1, 2015



Minnesota State Patrol Vehicle Crimes Unit Legislative Report



Reporting Requirements

This report is required under 2010 Minnesota Session Laws, Chapter 388, Article 3 which states:

By February 1, 2015, the commissioner shall submit a report to the house of representatives and senate committees having jurisdiction over transportation finance on the revenues generated by the Vehicle Crimes Unit. This report must be made available electronically and made available in print only upon request.

Legislative Background

In 1998, the Legislature established the Dealer Licensing and Motor Vehicle Registration Enforcement task force within the Department of Public Safety in Chapter 372, section five.

Four members of the Minnesota State Patrol (MSP) were assigned to the task force, which was identified within the MSP as the Vehicle Crimes Task Force (VCTF).

The task force was created to investigate motor vehicle sales and registrations that violate Minnesota law, specifically Minnesota Statutes, sections 168.27; 168A.30; 297B.035, subdivision 3; and 325F.664 to 325F.6643. The most common investigations pertained to unpaid motor vehicle taxes, dealer fraud related to registration fees and taxes, vehicles registered in another state because the fees are lower, motor vehicle crimes related to title fraud, and auto theft. Most cases originated with complaints from citizens; others resulted from other agencies' requests for assistance from the expert investigators on the VCTF.

In June 2009, complaints from Minnesotans prompted a complicated investigation of a major fraud case involving auto dealer Denny Hecker, and the Minnesota State Patrol temporarily provided five additional troopers, two retired VCTF analysts and one retired clerical staff member to work collectively on the investigation. The case exposed the serious nature of motor vehicle fraud and a federal indictment was secured by November.

In 2010, the legislature appropriated funding (Ch. 388, Art. 3) for additional trooper assignments, changed the name of the task force to the Vehicle Crimes Unit (VCU), and expanded the mission to include investigating (1) registration tax and motor vehicle sales tax liabilities from individuals and businesses that currently do not pay all taxes owed; and (2) illegal or improper activity related to sale, transfer, titling and registration of motor vehicles.

The general fund appropriation of \$191,000 for FY2011 was a one-time appropriation. In FY2012 and FY2013 the base appropriation from the highway user tax distribution fund was \$693,000 each fiscal year.

The initiative was expected to result in new revenues over the biennium as follows:

- 1) \$114,000 for the highway user tax distribution fund
- 2) \$75,000 for the transit assistance fund
- 3) \$13,000 for the general fund

The graph on the following page depicts the expected biennium revenues and the actual biennium revenues based on assessments from the Department of Revenue and Driver and Vehicle Services, and distributed according to MSS 297B.09, 168A.31 and 168.013(8).

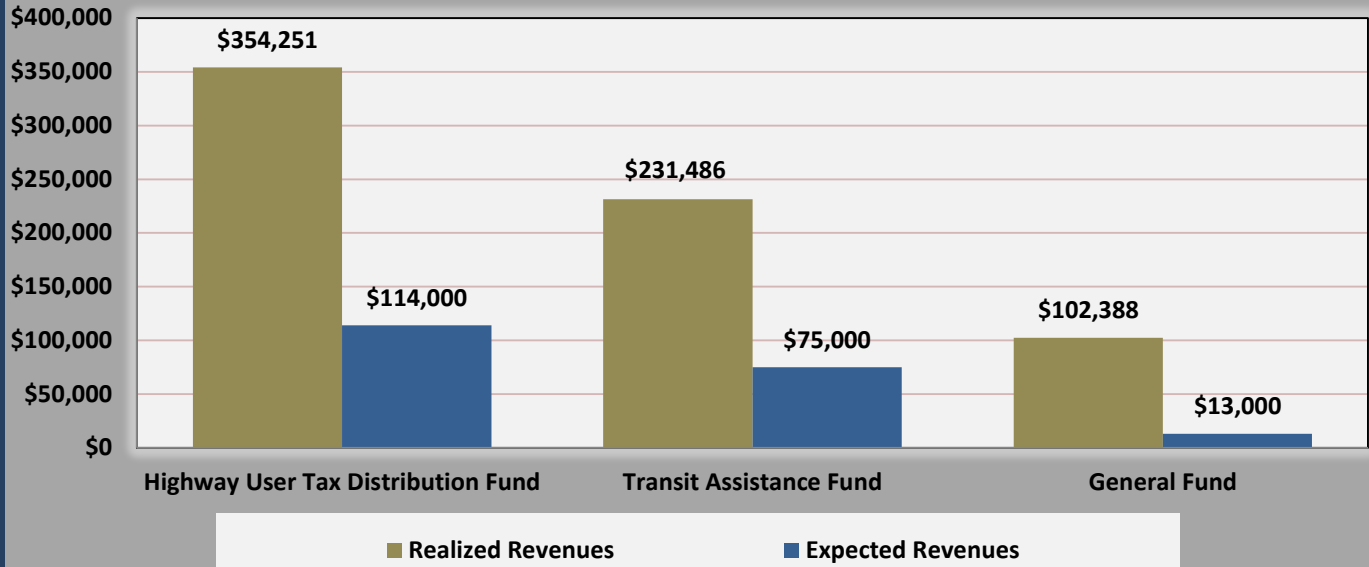


Minnesota State Patrol Vehicle Crimes Unit Legislative Report

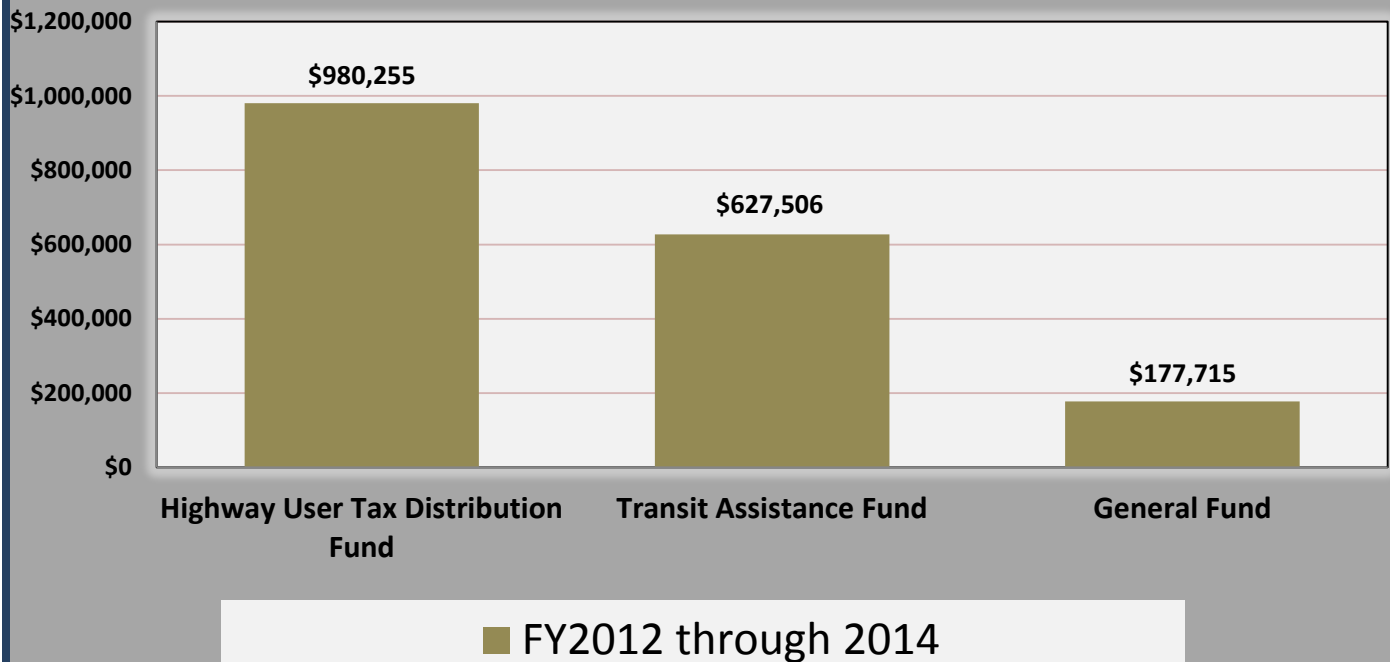


Fiscal Years 2012 and 2013

(Biennium following the establishment of the VCU in September 2011)



2012-2014 TOTALS





Minnesota State Patrol Vehicle Crimes Unit Legislative Report



Staffing, Organizational Structure, Roles and Responsibilities

In the summer of 2010, one investigator was added to the newly formed Vehicle Crime Unit (VCU) and assigned the Twin Cities Metropolitan area. In September 2011, six additional members were installed — two in the Metro, one in Rochester, one in Mankato, one in St. Cloud, and one in Detroit Lakes. As a basis for case assignment and responsibility, the state was divided into three regions: North, South and Metro.

Unit members rely on one another to assist in large investigations that include preparing and executing search warrants, obtaining evidence and prosecuting violators. The VCU invests considerable time educating other law enforcement agency members who lack experience investigating complex motor vehicle fraud schemes.

The VCU currently has seven members, supervised by the Investigative Services Section Commander in Golden Valley. Over the past three years, four members have left due to attrition or promotion, but with legislative funding remaining steady since 2010, three positions have been backfilled.

A working partnership with Department of Revenue (DOR) and Driver and Vehicle Services (DVS) that began in 2010 has expanded significantly since the VCU began operating with a full complement in 2011. Members of VCU, DOR and DVS are currently working together on numerous cases, with each division able to apply their expertise in a concerted effort. Without the partnerships between these departments, most of the tax revenue being recovered would not be benefitting the state. Each department relies on the others to ensure that monies owed the State of Minnesota are properly assessed and recovered. The partners agree that each division has been much more successful with the help of the others.

The legislature appropriated \$50,000 from the special revenue account for the DVS Dealer Unit to provide dedicated support to the VCU. The VCU member from the DVS Dealer Unit is dedicated to the VCU mission and also processes data requests.

Since 2010, the State Patrol VCU has attended cooperative, joint meetings with investigators from the Department of Revenue (DOR) and staff from the Driver and Vehicle Services Dealer Unit. Cases are discussed and investigated jointly, when appropriate. Several cases of violations in other states have been cooperatively reviewed to gain compliance and recover millions of dollars for Minnesota.

Since the inception of the unit, the VCU and DOR have collaborated to recover \$1,594,579 in Minnesota sales tax (including interest and penalties) from Limited Liability Corporation cases in Montana. (That number is based on a report from DOR and includes only LLC cases. Some revenue is not reported due to data privacy restrictions, the VCU is not privy to all information gathered during income tax cases.)

The following pages describe the primary areas of investigation for the VCU. There are two main areas of financial impact, defined as follows:

Victim impact: Direct negative financial impact on citizens (victims)

Fiscal Impact: Direct negative financial impact on the State of Minnesota



Minnesota State Patrol Vehicle Crimes Unit Legislative Report

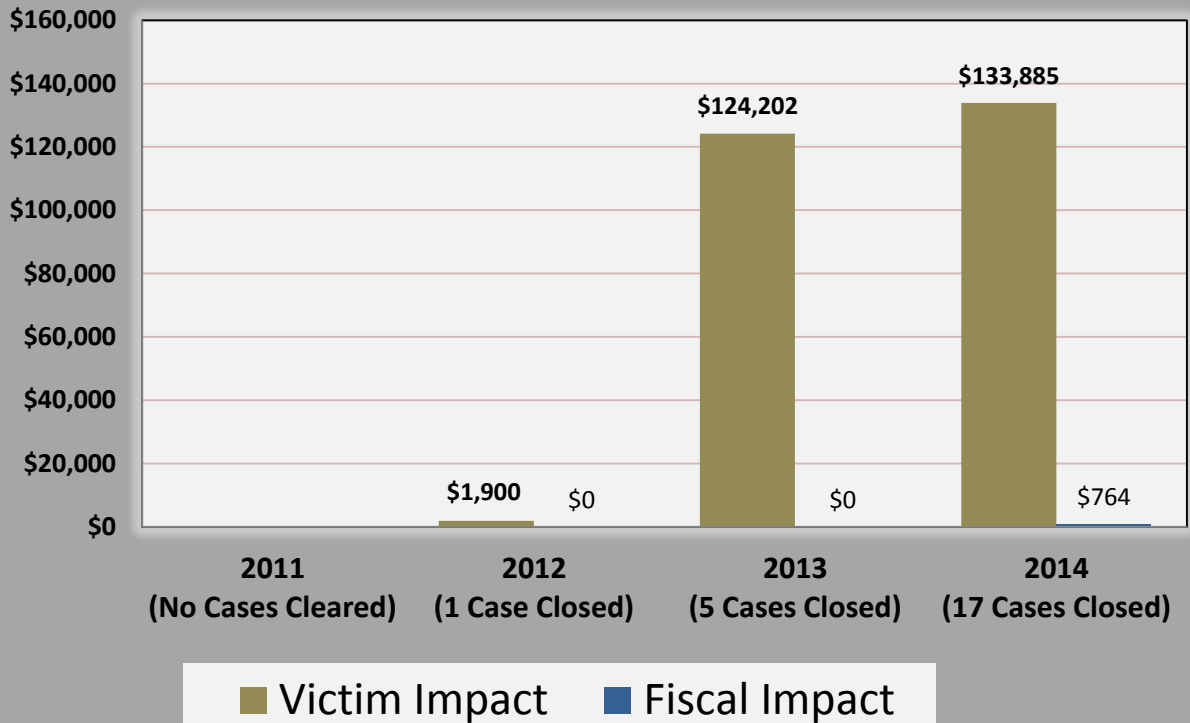


Auto Theft

Assist other federal, state and local law enforcement agencies with the identification of stolen and cloned vehicles

- Provide identification of stolen vehicles by verification of the confidential Vehicle Identification Number (VIN), identification of cloned vehicles and restoration of mutilated VINs using the acid restoration process

Auto Theft



Total Impact 2011-2014

(23 Cases Closed)

Fiscal \$764

Victim \$259,987



Minnesota State Patrol Vehicle Crimes Unit Legislative Report

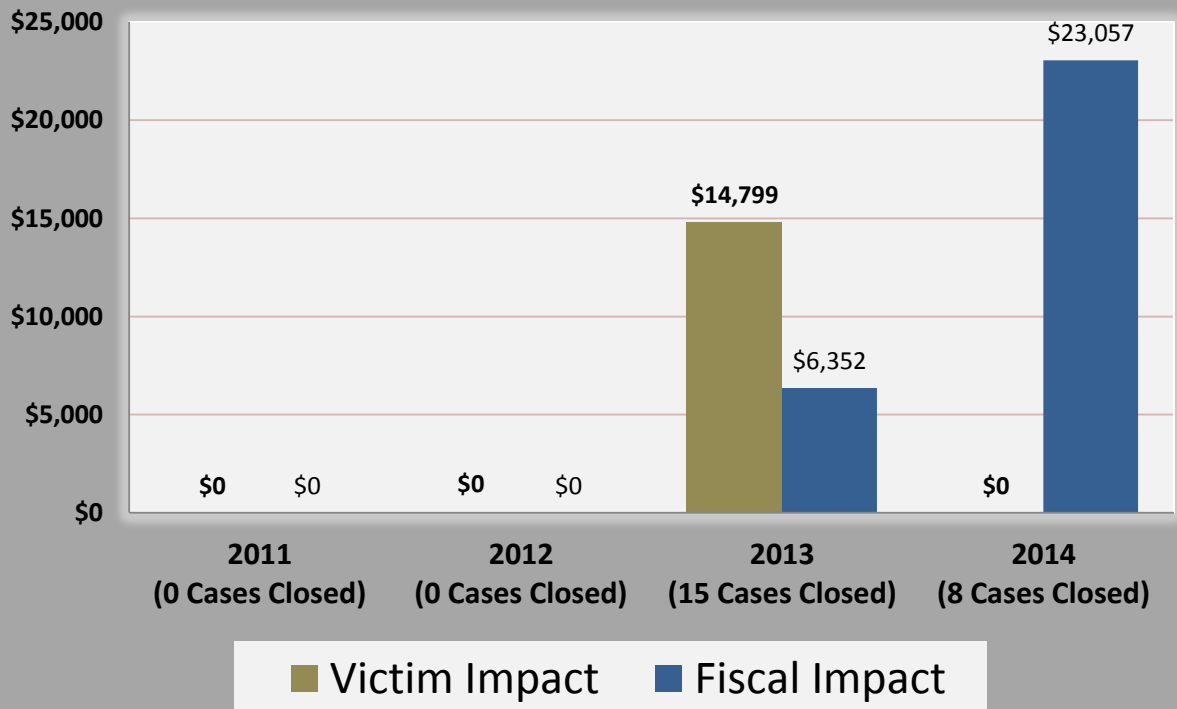


Illegal Use of Dealer Plates

Cases that involve the improper use of license plates issued to dealers.
The plates are often used illegally to avoid paying taxes.

- Dealer-owned tow trucks
- Children of dealership employees
- Dealer courtesy cars

Illegal Use of Dealer Plate



Total Impact 2011-2014

(23 Cases Closed)

Fiscal \$29,409

Victim \$14,799



Minnesota State Patrol Vehicle Crimes Unit Legislative Report

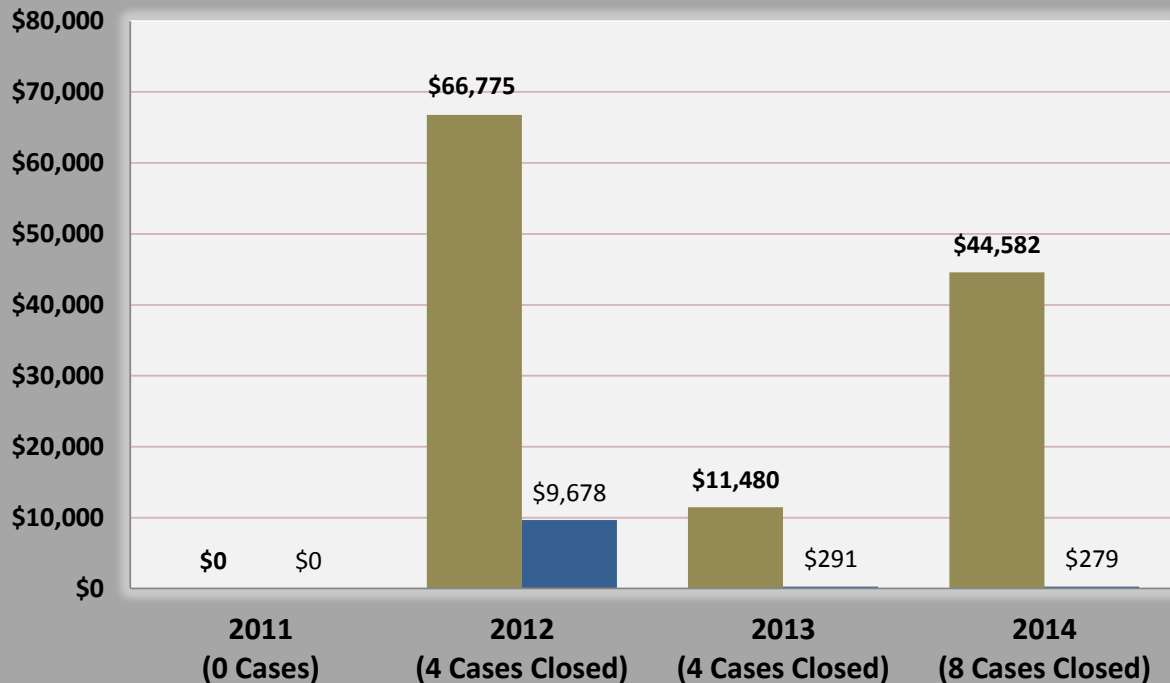


Odometer Fraud:

Intentional alteration of the true odometer reading to reflect a lower-than-actual mileage

- Altered mileage artificially increases the resale value of the vehicle
- Individuals intentionally alter the vehicle's true mileage either by electronic computer-aided odometer correction tools, replacement of the odometer cluster with a lower-mileage cluster or manually adjusting an analog odometer

Odometer Fraud



■ Victim Impact
 ■ Fiscal Impact

Total Impact 2011-2014

(16 Cases Closed)

Fiscal \$10,248

Victim \$122,387



Minnesota State Patrol Vehicle Crimes Unit Legislative Report

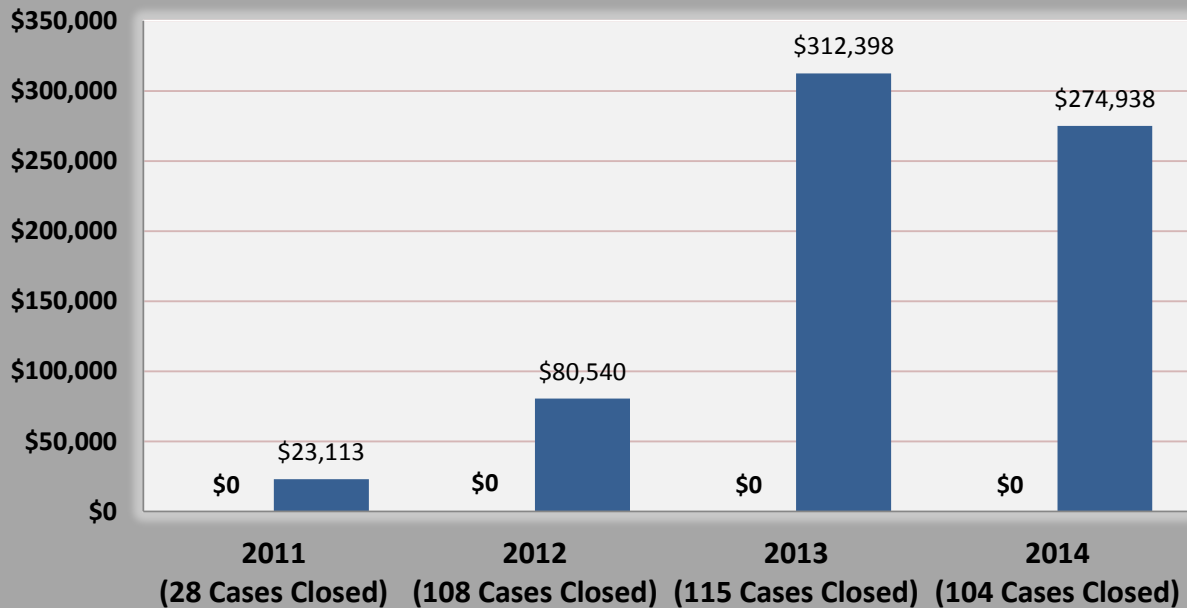


Foreign State Registration

The practice of citizens or businesses registering their vehicles in a foreign state to avoid paying sales tax or registration fees to the State of Minnesota

- Example: Minnesota residents who register their vehicles to their cabin in a foreign state to reduce or avoid the cost of registration in Minnesota
- Also includes businesses based outside Minnesota that have employees with vehicles domiciled and garaged in Minnesota

Foreign State Registration



Victim Impact Fiscal Impact

Total Impact 2011-2014

(355 Cases Closed)

Fiscal \$690,989



Minnesota State Patrol Vehicle Crimes Unit Legislative Report

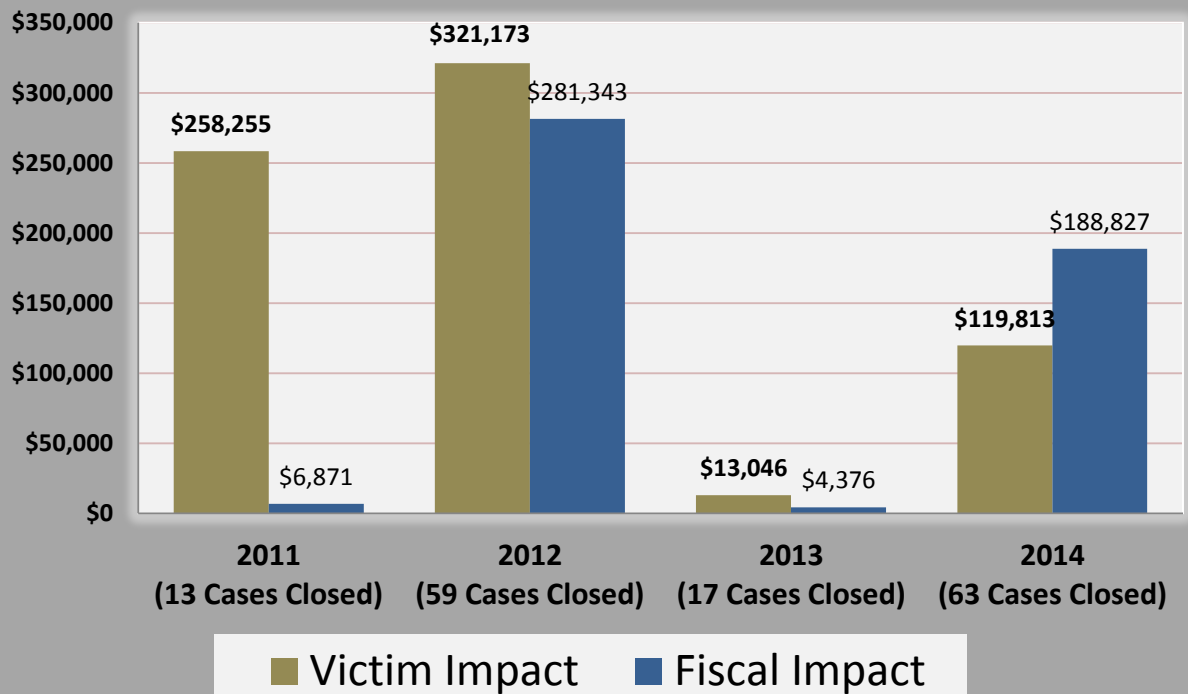


Non-Licensed Dealer

A person who conducts business as an automobile dealer without a valid dealer's license issued by the State of Minnesota

- Sell multiple vehicles online, on street corners or in vacant lots
- Act as dealers but are not licensed by the State of Minnesota and are not covered by a valid dealer's bond

Non-Licensed Dealer



Total Impact 2011-2014

(152 Cases Closed)

Fiscal \$481,417

Victim \$712,287



Minnesota State Patrol Vehicle Crimes Unit Legislative Report

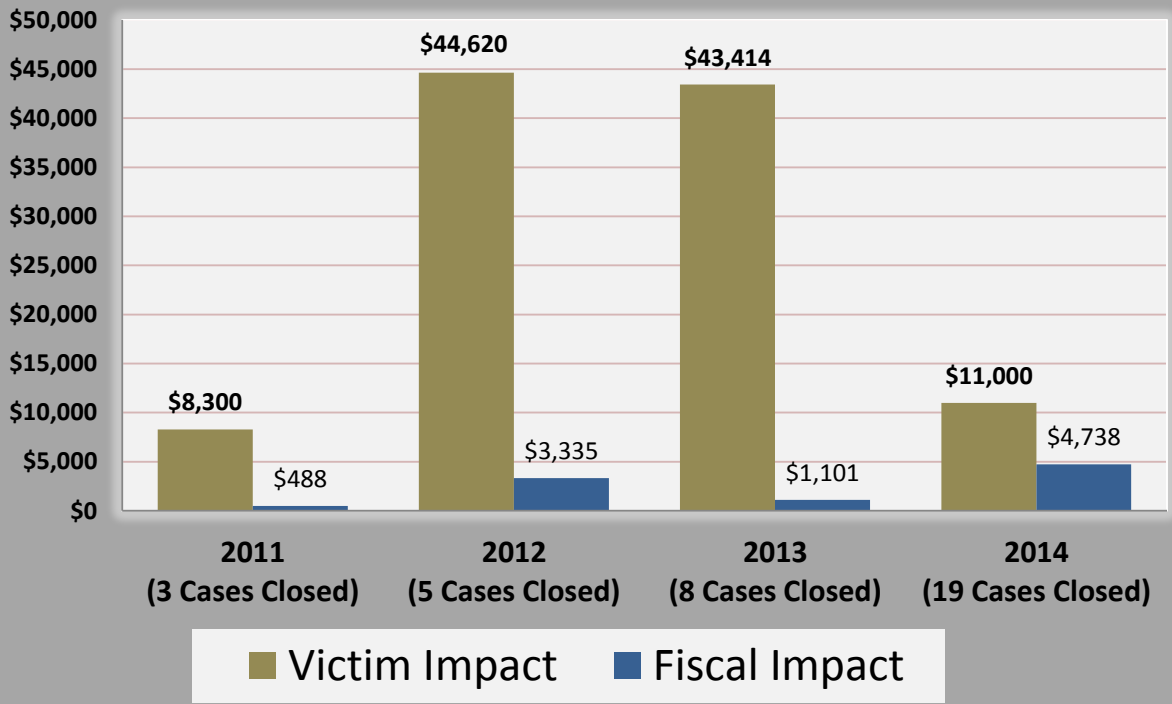


Registration Violations

Unlawful use of license plates, failure to register and/or use of license plates on improper vehicles

- Wrong class registration, plates affixed to improper vehicle, operating vehicles without registration, self-manufactured plates or tabs

Registration



Total Impact 2011-2014

(35 Cases Closed)

Fiscal \$9,662

Victim \$107,334



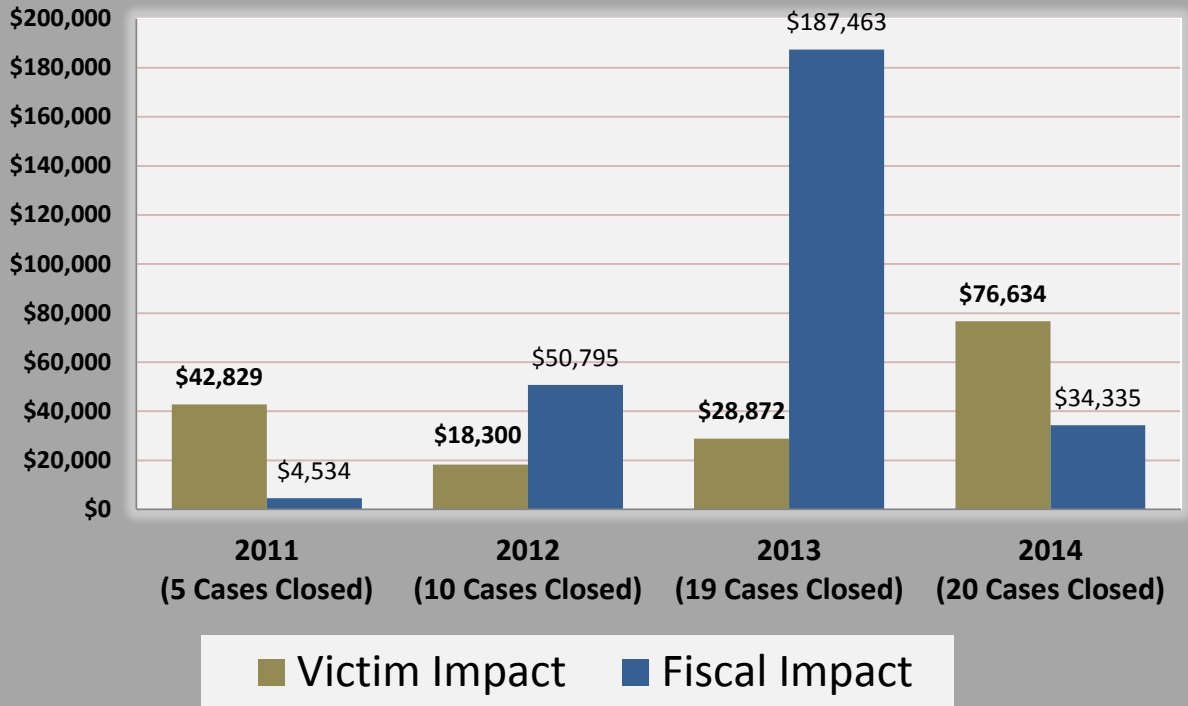
Minnesota State Patrol Vehicle Crimes Unit Legislative Report



Sales Tax

- Registering vehicles to non-existent, out-of-state companies
- Collecting sales tax from buyers and failing to remit to the State of Minnesota
- Sales tax fraud (created by improper sales agreements)
- Dealers who collect tax upon the sale of a vehicle but do not report the sale or remit the sales tax received to the State of Minnesota
- Dealers who sell vehicles, then report a lower sales price to the State of Minnesota to avoid remitting all sales taxes collected from the consumer

Sales Tax



Total Impact 2011-2014

(54 Cases Closed)

Fiscal \$277,127

Victim \$166,635



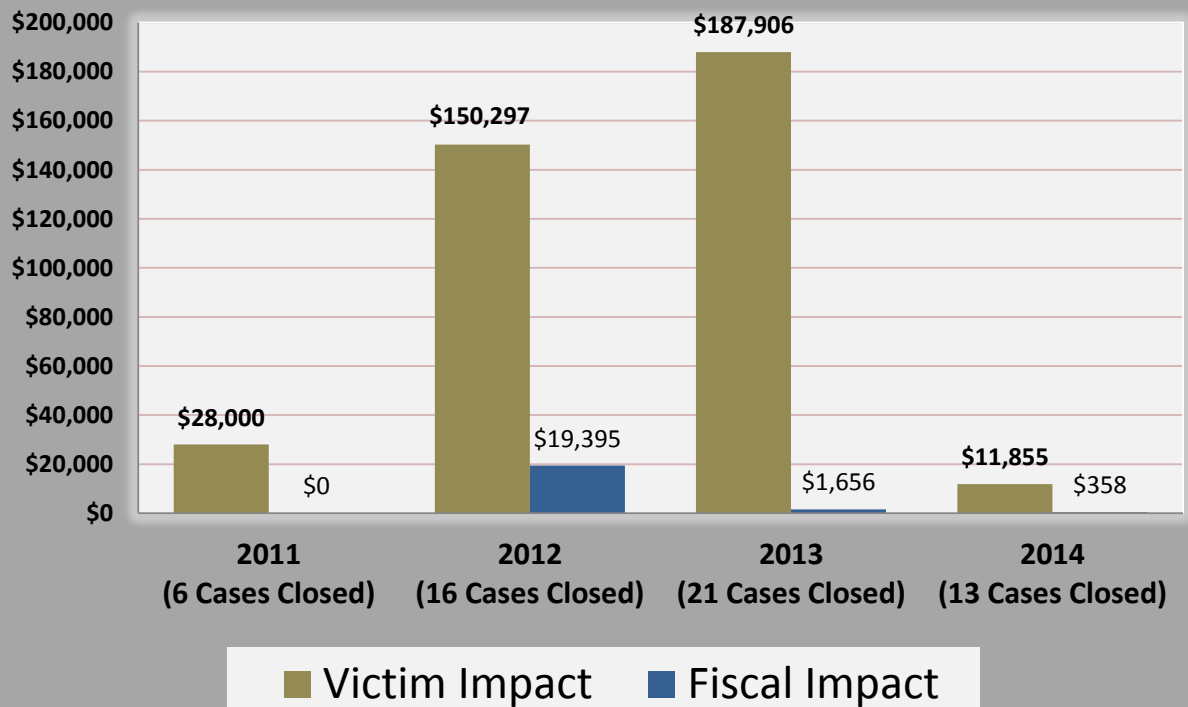
Minnesota State Patrol Vehicle Crimes Unit Legislative Report



Theft/Swindle

- Vehicles sold but never delivered
- Vehicle sales using artifice, trickery or device to convince an unsuspecting buyer to purchase a vehicle
- Example: Business set up to refurbish and resell vehicles; payment is required in full before the order can be placed. The vehicle is never refurbished or delivered.

Theft/Swindle



Total Impact 2011-2014

(56 Cases Closed)

Fiscal \$21,409

Victim \$378,058



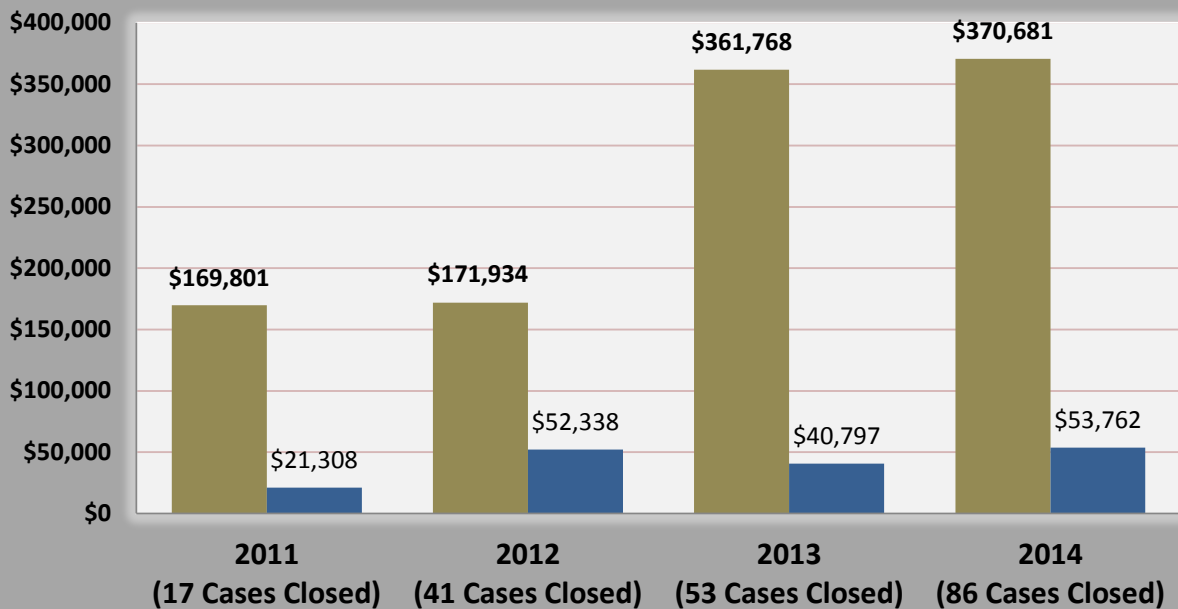
Minnesota State Patrol Vehicle Crimes Unit Legislative Report



Title Violations

- Vehicles sold by licensed dealers and private parties and the buyers cannot obtain a title
 - Example: A citizen purchases a vehicle and cannot obtain a clear title. The vehicle cannot be sold, traded, refinanced or used as collateral for a loan
- Also covers failure to disclose salvage, prior salvage, flood or Lemon Law title brands

Title Violations



■ Victim Impact ■ Fiscal Impact

Total Impact 2011-2014

(197 Cases Closed)

Fiscal \$168,205

Victim \$1,074,184



Minnesota State Patrol Vehicle Crimes Unit Legislative Report

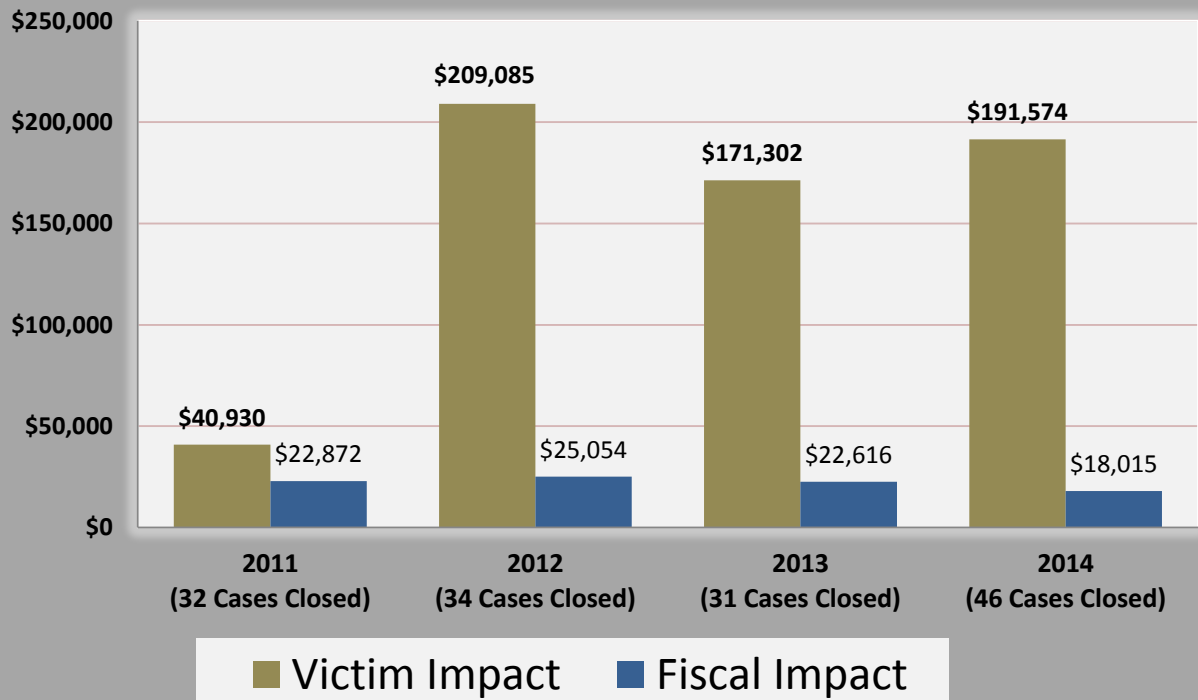


Dealer Violations

Cases involving new and/or used automobile dealers licensed by the State of Minnesota

- Example: Operating outside of license class, wholesale license holder making retail sales, sales finance law violations or franchise violations

Dealer Violations



Total Impact 2011-2014

(143 Cases Closed)

Fiscal \$88,557

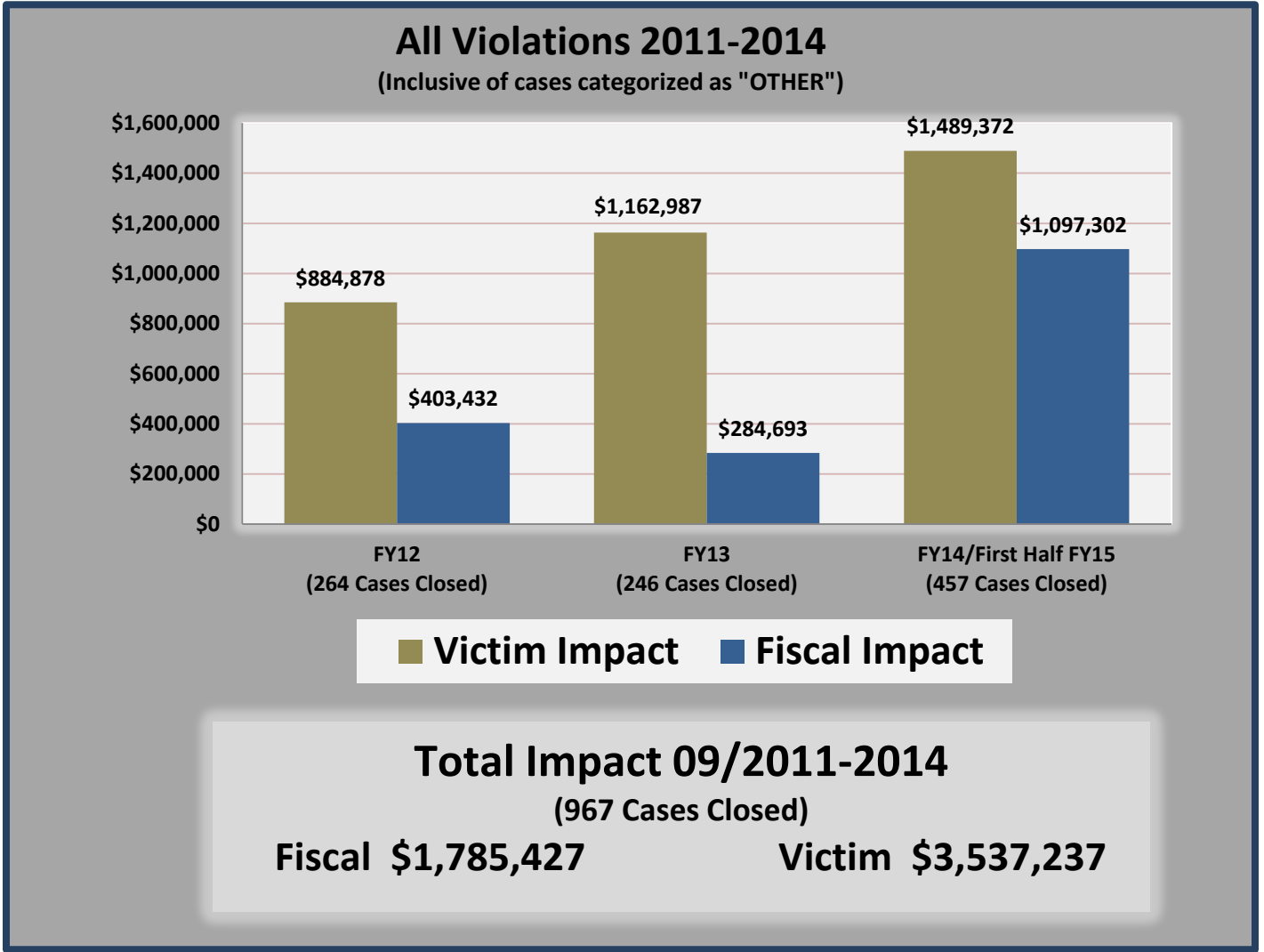
Victim \$612,891



Minnesota State Patrol Vehicle Crimes Unit Legislative Report



As depicted, the work of the VCU has had substantial impact on issues related to vehicle crimes. From the establishment of the unit in September 2011 through 2014, the combined victim and fiscal impacts generated by the seven-member investigation unit totaled \$5,322,664.



VCU Investigators are a major resource for allied agencies across the state. Countless case assists have been rendered, as well as presentations to help educate members of other law enforcement agencies. VCU members also coordinate with prosecutors to provide specific charging statutes and guidance when necessary.

Since its inception, the Vehicle Crimes Unit has closed 967 cases and assisted thousands of victims. Without VCU investigators, many victims would be left without expert, investigative resources to rectify the vehicle crimes against them.