



TESTIMONY

Jon Godfread, Insurance Commissioner

House Appropriations Committee, Government Operations Division

January 14, 2025

Good Afternoon, Chairman Monson, and members of the Government Operations Budget Section. For the record, my name is Jon Godfread, Insurance Commissioner for the State of North Dakota. Thank you for the opportunity this afternoon to present our budget bill, we know that we are at the very beginning of this conversation but appreciate the opportunity to provide an overview of our Department and our 2025-27 budget request.

Agency Organizational Chart and Major Programs

To begin, let me provide an overview of our agency's organizational structure and the major programs we manage. The Insurance Department consists of eight divisions, each critical to fulfilling our mission of ensuring the insurance needs of North Dakotans are met. Below is a summary of these divisions and their respective FTEs:

- **Legal Division (6 FTEs):** Includes a General Counsel and five attorneys who provide legal support, enforce insurance laws, and handle administrative litigation.
- **Life and Health Division (8 FTEs):** Responsible for consumer assistance and rate/form filings. This division also administers the State Health Insurance Assistance Program (SHIP), offering Medicare counseling and resolving insurance issues while ensuring compliance with state laws.
- **Property and Casualty Division (5 FTEs):** Manages rate and form filings and assists consumers with property and casualty insurance matters.
- **Producer Licensing Division (3 FTEs):** Oversees licensing for over 114,000 insurance producers, ensuring regulatory compliance.
- **Company Licensing and Examinations Division (5 FTEs):** Monitors the financial health of more than 2,500 insurance entities.
- **Fraud Division (4 FTEs):** Includes peace officers and investigators dedicated to combating insurance fraud.
- **Administration Division (6 FTEs):** Handles internal operations, including budget management, accounting, and human resources.
- **State Fire Marshal's Office (10 FTEs):** Transferred from the Attorney General's office in 2023, this division focuses on fire safety enforcement and local fire department support.

Achievements and Challenges of the Fire Marshal's Office Transition:

Since the State Fire Marshal's Office transitioned to the Insurance Department in July 2023, we've made significant strides in operational efficiency and support for local fire departments. Two new Deputy Fire Marshal positions were successfully filled in Devils Lake and Jamestown. Despite challenges in hiring for Williston, we strategically addressed staffing needs by reclassifying the Chief Deputy Fire Marshal role into a Deputy Fire Marshal position in Jamestown. This adjustment also allowed for career growth with the creation of Senior Deputy Fire Marshal positions, enhancing coverage and response capabilities statewide.

Additionally, legislative changes under SB 2211 provided the North Dakota Firefighters Association (NDFA) with stable funding of \$2.4 million per biennium from the Insurance Regulatory Trust Fund. This has enabled NDFA to improve services, hire essential staff, expand regional fire schools, and develop advanced training opportunities, such as Officer I and Driver/Operator certifications. These advancements have elevated fire safety and preparedness across North Dakota.

In 2023, fire district funding from the Insurance Tax Distribution Fund increased to \$13.5 million—a 37.8% rise compared to the previous year—and grew further to \$14.5 million in 2024. While these investments are critical, they have highlighted the need for greater resources for equipment maintenance and instructor recruitment to meet rising demands.

Addressing Financial and Operational Inefficiencies:

Despite our successes, the combination of transitioning the Fire Marshal's Office and implementing NDFA funding created cash flow challenges due to the Insurance Regulatory Trust Fund's \$1 million reserve limit. Although we anticipated this issue, our initial request to increase the reserve level was removed early in the legislative process, given the complexities of SB 2211.

To address this, we have introduced HB 1123, which aims to modernize outdated fees and fines, ensuring they reflect the true administrative costs of regulatory functions. This bill was recently heard in the House Industry, Business, and Labor Committee where it received favorable support and is now set to move to appropriations.

In the event that HB 1123 does not pass, we will pursue an increase in the Insurance Regulatory Trust Fund reserve from \$1 million to \$3 million. However, we are optimistic that the amendments made to the bill will be acceptable to all interested parties, and we remain committed to finding a solution that aligns with the needs of both the department and the broader community.

Furthermore, we have introduced SB 2090 to eliminate redundant billing between state agencies and the State Fire Marshal, a system that creates inefficiencies and undermines operational effectiveness. Streamlining these financial operations will reduce duplications, resolve timing issues, and allow us to focus on our mission of protecting North Dakotans without being hampered by cash flow disruptions.

Targeted Salary Equity:

To attract and retain talent, the department has utilized the targeted market equity funding pool to adjust salaries for 11 key positions, addressing competitive disparities and ensuring staff are compensated fairly for their experience and responsibilities. For the upcoming biennium, we are requesting an additional equity package totaling \$300,000 to address salary gaps for Deputy Fire

Marshals (\$45,000) and attorneys (\$255,000). These adjustments are critical to maintaining a skilled workforce capable of meeting the department's increasing responsibilities.

High-quality Deputy Fire Marshals are essential to safeguarding the safety and well-being of North Dakota communities. These individuals perform a wide range of vital functions, including enforcing fire safety codes, conducting inspections of public and private facilities, investigating the causes of fires, and supporting local fire departments in training and preparedness. Their expertise not only helps prevent fires but also mitigates risks to life and property, ensuring a safer environment for all North Dakotans.

The role of a Deputy Fire Marshal demands a unique combination of technical knowledge, investigative skills, and an understanding of fire science and building codes. This specialization makes finding qualified candidates challenging, especially in rural or underserved areas of the state. Once hired, these professionals undergo extensive training to develop the expertise required to carry out their responsibilities effectively, making retention a top priority to avoid the costly and time-intensive process of training new personnel. The unique economic environment in Williston, particularly influenced by the cost of living and regional demand, has proven to be a significant hurdle in attracting qualified candidates. Despite our best efforts to offer competitive compensation, we've had two offers turned down due to the starting salary not aligning with the high living expenses associated with the area. This has led us to re-evaluate our approach to compensation in the area, considering how we can remain competitive and attract the right candidates, while still maintaining fiscal responsibility.

Similarly, the need for specialized attorneys within our department cannot be overstated. Insurance law is a complex and nuanced area, and attorneys who work in this space require extensive training and time to develop the expertise necessary to navigate regulatory frameworks, consumer protection issues, and market compliance. This training investment, combined with the attorneys' acquired expertise, makes them highly attractive to private market insurance companies, which are often able to offer more competitive salaries.

While we would never begrudge one of our state's insurance companies for recruiting the highly skilled and trained attorneys we produce, this dynamic places significant pressure on the department to remain competitive in terms of compensation. The private sector and other states often offer financial packages that far exceed what we can provide under current salary structures. If we are unable to offer competitive compensation, we risk losing these critical professionals to opportunities outside the department, resulting in operational disruptions and increased training costs for replacements.

Investing in an attorney equity package is not just about retaining staff; it is about ensuring continuity and maintaining the high standards of regulatory oversight and consumer protection that the people of North Dakota expect and deserve. Addressing these salary gaps will allow us to attract and retain attorneys who are not only knowledgeable but also dedicated to public service.

By addressing the salary needs of both Deputy Fire Marshals and attorneys, we aim to strengthen our workforce and ensure that the department remains capable of meeting its growing responsibilities. These investments in equity are an investment in public safety, consumer protection, and the overall well-being of North Dakotans.

FTE Funding Pool:

I'd like to take a moment to discuss the FTE Funding Pool, a program introduced with good intentions but one that has presented challenges for our agency. At the conclusion of the 68th legislative session, \$644,746 was removed from the Department's salary and benefits authority, leaving us with \$10,668,172 to operate—before accounting for additional salary items. We were informed that we could request the full amount back through the FTE Funding Pool, but only under specific stipulations.

Unfortunately, our experience with this process has not aligned with those initial expectations. We were able to request \$532,798 for three positions—two in July 2023 and one in August 2023—but discrepancies arose in the interpretation of the program between legislative council and the Office of Management and Budget (OMB). This left our agency caught in the middle, trying to navigate a process that was more restrictive than anticipated. We were effectively given a \$111,948 shortfall on July 1st, at the start of our budget if all our positions would've been filled. I do not think this was the intention of the legislature, but unfortunately it was the practical reality.

Thanks to savings achieved through vacancies and internal reorganization, we managed to avoid a potential shortfall by the end of the biennium. However, this situation has forced us to keep certain positions vacant just to maintain operational flexibility. While we've adapted, this is not a sustainable solution and detracts from our ability to fully meet the needs of North Dakotans.

Throughout this process, I have been transparent with the appropriations committees about our staffing decisions, including providing industry data to justify these moves. The Legislature has already implemented robust safeguards to ensure salary benefits are used appropriately, such as requiring reporting of cumulative salary increases over 15%, disclosing bonuses to the Employee Benefits Committee, and setting legislative increase averages for state agencies. In my view, these existing mechanisms are more than adequate to prevent any misuse of salary funds.

The FTE Funding Pool, while designed to address valid concerns, has not fully accounted for the unique needs of smaller agencies like ours or the operational realities of larger ones. This has placed additional constraints on our ability to manage staffing effectively, creating unnecessary challenges that could impact our long-term efficiency.

I would respectfully ask that the Legislature reconsider this approach during the upcoming session. If there are concerns about how certain agencies manage vacant positions or salary dollars, I encourage addressing those issues directly with the agencies involved, rather than implementing a one-size-fits-all solution that limits the flexibility of all state agencies.

As an elected official, I have a duty to uphold the responsibilities of this office and ensure our department operates effectively. I am accountable to this body and, ultimately, to the people of North Dakota. Given the structure of independently elected agencies, I would ask that they be exempted from the FTE Funding Pool. From my understanding, most of the concerns the program seeks to address stem from agencies without the same level of direct accountability to the public.

Budget Overview:

The North Dakota Insurance Department plays a vital role in protecting the financial and personal well-being of every resident, and our budget request is both measured and essential to sustaining that mission.

We currently operate with 47 FTEs, with five vacant positions as of today. We are in the process of hiring some of these positions. For the upcoming biennium, we are requesting an increase in our base budget for salaries and fringe benefits. This request reflects the evolving demands placed on our agency and is driven primarily by our proposal to add four new FTEs. These positions will strengthen key areas where our responsibilities have expanded, including support for the Fire Marshal's office, regulatory oversight, and consumer protection.

Our total salary and wage request of **\$12,723,358** includes necessary adjustments to ensure we can retain and attract skilled personnel, address critical reclassifications, anticipate retirements, and account for overtime—all essential for maintaining operational efficiency. Importantly, these numbers will need to reflect any legislative increases supported by this body, as well as any additional funding agreed upon for the proposed attorney equity adjustments.

I want to emphasize the steps we have taken to identify and implement cost-saving measures. On the operations side, we have slightly reduced our operational budget by .08% from the current biennium due to these efficiencies. However, certain cost drivers, such as fleet management and ITD data processing, continue to increase, and we must account for these rising expenses to avoid operational disruptions. In total, with the addition of the four new ftes, we are asking for \$2,635,603 in operating.

Additionally, we are requesting capital asset funding of \$90,000 to support critical upgrades in both the Fraud Division and the Fire Marshal's office. These investments are necessary to ensure our teams have the tools and resources to meet the demands of a modern regulatory environment.

In total, our budget request for the 2025–2027 biennium amounts to **\$17,848,961**, and 51 total ftes inclusive of all operational and personnel expenditures before incorporating any legislative increases or additional funding mechanisms. This is a lean, necessity-driven budget that prioritizes maintaining and enhancing the core functions of our department.

The Insurance Department's impact extends far beyond these numbers. Whether ensuring the financial solvency of insurance companies, combating fraud, or improving fire safety, our work touches every community in North Dakota. Meeting these challenges requires a commitment to attracting and retaining the best talent, especially in highly specialized areas like insurance law and fire safety.

We are deeply committed to maintaining the highest standards of service for the people of North Dakota. This budget reflects the resources needed to meet today's demands while preparing for the challenges of tomorrow. I respectfully urge your support as we work together to safeguard the people and assets of our great state.

Status of the State Fire and Tornado Fund and State Bonding Fund

The State Fire and Tornado Fund and the State Bonding Fund have been effectively administered through our partnership with the North Dakota Insurance Reserve Fund (NDRF) since changes

implemented during the 66th Legislative Assembly. This collaboration has successfully addressed potential conflicts of interest while enhancing coverage accuracy and reducing risks for public property.

Building on this success, two bills—**HB 1026 (Bonding)** and **HB 1027 (F&T)**—have been introduced at the request of the Government Finance Interim Committee to transfer oversight of these funds from the Insurance Department to the Office of Management and Budget (OMB), specifically under Risk Management. I support this move as it represents a logical next step in streamlining fund administration, removing regulatory conflicts, and aligning these functions more closely with OMB's core responsibilities.

The proposed transition would not only ensure continued efficient management but also maintain the integrity and effectiveness of these critical programs. We look forward to working with this body to make this shift a reality, as it will benefit all stakeholders involved.

Proactive Steps for a Stronger Insurance Market

In collaboration with this body, the Department has taken proactive measures to make North Dakota a more attractive state for insurance companies to invest capital. At the June 19 Budget Section meeting, we requested \$1.5 million to fund four studies aimed at strengthening the property and casualty insurance market in the state.

The proposed property insurance market reform study highlights potential legislative initiatives aimed at increasing access to capital in the insurance market. These changes are designed to attract more insurance activity, apply downward pressure on rates, and improve access to property insurance. Key proposals include:

1. **ND Incentive Program:** Introduces a clarification in the "Earned Capital" section to either include a hearing requirement or, preferably, state that no hearing is required and the Commissioner's determination is final. This would be addressed as a separate bill.
2. **Delegation Agreement for Insurance Holding Company Systems:** Adds a requirement for prior approval of delegation agreements by the Insurance Commissioner.
3. **Large Commercial Risks Rebates:** Allows rebates specifically for "large commercial risks," encouraging more flexibility in the market.
4. **ND Purchasing Group Statutes:** Proposes updates to enhance the functionality and effectiveness of the statutes.
5. **ND Surplus Lines Laws:** Seeks amendments to improve surplus lines regulations and increase market responsiveness.
6. **Property Insurance Reforms to Address Social Inflation:** Targets mandatory arbitration clauses by ensuring insured parties are informed about policies that do not require binding arbitration. Insurers would also be mandated to notify insureds that such alternative policies are available.

These reforms aim to foster a more competitive and accessible insurance environment while mitigating rising property insurance costs for consumers. Discussions with Senate and House IBC and IBL Committee leadership are ongoing to assess interest in advancing these bills.

While these initiatives offer long-term solutions, they do not provide immediate relief for County Mutuals currently facing reinsurance challenges. These companies still have tough decisions to make, but we are hopeful that the steps we are taking now will position North Dakota as an attractive and stable environment for insurance and reinsurance investment in the future.

I want to thank you for your engagement in this process. My team and I are ready to answer any questions, provide additional details, or delve into specific line items as needed. We recognize that this is just the beginning of the budget process, and we are committed to working collaboratively with you to ensure a clear understanding of our priorities and needs.

Trust and transparency are the cornerstones of effective governance, and that includes presenting a budget that is driven by necessity, not by desire. Throughout my tenure, I have demonstrated a steadfast commitment to fiscal responsibility. In the past, I have made significant voluntary cuts to our budget—not because they were mandated, but because they were the right thing to do. We identified and eliminated spending in areas where it wasn't essential, always keeping the efficient use of taxpayer dollars at the forefront of our decisions.

Now, as we seek to strategically grow our department in response to increased demands, I ask that you consider this history of prudence. Our request is not for more than what is necessary to meet the mission entrusted to us by this body and the people of North Dakota. It reflects a careful balance between maintaining operational efficiency and addressing the evolving needs of our state.

I appreciate your thoughtful consideration of the challenges and opportunities we've discussed today. I look forward to continuing this partnership as we work together to achieve our shared goal of serving North Dakota's citizens effectively and responsibly. Thank you for your time, your support, and your commitment to this process. I am happy to answer any questions or provide further details as needed.