

## **Senate Bill No. 2010**

Presented by: Jon Godfread  
Commissioner  
North Dakota Insurance Department

Before: House Appropriations  
Representative David Monson, Chairman – Government Operations

Date: March 17, 2023

Good afternoon, Mr. Chairman, and members of the House Appropriations Government Operations Subcommittee. For the record, my name is Jon Godfread, Insurance Commissioner. Before we get into the budget changes we are proposing, I feel it would be best to give you a very brief overview of insurance regulation and a summary of our Insurance Department.

Insurance regulation in the United States is primarily the responsibility of the individual states. Each state has its own Insurance Commissioner that is responsible for overseeing the insurance industry within that state. My role as an insurance regulator is to ensure that insurance companies operating within North Dakota are financially stable and able to pay claims when they are due. We accomplish this by reviewing financial reports, examining insurance companies doing business within our state, reviewing the products that these companies sell within the state to make sure that they comply with the laws that you all pass, and offering consumers assistance when they feel that a company is not honoring the terms of insurance contracts.

In addition to the state-level regulation, North Dakota is also a member of the National Association of Insurance Commissioners or the NAIC. Currently, I serve as Vice President of this organization. The NAIC is a voluntary organization made up of insurance commissioners from each state, the District of Columbia and the five U.S. territories. The NAIC assists state-based regulation through the development of model laws, regulations and provides accreditation to states, which is a third-party review of our financial analysis.

North Dakota late last year received another 5-year accreditation from the NAIC, we were the only state in our cohort to receive a clean bill of health, meaning that other states can confidently rely on our work when it comes to reviewing insurance companies. While this process may

sound overly technical and boring, I cannot stress the importance of accreditation. It's a big deal. Staffing was the only concern raised in our accreditation review. I will highlight the different divisions of the office shortly, but want to take a moment to expand on both the concern suggested by the accreditation review and to address our vacant positions. As of May 1<sup>st</sup>, we will have 5 open positions. Two of those vacancies are in the Company Licensing Division. Both positions have been posted since the beginning of March, however we have only received two applicants; neither of whom were qualified. Of the remaining three positions, one is for our Property and Casualty Division, and as of yesterday there had been no applicants, one position for our Producer Licensing Division which, will be posted after completing a process improvement plan to increase efficiencies, and lastly, we have an admin services position that has remained open due largely to the potential need to reclassify that position based on Department need. We are a small and efficient team, but we cannot get any smaller, and it was recommended that we maintain our current staff level and develop a plan to expand when needed.

There are also a few federal agencies that have some regulatory authority over the insurance industry. For example, the U.S. Department of Labor regulates employee benefit plans, including group health insurance plans. Additionally, the Affordable Care Act extended federal involvement in health insurance with regards to the individual marketplace.

The National Flood Insurance Plan or NFIP, operates our country's flood insurance program. Recent changes to the NFIP have allowed private flood insurance to finally be recognized as acceptable coverage to the NFIP. This is a small step in a positive direction when it comes to flood insurance in North Dakota. Traditionally flood insurance in North Dakota has been cost prohibitive, it will be interesting to see if the private flood market can have an impact on the cost of flood insurance. We continue to attempt to explain to the NFIP that flooding in North Dakota is different, its generally overland flooding, we do not face hurricanes like our coast friends. NFIP must recognize the difference.

It should come as no surprise that the issues we see in the insurance industry primarily stem from health insurance and flood insurance, the two areas where there is the most federal intrusion. Our

state-based system has withstood over 150 years of insurance evolution; our system has survived depressions, financial crises, and most recently a pandemic. Our state and our country benefit from a strong state-based system, and I am proud of the work we continue to do here in North Dakota and happy to provide a brief summary of some of the changes we would like to see.

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***ND Insurance Industry and Regulation—At a Glance:***

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The North Dakota Insurance Department is a special funded agency that primarily serves as a consumer protection agency for North Dakota. We receive our funding from the Insurance Regulatory Trust Fund, which is funded by all fees and fines paid for by insurance companies and agents operating in this state. The Department contributed \$102 million of premium tax that was directly deposited into the general fund for the 19-21 biennium. Additionally, the Insurance Regulatory Trust Fund is estimated to turn back \$12.5 million to the general fund after funding the Department's operations for this current biennium.

It is the Department's mission to safeguard the promises made to North Dakotans and foster a fair and thriving marketplace to meet the needs of our consumers and evolving insurance industry. The Department serves North Dakotans by assisting consumers with insurance needs, investigating insurance fraud, and regulating the insurance industry in the State. Simply put, we are one of the best kept secrets in North Dakota, but we are working on changing that, and continue to engage with our consumers at an ever-increasing rate.

One of our primary activities is to help consumers navigate the complex world of insurance. We can stand in the shoes of our consumers with insurance companies when our consumers have been treated unfairly or simply have questions. When you pick up the phone to ask questions or complain to your insurance company you are often at a big disadvantage, insurance companies work on these issues daily, and consumers often only call their insurance company in the middle of what might be one of the worst days of their lives. The Department can take that burden from our consumers and stand in their shoes to provide the best possible outcome, given their coverage. It is truly expert talking with expert and letting the consumer put their life back together without having to navigate the often-confusing insurance process. We take great pride in

the services we offer our citizens, and we are bringing forth a budget that not only allows us to help more people but does so in a fiscally prudent manner.

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***Department Overview:***

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The North Dakota Insurance Department began the 2021-2023 biennium with 38 FTEs working in 7 different divisions.

**BUSINESS LINE SHIFT**

At the beginning of 2021 we shifted our focus to business lines of insurance rather than the functional department operations. Meaning we now have a Life and Health Division and a Property and Casualty Division.

These changes have allowed the experts in each division to focus on the business line versus trying to be everything to everyone.

**LIFE AND HEALTH DIVISION**

The Life and Health Division is made up of 3 branches. The first is Consumer Assistance, which deals with North Dakota consumers who have concerns about their life or health insurance products. Consumer Assistance also contains our State Health Insurance Assistance Program or SHIP.

**STATE HEALTH INSURANCE ASSISTANCE PROGRAM (SHIP)**

SHIP provides free, unbiased, and confidential health insurance counseling to Medicare beneficiaries, their families, or other representatives. The program held virtual appointments for the 2021 and 2022 open enrollment periods and found them to be very successful. This is one of our many consumer outreach programs that not only assists our consumers, as they enroll in Medicare, but also helps answer any questions that may arise throughout the year. While Medicare is a federally operated program, our SHIP team is a group of experts in North Dakota

that can assist North Dakotans with their questions. I know our citizens appreciate talking to a fellow citizen rather than waiting on hold for a federal government official. This program is primarily funded through federal grants, and included in our budget are some language changes to help clear up some timing issues with how we receive those grants for this program. I will cover more on that later.

#### **PRESCRIPTION CONNECTION PROGRAMS**

Our Prescription Connection program helps low-income North Dakotans find low-cost and no-cost prescription drugs by connecting them with prescription assistance programs offered by various pharmaceutical companies. The program assists consumers with the application process and connects over 95 percent of all applicants to a program.

Lastly, the Life and Health Division has a product filing component. Product Filing reviews policy forms and rate requests to ensure policy language complies with all the laws of this state, properly reflects the benefits provided by the policy and is not deceptive or misleading. For most types of insurance, this division evaluates the premium rates companies propose to charge to ensure that the premiums are not excessive, inadequate, or unfairly discriminatory.

#### **PROPERTY AND CASUALTY DIVISION**

The Property and Casualty Division is made 2 teams, Consumer Assistance and Product Filing. Consumer Assistance helps North Dakota consumers who have issues or concerns about property and casualty products. While Product Filing reviews policy forms and rate requests on the P&C side to ensure compliance with our laws.

#### **PRODUCER LICENSING DIVISION**

The producer licensing division is responsible for the licensing of 109,462 individual insurance producers doing business in the State, of which 5,874 are North Dakota resident producers. Insurance producers must comply with pre-licensing exams, background checks and continuing education requirements.

#### **EXAMINATIONS AND COMPANY LICENSING**

The primary function of the Examinations and Company Licensing Division is to monitor the financial strength of insurance companies licensed to do business in North Dakota.

As of December 2022, there were 2,506 insurance entities licensed to do business in North Dakota which has increased 175 from 2019. 33 of those companies call North Dakota home, which we are proud to report is up 4 from 2019.

### **LEGAL DIVISION**

The Legal Division provides legal counsel to the Department; investigates and enforces all laws governing insurance producers and insurance companies; litigates administrative actions, and researches and prepares proposed legislative bills and administrative rules. Currently, the Legal Division is comprised of a General Counsel and 3 staff attorneys.

### **FRAUD**

The Fraud Division is comprised of 3 licensed peace officers, 1 attorney, and 1 civilian investigator. The Fraud Division is responsible for conducting investigations on behalf of the public. Our team investigates fraud claims, recommends charges, and may prosecute alleged fraud, through our insurance fraud prosecution program. Our fraud prosecution program is a partnership program with local states attorneys, which allows us to assist them in the prosecution of insurance fraud. Its beneficial for our states attorneys to receive this assistance as it lessens their workload, and it's a benefit to the state as it allows us to ensure that insurance fraud is prosecuted. In 2021 there were 272 known fraud cases which unfortunately resulted in \$1.1 million dollars of actual loss to North Dakotans. We take insurance fraud very seriously in the department, as it ultimately ends up coming out of our pockets by way of increased premiums. We have taken great strides to stamp out insurance fraud in this state but there is more work to be done.

### **ADMINISTRATION**

The Administration Division of the Insurance Department is responsible for oversight of the budget, accounting, IT needs and general office support through the Department. In addition, the

division oversees day-to-day business operations, public relations, human resource management and the internal policies and procedures for the Department.

Since I took office over 7 years ago, we have undertaken a significant amount of restructuring and right-sizing of our department, this has led to not only right-sizing our budget, but we have also improved our functionality. It is important to note that we are down from our appropriated numbers by 13.59% in operations, 8.35% in salaries, and 25.25% in FTEs over the past 7 years.

You may recall in 2019 we moved our State's Boiler Inspection program and Petroleum Tank Storage program to the Department of Environmental Quality. We also moved the administration of the State's Fire and Tornado Fund and Bonding Fund to the North Dakota Insurance Reserve Fund (NDIRF). These are two prime examples of improving efficiencies and making sure programs are housed in agencies where they can provide the services, while removing duplication and added expense.

Because of this move, the North Dakota Insurance Department is no longer directly selling insurance, which I would argue, we should never have been in the business of selling insurance. To date, NDIRF has identified over 2 billion dollars of uncovered property in our state, this is government owned property that did not previously have insurance coverage. This change has dramatically lessened potential exposure of significant losses to our state and political subdivisions, and they are still finding more.

While the pandemic placed a significant amount of stress on everyone, it also allowed us to experiment with different work models. Like everyone, at the height of the pandemic we went to remote work, we found that transition to remote work to be effective and we didn't miss a beat. Since the pandemic, we have gone back to a more traditional model, but we still do employ hybrid options. Presently 75% of our staff is working in person and 25% working in a hybrid work model. We have had positive reactions to having anchor days and bringing back the much-needed comradery to our small team. This flexibility has helped with attracting and retaining employees, which as you know is a significant challenge across our state.

We have seen a great deal of success with this model. Much of the work we do at the Insurance Department is of a financial or regulatory nature and we have found removing some of the office distractions has actually made some of our team members more productive, while also allowing us to better utilize our existing space and eliminate another off-site location located Burnt Boat Drive.

By eliminating our last off-site lease, we have saved \$28,500 for the current biennium and will be able to realize savings of \$70,000 for the next biennium by acquiring all of the 5<sup>th</sup> floor. We are asking for \$75,000 dollars to make modifications to our capitol office space which was previously occupied by the Securities Commissioner. These renovations will allow us to better accommodate walk-in traffic and hotel offices for staff who are in the hybrid working model. With the elimination of our last off-site lease and our acquiring the entirety of the 5<sup>th</sup> floor, for the first time in as far back as I can remember, the Insurance Department will be entirely under one roof. This makes perfect sense for an agency our size as having multiple locations has been an additional and unnecessary cost to our state.

We are not yet done reorganizing our Department and I will cover some additional ideas we have for the future in a moment, but I hope the Insurance Department has gained your trust over the past 7 years, we accomplish what we set out to do, we do so in an efficient manner, and ultimately the moves we have made have not only improved the processes and performance of our state functions, but have done so in a very efficient cost effective manner.

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***Changes Proposed to 2023-2025 Budget:***

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**Changes and requests for Insurance Department Budget:**

I would like to cover some of the changes we are proposing to our salary and operating lines of our budget that were present before the senate version. Our 2021-23 legislative base budget is reported as \$30.3 million dollars. Currently over 2/3rds of our budget is simply pass through dollars that are appropriated to our fire districts and fire fighter association from the Insurance



Tax Distribution Fund. Senate Bill 2211 is seeking to change the fire districts appropriation to a continuing appropriation, as it was from 1887 – to the late 1980s. First, I want to talk with you about the remaining 1/3<sup>rd</sup> of our budget, which is the Department’s salaries and operations. I will then cover the changes requested in SB 2211 and the additional funds that we are requesting and ultimately included in our budget as passed by the Senate.

**Salaries and Wages Line:**

On our salaries and wages line the Department is requesting to join the IT Unification project. As a department we have been re-evaluating our IT needs for the past two years. We have determined that we would benefit from IT unification, and it would be a cost-saving for our department. This is reflected in our salary and fringe line with moving \$78,492 salary dollars over to ITD.

Also related to salary, we are asking for a one-time funding of \$98,300 for retirement payouts as we have 5 staff members who could potentially retire in the 23-25 biennium.

We are currently not requesting any additional Insurance Department FTEs at this time, and through IT Unification we would be reducing our FTE count by one bringing us to 37.

However, as with any legislative session, bills have been introduced that could have a dramatic impact on our needs at the Insurance Department. One piece of legislation which I will touch on at the end of my testimony regarding the funding and structure of our fire service in North Dakota, that would require changes to our base budget; changes that were included in the budget that was passed by the Senate.

**I would again like to point out that over the past 7 years we are down 8.35% in salaries, and 25.25% in FTEs.**

**Operational Line:**

In our operational line, you see an increase in the travel line. Travel is returning to normal, but not without increased costs. As insurance is a state-based system, the Insurance Department generally attends 3 national meetings of the NAIC. These meetings are critical to work with our colleagues from other states and to strengthen our state-based system. Our primary involvement with the NAIC is to prevent federal overreach into a system that has a 150-year track record of

protecting consumers and regulating the insurance industry. Given the recent rise in inflation, airline travel and hotel prices have risen dramatically, our travel line reflects a movement back to normal travel and the increased costs we are all. Normally, the NAIC reimburses the state for a significant portion of our NAIC based travel, but I find it hard to assume that will always continue. Any travel that does get reimbursed from the NAIC will be turn back dollars next biennium.

Another notable increase to our operating line is an increase in electronic services due to the nature of our global environment conducting business has shifted to more electronic needs. Additionally, there are items that are not covered by the IT unification that we need to provide to staff. Such as additional licenses from electronic services specific to the Insurance Department and insurance regulation, that we use and provide, these services give us access to critical information for our core functions. Our data processing and communications line increased for IT Unification as well as creating a new system for our Property and Casualty division.

We are also requesting an increase to our professional services line to cover expenses related to unforeseen legal battles and audit fees. During the current biennium we did go to the Emergency Commission to request an additional \$250,000 to defend our state laws that you all pass from over-reach by Pennsylvania. I am happy to talk more about it, but essentially a Pennsylvania domiciled long-term care insurance company, that is in rehabilitation and, through the actions of the Pennsylvania Insurance Commissioner, is flagrantly disregarding the laws in our state by seeking to impose an unapproved 400% rate increase upon North Dakota consumers. We are currently in a legal battle which we did not anticipate during the appropriation process of the last regular session, to block that action. One other point I would like to draw your attention to is that we did see a 146% increase in our audit fees from the previous biennium. We did need to increase our budget request to pay for those expenses as it is currently based off a calculation of our special fund appropriation.

This raises the question about the relationship between special funded agencies and general funded agencies. As a special funded agency, we are often charged for services within state government; rent from OMB, IT services from NDITD, attorney fees from the Attorney General, audit fees from the State Auditor.

As our current budget process stands right now, we turnback any dollars over \$1 million from the Insurance Regulatory Trust Fund at the end of each fiscal year. If we were allowed to maintain and have a continuing appropriation on the funds collected within the Insurance Regulatory Trust Fund, paying fees to general fund agencies would make more sense. However, given this body has established a reserve limit for our funds (anything over \$1 million is turned back to the general fund,) that policy decision to establish a reserving limit, would seem to negate or at the very least diminish the necessity of a special fund agency like ours to pay for general fund services.

The process we have set up as established by this body, works and we can certainly continue as we are, but I wanted to draw it to your attention that if fees change or unexpected things happen, it then requires us to either operate outside of our budget, which has never occurred, or seek Emergency Commission approval for additional services.

We have been party to unexpected events and increased fees during the last biennium. Again, the Auditor raised his fees and we had to find dollars to absorb that 146% increase, and we needed to partner with the Attorney General to file a lawsuit against a company that is acting under the shield of the State of Pennsylvania, requiring us to gain approval from the Emergency Commission for \$250,000 to cover those legal costs of the Attorney General. I wanted to bring these real examples to this committee as I know this has been a topic of discussion this session.

Moving back to our budget, we have had many decreases in our operational line as well. Due to IT unification, we were able to cut from our IT equipment line, and we have reduced our rent due to the elimination of the off-site lease at Burnt Boat Drive.

### **One-Time Funding**

For the 23-25 biennium we are requesting a \$75,000 one-time funding for an office remodel of the west side of 5<sup>th</sup> floor previously occupied by the Securities Commission. This biennium we did remodel our current space with the \$100,000 appropriated last session.

Last session we also received one time of \$662,000 in federal funds for the State Flexibility to Stabilize the Market Grant Program. This program was intended to provide added flexibility to strengthen the private health insurance market through the implementation of market reforms under Part A of Title XXVII (27) of the Public Health Service Act. During the interim, with the

help of two consultants we completed 3 studies on our current health market. The studies consisted of reviewing our Essential Health Benchmark or EHB plan, the Comprehensive Health Association of North Dakota or CHAND program, and the concept of combining our small group and individual market for purposes of reinsurance. As a result of these 3 studies, there are 2 legislative initiatives have been introduced, one being a resolution regarding proposed changes to our EHB plan, which has not been updated since 2010.

The second is a continuation of the study to allow our department to partner with NDPERS and DHHS to determine the next steps of CHAND, which is our high-risk pool with our state, and develop a plan to eventually wind-down our high-risk pool.

The final study of the combination of small group and the individual market was determined to not benefit our health marketplace and would negatively impact consumers. Thus, we are not recommending any further action on that idea. Currently, we consider all of these studies to be complete, and are presently not seeking any funding for studies of this nature.

Last session we also received \$200,000 from the SIIF fund to study our coal and fossil fuel industry and the insurance impacts on those industries. This study was primarily to address the increasing cost of insurance in our energy sector, phase two of that study is currently underway and is being supported by the Lignite Energy Council. We determined that ESG pressures being applied globally to our reinsurance marketplace are having a secondary impact on the affordability and availability of insurance to our energy sector. Phase two of that study is seeking to find solutions on what, we as a state, can do to prevent further problems.

This is also a conversation that is continuing in the insurance industry all over the world. ESG pressures are having a real-world impact right here in North Dakota and while insurance is generally the last thing on people's minds, it is appearing to be the first domino to fall. If our energy industry cannot acquire insurance, it will be unable to operate. We have partnered with like-minded states such as Alaska, Oklahoma, Texas, and West Virginia to sound the alarm bells that removing reliable, affordable electricity from our society will cause a host of other issues within the insurance sector that are not being properly mitigated. This continues to be a top priority for me and the department as it is an emerging threat in our marketplace. HB 1429 as passed by the House, included language from our office that will likely be also debated in other

states. It's important that likeminded states continue to work together to maintain our necessary energy production and development, insurance plays a vital role in those industries.

**EXCESS APPROPRIATION FOR OUR FEDERAL GRANTS TO OPERATE OUR STATE HEALTH INSURANCE ASSISTANCE PROGRAM (SHIP):**

As previously described, our State Health Insurance Assistance Program or SHIP provides free, unbiased, and confidential health insurance counseling to Medicare beneficiaries, their families, or other representatives. We are requesting an excess appropriation for our federal funds that would allow us to fully access all the federal funds that are awarded to the state above the level of funds appropriated by the Legislative Assembly. The Department continues to be challenged by the biennial budget process vs. the federal government's award windows which are not aligned with the state's fiscal years. An excess appropriation would allow ultimate flexibility to utilize all the federal funds awarded to the state to operate SHIP as the federal funds continue to fluctuate. This would also allow us to use our federal dollars fully, before spending any state dollars on these programs. This type of change is in line with many other agencies who utilize federal funds and it was included in the Senate version of our budget.

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***Conclusion:***

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These changes bring the Department's salary and fringe budget to \$8,097,788 before the executive compensation package and before the one-time funding ask of \$98,300 for retirements. This is approximately a quarter percent (.27%) increase from the 21-23 legislative base budget.

Our operational changes resulted in a requested appropriation of \$2,170,770 which is an increase from the 21-23 legislative base budget primarily due to IT unification, travel, and unexpected legal costs.

The total request for our department appropriation before the Fire Marshal move and the approved Senate changes comes to \$10,441,858 which includes the one-time funding request of \$75,000 for remodeling and \$98,300 for retirement payouts.

The Department's FTE count from 21-23 was 38. Our proposed 23-25 FTE count would be 37 due to the one position being transferred as the result of IT unification.

These changes plus the conclusion of our one-time funding packages from last session -- the State Flexibility to Stabilize the Market Grant Program, the SIIF fund appropriation to study our coal and fossil fuel industry, and the \$100,000 capital asset remodel -- would result in approximately a 3.28% decrease in our overall Department salary and operating budget from the last biennium.

Finally, I do feel it's important when considering the Insurance Department budget to look at the last 7 years, we have undertaken some significant restructuring and repurposing. Since the 2015-17 biennium and if this body adopts our proposed budget, we are bringing forward, the Insurance Department would be down roughly 8.35% in salary, 13.59% in operations, and 25.25% in FTEs.

During my time as Commissioner, we have consistently brought forward budgets that recognize our need to increase efficiencies which have often resulted in greater reductions than targeted by this body.

My ask would be that when considering our request, and other bills that may affect our request, you consider the work and reductions we have accomplished over the past 7 years while still making contributions to the general fund in the form of licensing fees, fines, and premium tax, and give us the tools we believe necessary to uphold the insurance laws of North Dakota.

Lastly, I wanted to touch on Senate Bill 2211 which is a policy bill that was introduced by Senator Weber and co-sponsored by Representatives Kempenich and Pyle, among others. Much of SB 2211 is the policy behind moving the State Fire Marshal and the Fire District funding. Given the Senate's approval of SB 2211, and the House IBL's unanimous Do Pass recommendation and rereferral to the full appropriations committee, I want to address that bill as well as the budgetary changes required and requested to move the Fire Marshal back under the Insurance Department.

#### **CONTINUING APPROPRIATION FOR FIRE DISTRICTS/SB 2211:**

Funding for fire departments and fire districts comes from a couple of different sources (property taxes, benefits, etc.) but a significant portion of the funding has come from the Insurance Tax

Distribution fund which is made up of premium tax. The Department calculates the amount of money collected on behalf of each fire district, and then distributes those funds based on the amount appropriated by the Legislature.

This is essentially a pass-through fund, whereby we collect the tax and pass that collection on to the fire districts. This fund was a continuing appropriation from 1887 – 1985. Since 1985, funding to the fire districts has fluctuated between 101% of the funds to as low as 48% of the funds available.

SB 2211, is asking that the continuing appropriation be restored; this ensures that the dollars that are intended to go to the fire districts are going to the fire districts. The average consumer likely knows that a portion of their homeowner's insurance premiums goes to funding fire departments. What they do not know is that a portion of those dollars are being put back into the general fund. Our consumers are being double or triple hit, once on their homeowner's premiums, once on their property tax, and then again by participating in various benefits put on by fire departments to cover their costs.

In addition to the continuing appropriation for the fire districts, SB 2211 introduces language to pay a flat amount to the North Dakota Firefighter's Association (NDFA) from the Insurance Regulatory Trust Fund, or our special fund, instead of the Insurance Tax Distribution Fund. This would allow all dollars that are collected on behalf of the fire districts to go only to the fire districts. Because of the flat amount set to be allocated to NDFA, the last major item SB 2211 introduces, is restoring the State Fire Marshal's office in the Insurance Department. Currently, the State Fire Marshal is appointed by and a part of the Attorney General's Office, which is a general funded agency. SB 2211 proposes to move the State Fire Marshal back to the Insurance Department where it was housed up until the 1960's, this move would allow the State Fire Marshal to have oversight and reporting requirements of NDFA.

The statutory requirements of the State Fire Marshal are already in line with what we do at the Insurance Department. We believe that the realignment with the Insurance Department would allow the State Fire Marshal to focus on what they are statutorily obligated to do at an elevated

level, which is to prevent fires, suppress arson, oversee combustibles, explosives, fire alarms, fire extinguishing equipment, and educate the citizens of North Dakota on the hazards of fire. These requirements align with risk mitigation and the prevention of loss, which are closely related to the insurance industry.

Up to this point, we have not mentioned the Reduced Cigarette Ignition Propensity and Firefighter Protection Act enforcement fund. The fund must consist of all certification fees submitted by cigarette manufacturers, and, in addition to any other moneys made available, be available pursuant to legislative appropriation, to the state fire marshal solely to support processing, testing, enforcement, and oversight activities under chapter 18-13. Senate Bill 2211 does change all language from Attorney General to Insurance Department and it is the intent to be able to utilize the Cigarette Propensity Fund as it has been used in the Attorney General's Office to continue to carry out State Fire Marshal operations.

#### **SENATE VERSION CHANGES:**

The Senate version of our budget does incorporate parts of SB 2211. The biggest line item amount the Senate removed was the \$20,728,540 which was a combination of the Fire District and NDFA payments from the Insurance Tax Distribution Fund. The Senate made the Fire District payments a continuing appropriation still payable from the Insurance Tax Distribution Fund and added the \$2.4 million to the NDFA as a grants line that is paid out of the Insurance Regulatory Trust Fund. The last item the Senate version did was transfer the current 8 SFM employees to our budget as well as added 4 new SFM FTEs, which are the first FTEs added to the SFM for over 40 years. Along with the FTEs, the operating expenses to operate the SFM office was also transferred to our budget.

Other items not related to SB 2211 that the Senate version added on the salary and benefits side was the health insurance changes and the 4 and 4 legislative increases to 45 of the FTES, but it did NOT include the 4 & 4 to the new State Fire Marshal FTES, this is something that I assume will be addressed by OMB and Legislative Council. The last item was an increase to my salary that followed suit with other elected officials.



From an operational side, the Senate added a transfer of the fund balance of the Unsatisfied Judgment Fund, this was due to Senate passage of SB 2295, to the Insurance Regulatory Trust fund, however there is no authority to spend those funds so ultimately they will be swept into the general fund come July 1<sup>st</sup> 2024 given the \$1 million reserve. I would request that this committee appropriate these funds to defray the initial costs of transferring the State Fire Marshal to the Department. We have language drafted, if the committee would be open to considering our draft.

Chairman Monson and members of the committee, thank you for the opportunity to share the Insurance Department's story and introduce our budget request for the next biennium. I am happy to answer any questions that you have now and throughout the session.

2023-2025 Biennium

# Budget Request



**North Dakota  
Insurance  
Department**

*Safeguarding Promises. Fostering Fairness.*  
Jon Godfread, Commissioner



# North Dakota Insurance Department

Safeguarding Promises. Fostering Fairness.  
Jon Godfread, Commissioner



## What we do

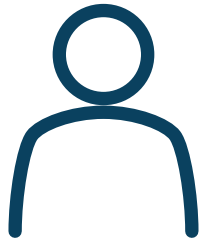
### Mission

*Safeguarding the promises made to North Dakotans and fostering a fair and thriving marketplace to meet the needs of our consumers and evolving insurance industry.*

### Functions

- » Consumer Protection & Assistance
- » Rate & Benefit Analysis
- » Agent & Company Licensing
- » Financial & Market Conduct Examinations
- » Fraud Investigation
- » Insurance Tax Distribution

## Who we serve



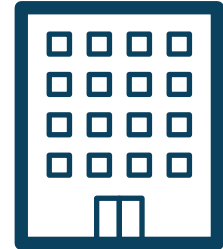
### Consumers

Offer consumer assistance and advocacy.



### Agents

Manage the licensing of agents and producers.



### Companies

Regulate insurance companies and products sold.

## Numbers at a glance

*For the 2021-2023 biennium*

# 38

Full-Time Positions

# 10.8 million

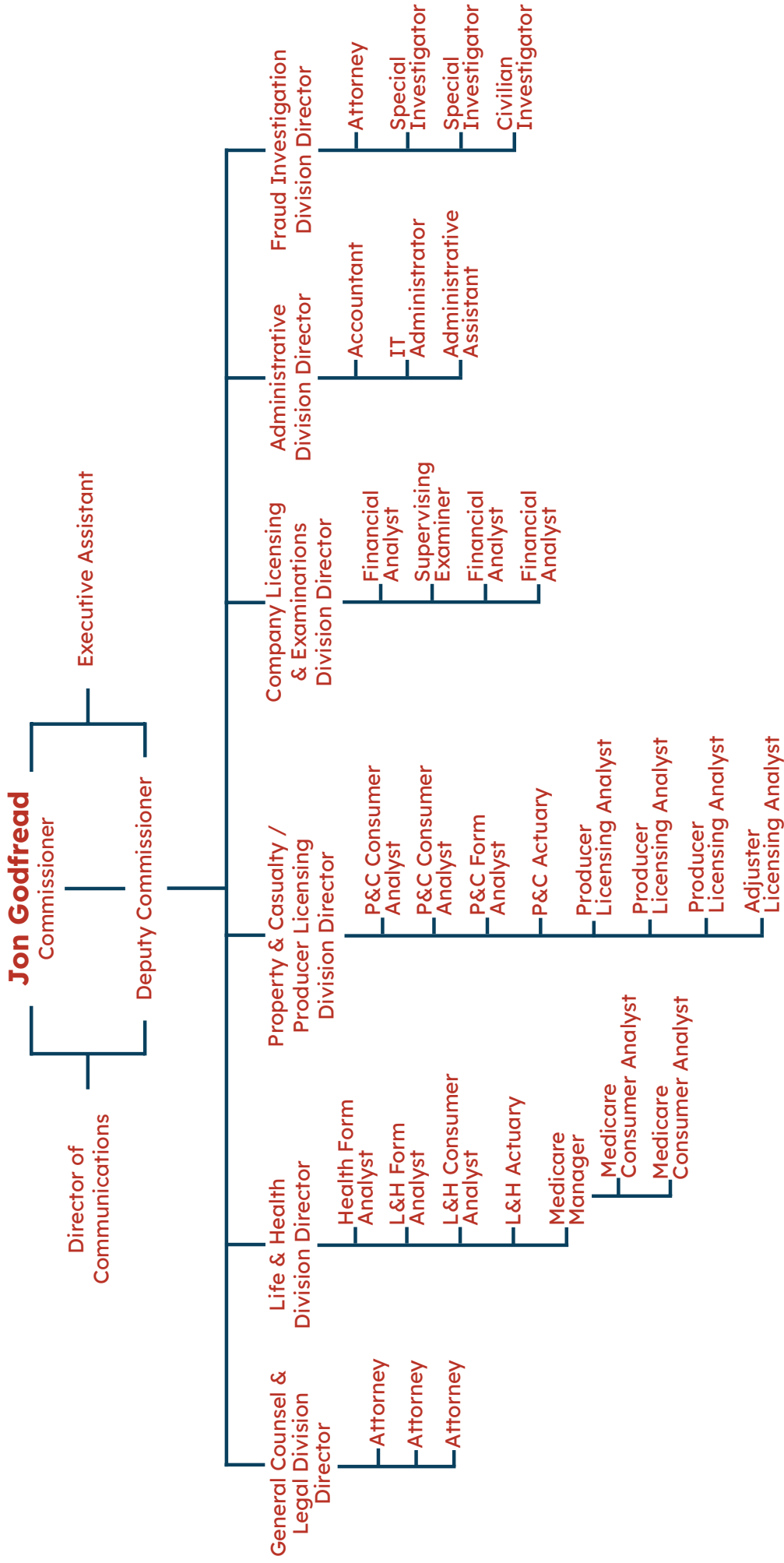
2021-2023 Budget

# 20.7 million

Distributed to Fire Districts & ND Firefighter's Assn.

# Department Organizational Chart

2021-2023 Biennium

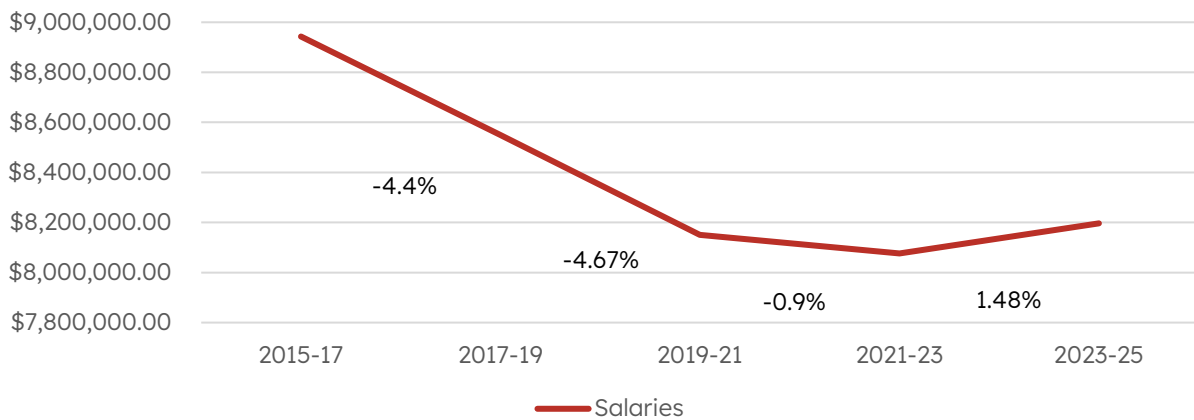




## Department Budget History

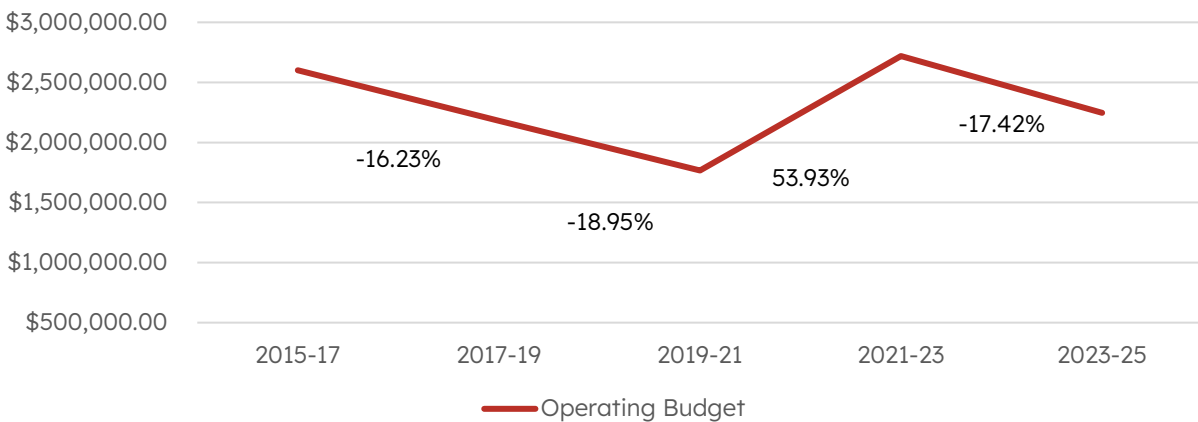
### Appropriated Salaries Over Time

2015-17 Biennium Appropriated	2017-19 Biennium Appropriated	2019-21 Biennium Appropriated	2021-23 Biennium Appropriated	2023-25 Biennium Request
\$ 8,943,097.00	\$ 8,549,567.00	\$ 8,149,998.00	\$ 8,076,281.00	\$ 8,196,088.00



### Appropriated Operating Budget Over Time\*

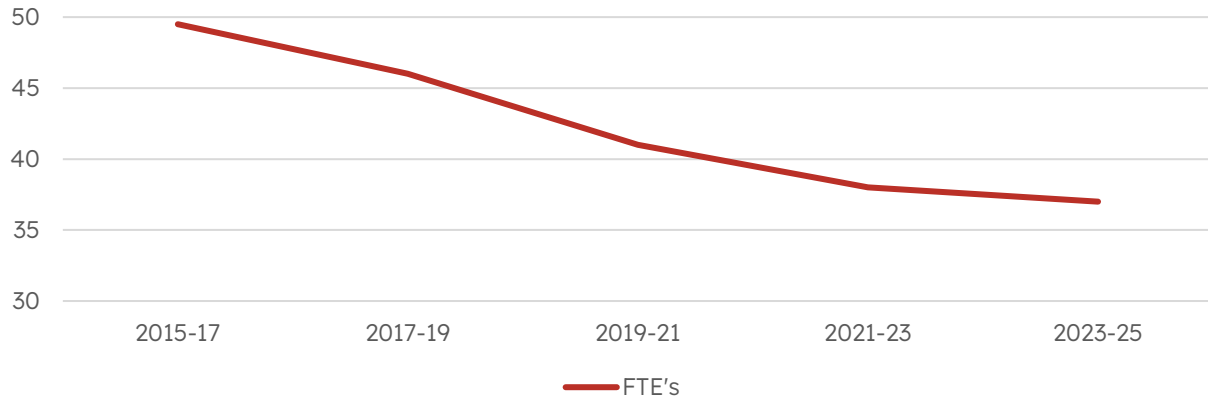
2015-17 Biennium Appropriated	2017-19 Biennium Appropriated	2019-21 Biennium Appropriated	2021-23 Biennium Appropriated	2023-25 Biennium Request
\$ 2,602,042.00	\$ 2,179,777.00	\$ 1,766,675.00	\$ 2,719,359.00	\$ 2,245,770.00



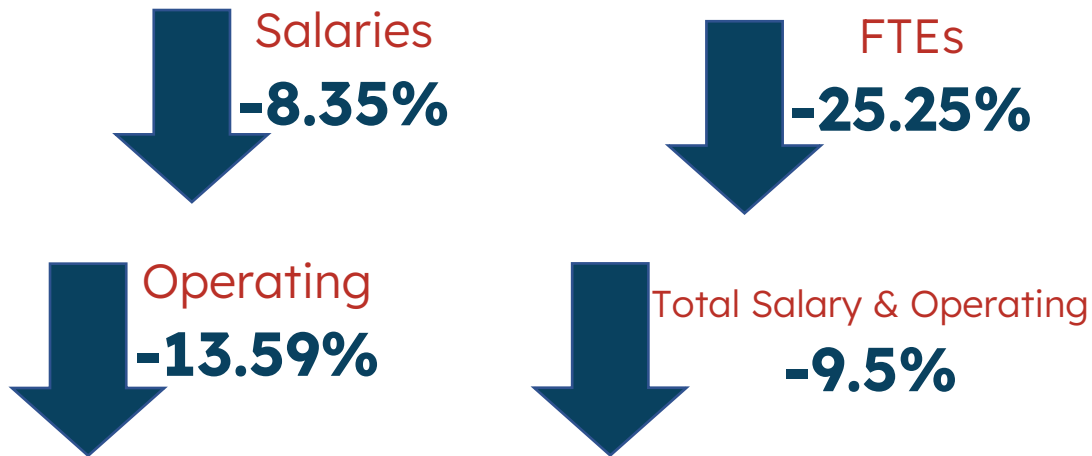
\*Includes one-time funding.

## Appropriated FTE's Over Time

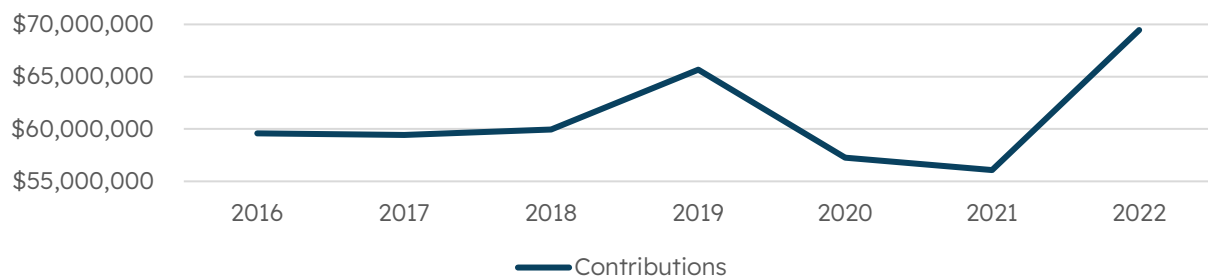
2015-17 Biennium Appropriated	2017-19 Biennium Appropriated	2019-21 Biennium Appropriated	2021-23 Biennium Appropriated	2023-25 Biennium Request
49.50	46	41	38	37



## 2015-17 to 2023-25 Comparison



## General Fund Contributions by Year



# Insurance Department Funds

As of today

Fees & fines generated by the insurance industry

Insurance Premium Taxes

Insurance Regulatory Trust Fund

Insurance Department Budget - \$10.2 million

Insurance Tax Distribution Fund

Fire Districts - \$19.5 million

North Dakota Firefighter's Association - \$1.1 million

\$102 million

Limited to \$1 million reserve after each fiscal year. Anything in excess is turned over to the General Fund.

\$12.5 million

General Fund

# Insurance Department Funds

Beginning July 1 (with approval)

Fees & fines generated by the insurance industry

Insurance Premium Taxes

1.75%

Insurance Tax Distribution Fund

Fire Districts  
Continuing Appropriation

\$102 million

Insurance Regulatory Trust Fund

Insurance Department &  
State Fire Marshal Budget  
\$16.2 million

North Dakota Firefighter's  
Association - \$2.4 million

Limited to \$1 million reserve  
after each fiscal year. Anything  
in excess is turned over to the  
General Fund.

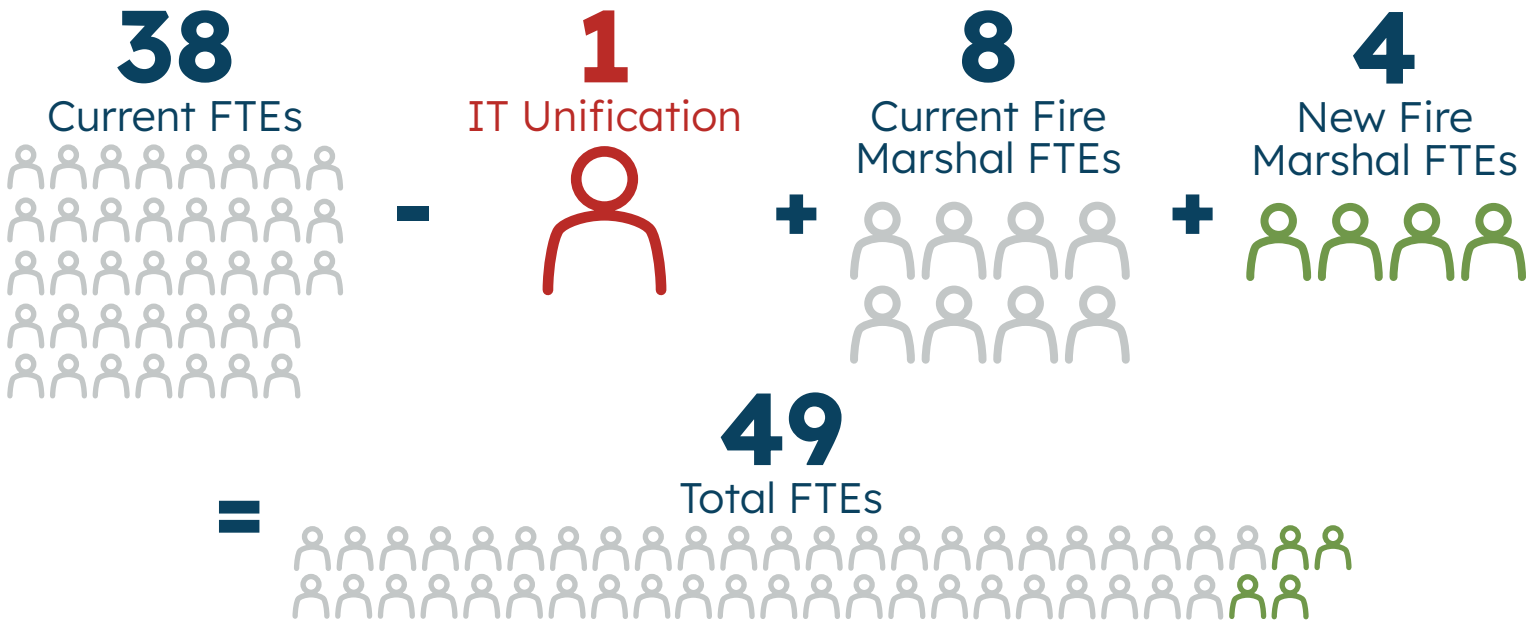
6.76 million

General Fund



# 2023-25 Department Budget

Including State Fire Marshal & Passage of SB 2211



## 2023-2025 Biennium FTE Costs

49 FTE positions - Does not include legislative or equity adjustments.

Salaries	\$ 7,480,652
Fringe	\$ 3,253,920
Retirements +	\$ 98,300

**\$ 10,832,872**

Total Request: **\$16,211,858**

\*See page 8 for breakdown

## 2023-2025 Biennium Operations

Operating	\$ 2,903,986*
One-time Funding	\$ 75,000
NDFA +	\$ 2,400,000
	<b>\$ 5,378,986</b>

## 2023-2025 Biennium Requests

	Base Level	Senate Version
Salaries	\$ 8,076,281	\$ 11,452,759**
Operating	\$ 1,507,359	\$ 2,903,986
One-time Funding	\$ 0	\$ 75,000
NDFA +	\$ 0	+ \$ 2,400,000
	<b>\$ 9,583,640</b>	<b>\$ 16,831,745</b>

\*Includes \$98,300 in retirement payouts

# Operations Breakdown

Travel	\$ 582,258
IT - Software/Supplies	\$ 60,950
Professional Supplies	\$ 27,415
Safety	\$ 51,800
Building Supplies	\$ 7,080
Miscellaneous Supplies	\$ 13,940
Office Supplies	\$ 15,720
Postage	\$ 44,790
Printing	\$ 29,200
IT Equipment under \$5,000	\$ 2,575
Other Equipment under \$5,000	\$ 18,000
Office Equipment/Furniture under \$5,000	\$ 25,600
Insurance	\$ 12,690
Rental/Leases - Equipment/Other	\$ 4,920
Rental/Leases - Building & Land	\$ 341,980
Repairs	\$ 14,170
IT - Data Processing	\$ 780,034
IT - Communications	\$ 82,780
IT - Contract Service/Repair	\$ -
Professional Development	\$ 115,765
Operating Fees and Services	\$ 112,819
Professional Services	\$ 559,500

**Total** **\$ 2,903,986**

## Travel

Department staff travel three times a year to National Association of Insurance Commissioner (NAIC) Conferences. These conferences are vital in strengthening our state-based system. Additionally, fleet charges are included in this expense code. With the addition of the State Fire Marshal, this line has increased.

## Rent

The Department rented office space off-site for many years, but that contract ended in Summer 2022. The Department plans to be housed entirely on the fifth floor of the Capitol.

Cost savings this biennium: \$70,000

## IT

The Department will be unifying with ITD and thus the service fees are primarily in the Data Processing line. Other expenses would include migrating systems for the State Fire Marshal to the Insurance Department and miscellaneous equipment not covered by the unification.

Cost savings: \$80,000

## Professional Services

The Department increased this line primarily for attorney fees for a long-term care insurance case in the courts. This money is requested now to have available, should it be needed, rather than requesting before the Emergency Commission. Other expenses include consultant fees for studies and audit fees.

Requested \$250,000 from Emergency Commission in 21-23. Audit fees have increased 146%

# Fire Marshal FTE Request

2023-2025 Biennium



## Chief Deputy Fire Marshal

### Duties & Responsibilities

- » Supervise Deputy Fire Marshals within their command
- » Assign & track progress of projects & investigations
- » Pursue accreditation for division programs
- » Recruit and train Deputy Fire Marshals



Deputy Fire Marshal

Jamestown



Deputy Fire Marshal

Devils Lake



Deputy Fire Marshal

Williston



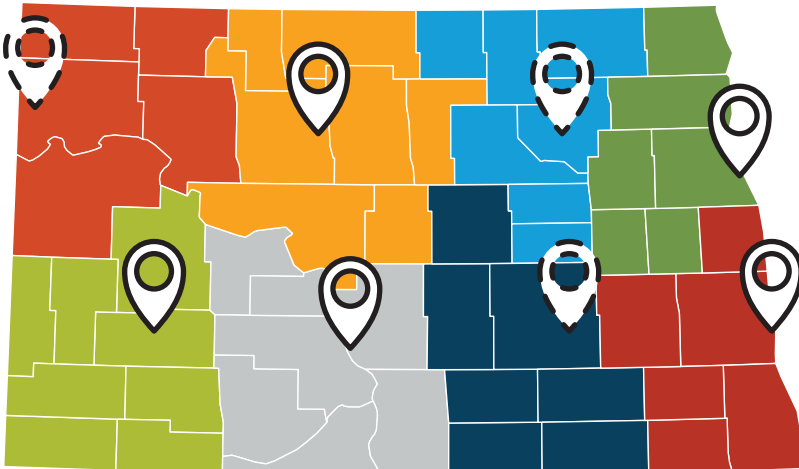
## Let's get accredited

Additional FTEs help us achieve accreditation

- » American National Standards Institute (ANSI)
- » Commission on Fire Accreditation International

Why is this important?

- » Quality standards
- » Consistency
- » ISO Ratings
- » Credibility
- » Competitive advantage for grants & other funding



Existing Deputy Fire Marshal offices

Bismarck, Dickinson, Fargo, Grand Forks & Minot



Proposed additional Deputy Fire Marshal offices

Devils Lake, Jamestown & Williston

## Benefits to North Dakota

- » No overtime expenses
- » Less mileage expenses
- » Investigate all requests
- » ISO rating improvements, leading to lower property insurance premiums
- » Reduced liabilities

# Fire Marshal FTE Expenses

2023-2025 Biennium



1 Chief Deputy  
Fire Marshal

Annual salary: \$91k  
Fringe: \$35.5k

\$126.5k annually  
**\$253k biennially**

3 Deputy Fire  
Marshals

Annual salary: \$71.5k  
Fringe: \$31.5k

\$103k annually each  
**\$206k biennially each**



Total salary & fringe of  
four additional FTEs

# \$872k

Figures do not include any legislative or equity salary adjustments.

## 2023-2025 Biennium Operational

PPE	\$ 3,500
Backup PPE	\$ 3,500
Vehicle Tools	\$ 3,500
Uniforms	\$ 1,000
Gas Monitor	\$ 1,500
Small Tools	\$ 2,000
Gear Extractor	\$ 5,000
Fleet Vehicle	\$ 28,800

**Total per FTE \$ 48,800**

**Total of 4 FTEs \$ 195,200**

## 2023-2025 Biennium Total

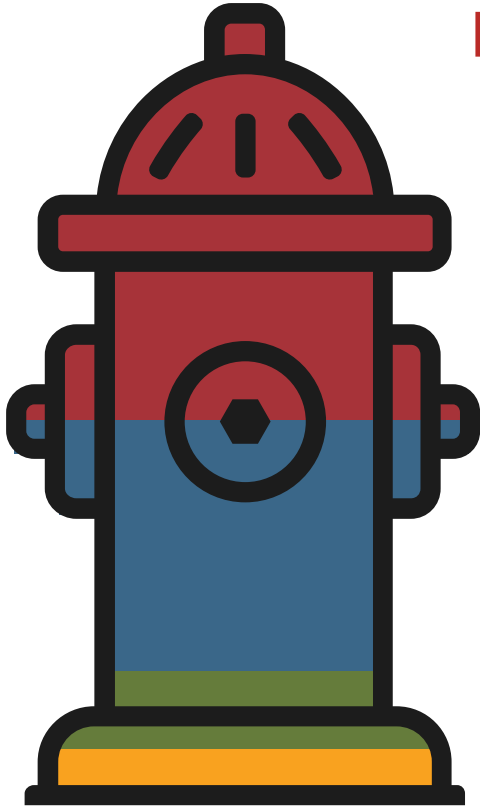
Total salary & fringe **\$872k**

+ Total operating **\$195k**

**\$ 1,067,000**

Total for 4  
additional FTEs

# ISO Ratings



## How are ISO Ratings determined?

### 50 Points - Fire Department

A review of fire suppression capabilities including equipment and personnel training.

### 40 Points - Water Supply

Evaluation of a community's water supply system as well as the maintenance and quality of hydrants.

### 10 Points - Emergency Communications System

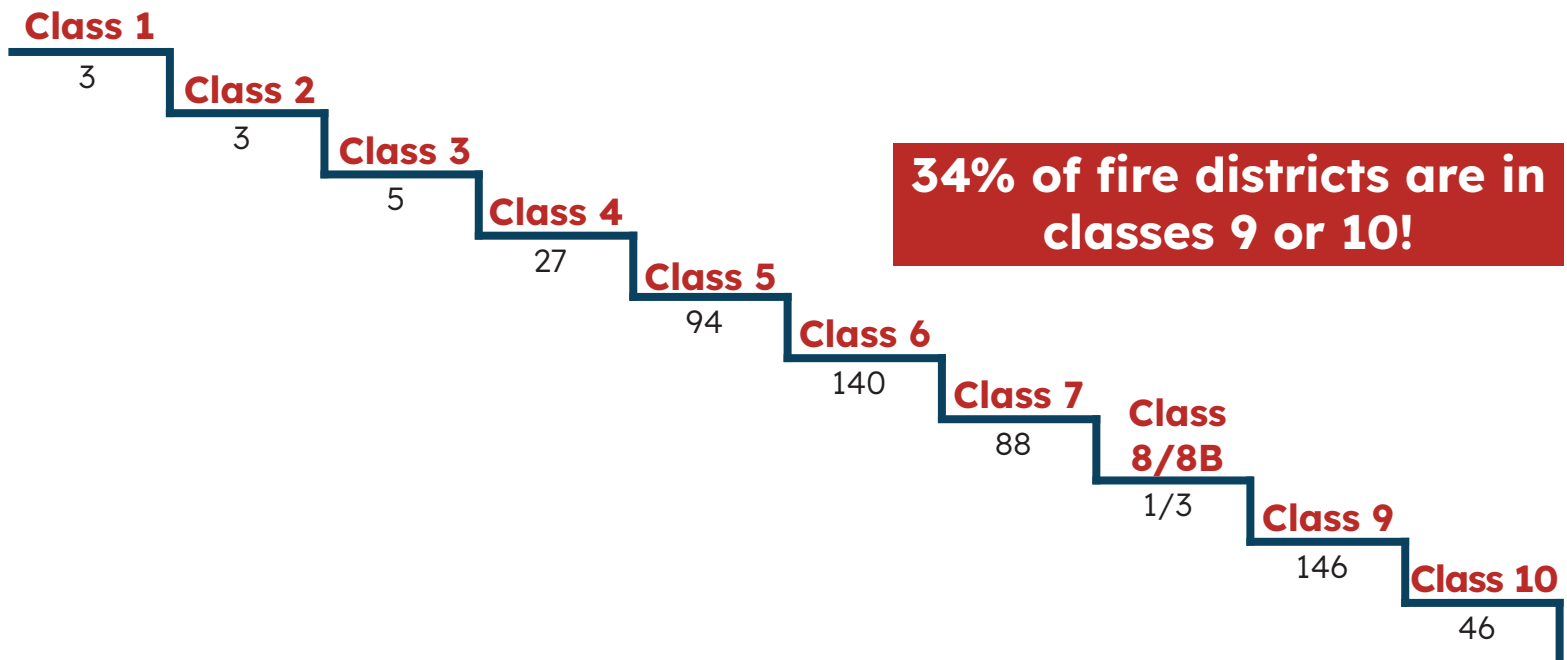
A review of a community's facilities and support for handling and dispatching alarms.

### 5.5 Points - Community Risk Reduction

Evaluation of fire prevention code adoption, public fire safety education and fire investigation.

## What are North Dakota's ISO Ratings?

Number of fire districts in each class as of Jan. 2023



# Fire Department Finances

## Revenue



Property taxes

Contracts for service



Extended scene response & rescue

Insurance tax distribution



Fundraising activities

Donations



Charitable gaming

Grants



## Expenditures



Salaries

» Paying for any full- or part-time staff.

Equipment



» Trucks, vehicles, PPE & gear

Utilities & Overhead



» Electrical, water, gas & rent/mortgage

Insurance



» NDIRF, WSI & property insurance

Training & Certifications



» Equipment training & safety certifications

Grant & Gaming Management



» Upfront fees or matching amounts

Fire Districts are

**Stretching  
Dollars**

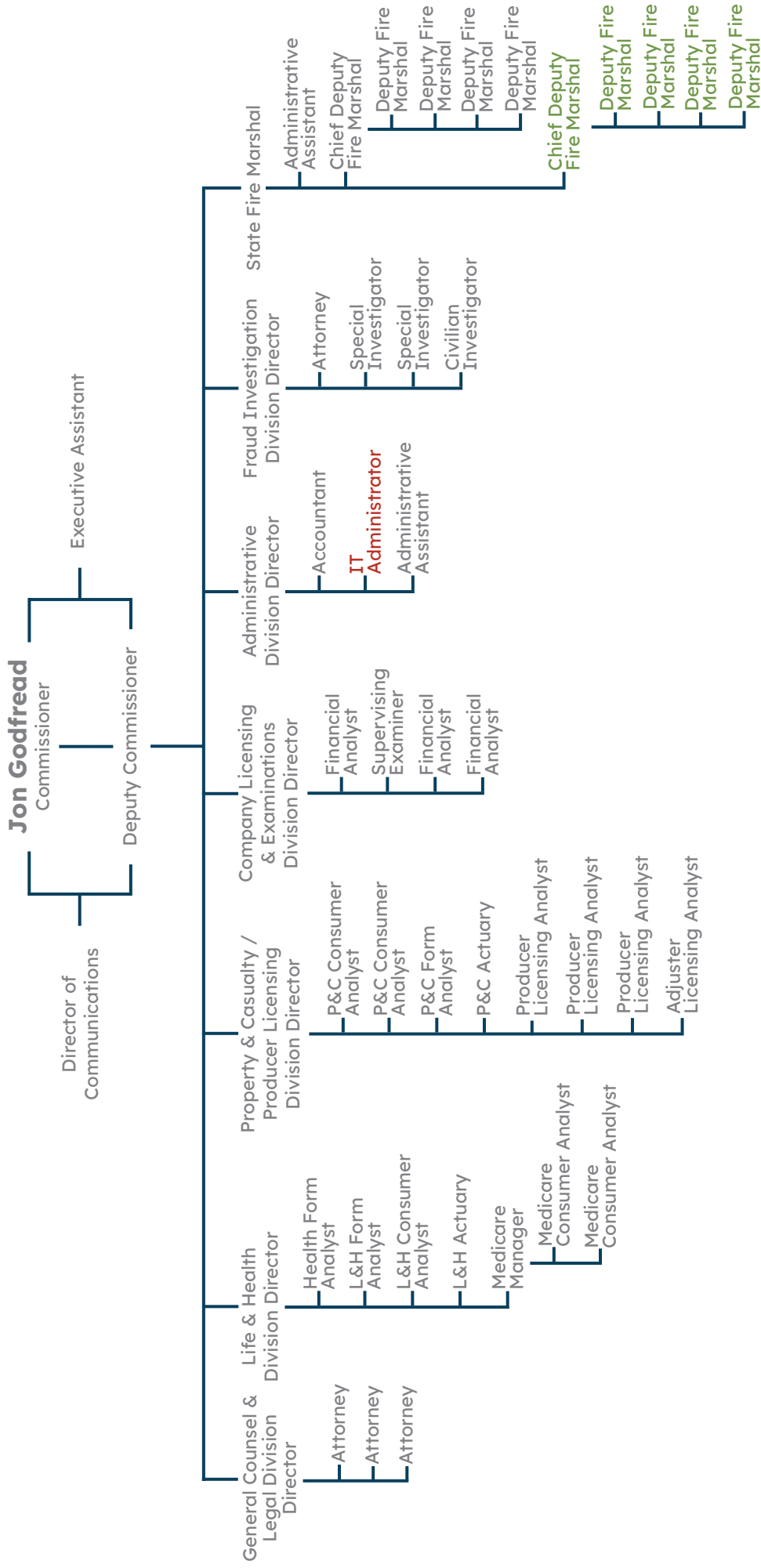
Dollars received and spent in fire districts all have a common theme: **safety**. Safety is one of a fire department's central liabilities, whether rural or urban. The funds allocated to those fire districts are being allocated and used to enhance safety in the community further.

Fire departments and districts creatively approach fundraising and strategically spend their limited dollars. The shoestring budgets that many departments experience result in expired gear, lapses of certifications for trucks, and ill-equipped firefighters.

Unfortunately, the inability to act can affect ISO scores and, ultimately, the communities they serve.

# Department Organizational Chart

2023-2025 Biennium







# North Dakota Insurance Department

Safeguarding Promises. Fostering Fairness.  
Jon Godfread, Commissioner

## SB 2010 *Insurance Department Budget*

*Government Operations  
Division*

House Appropriations Committee





# »» Our Role



**North Dakota  
Insurance  
Department**



**Company & Product  
Financial Examinations**



**Product & Conduct  
Examinations**

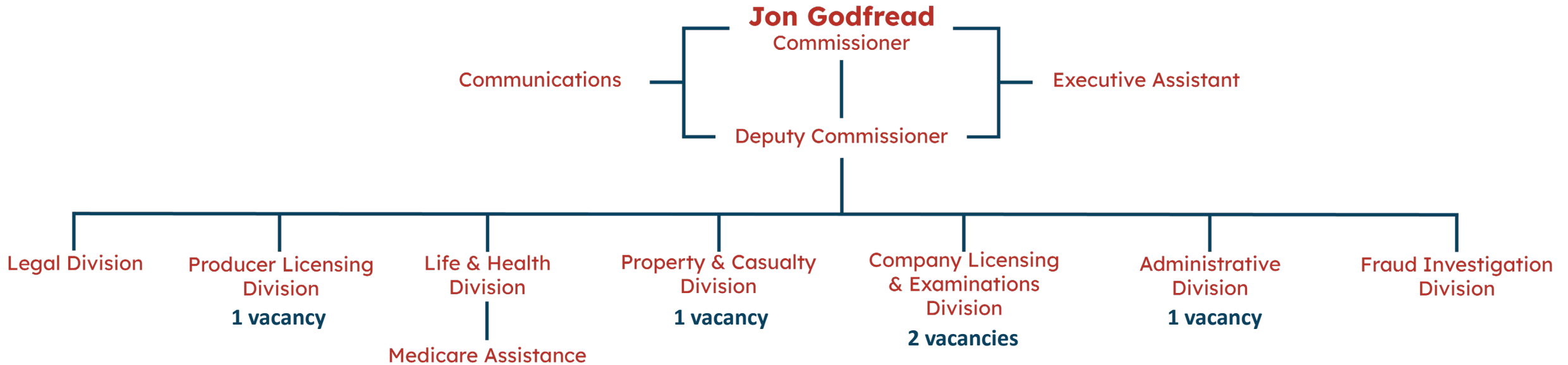


**Consumer Assistance  
& Advocacy**

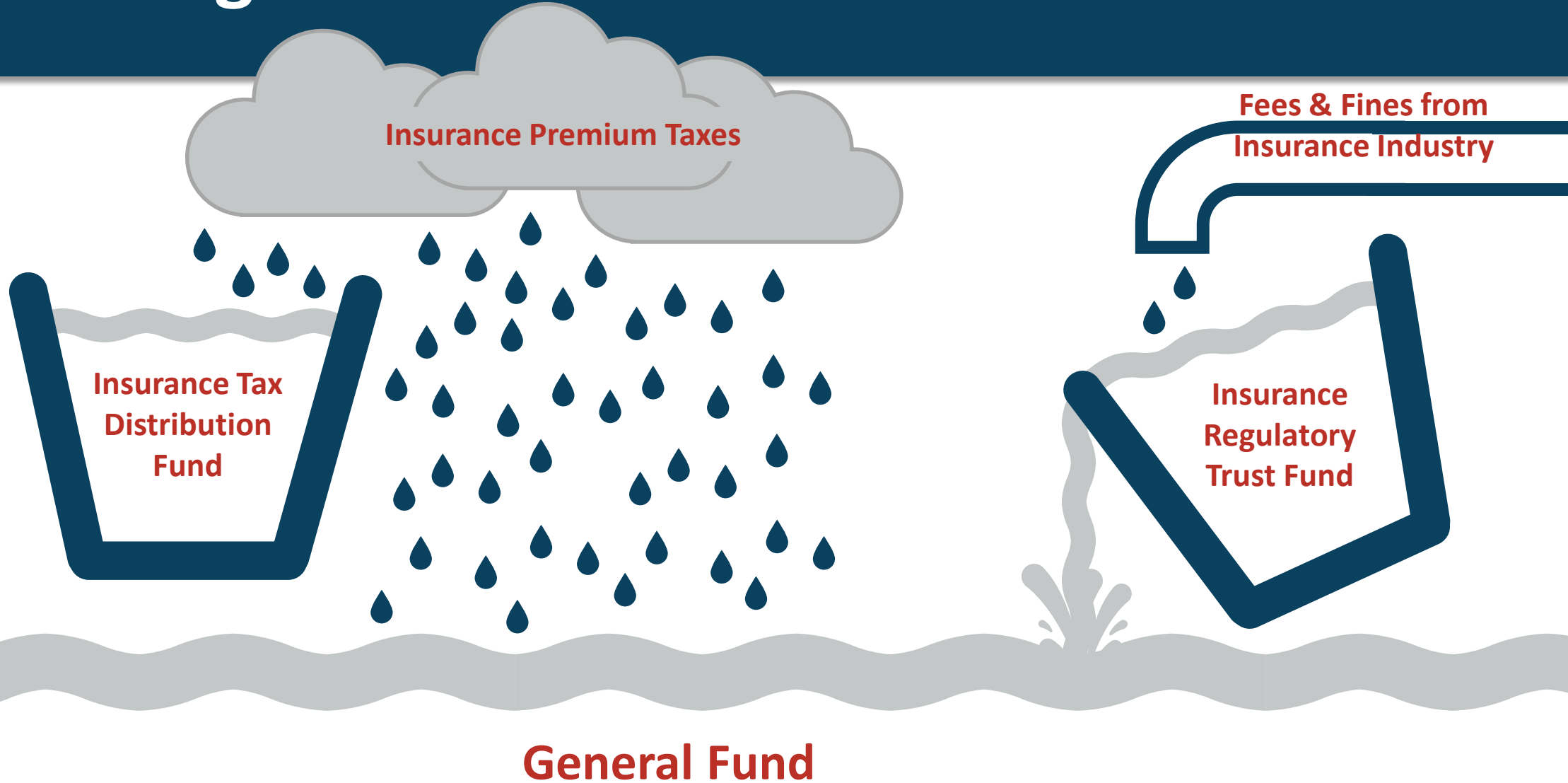


# Organizational Structure

As of March 15, 2023



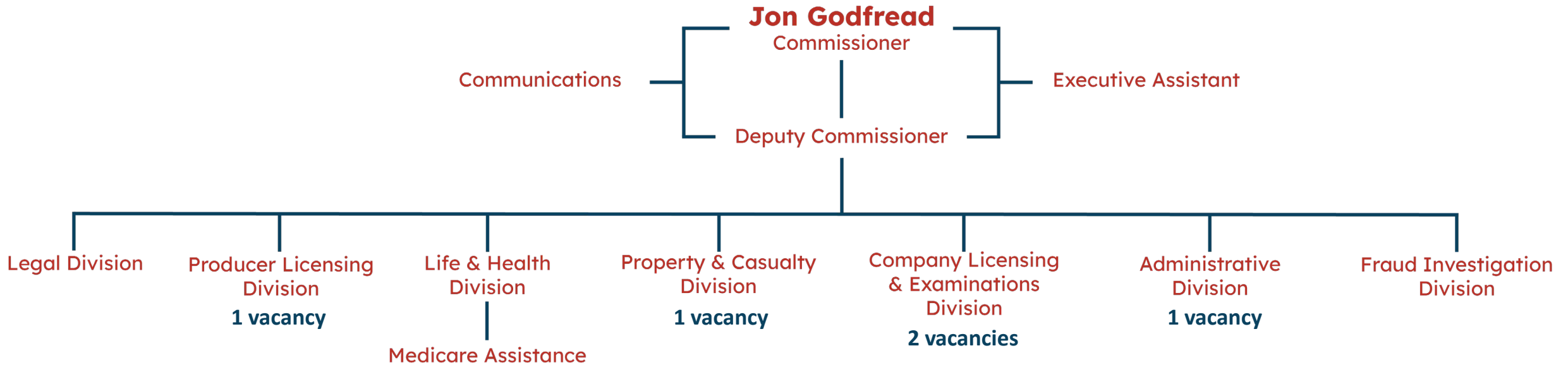
# »» Funding Structure





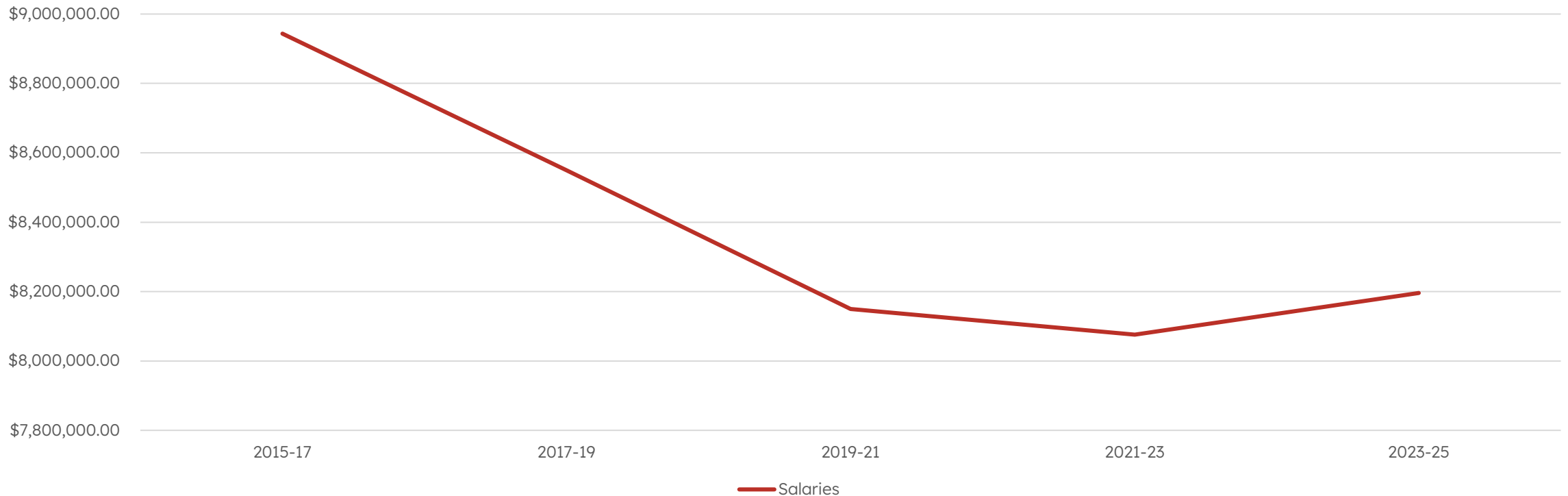
# Organizational Structure

As of March 15, 2023



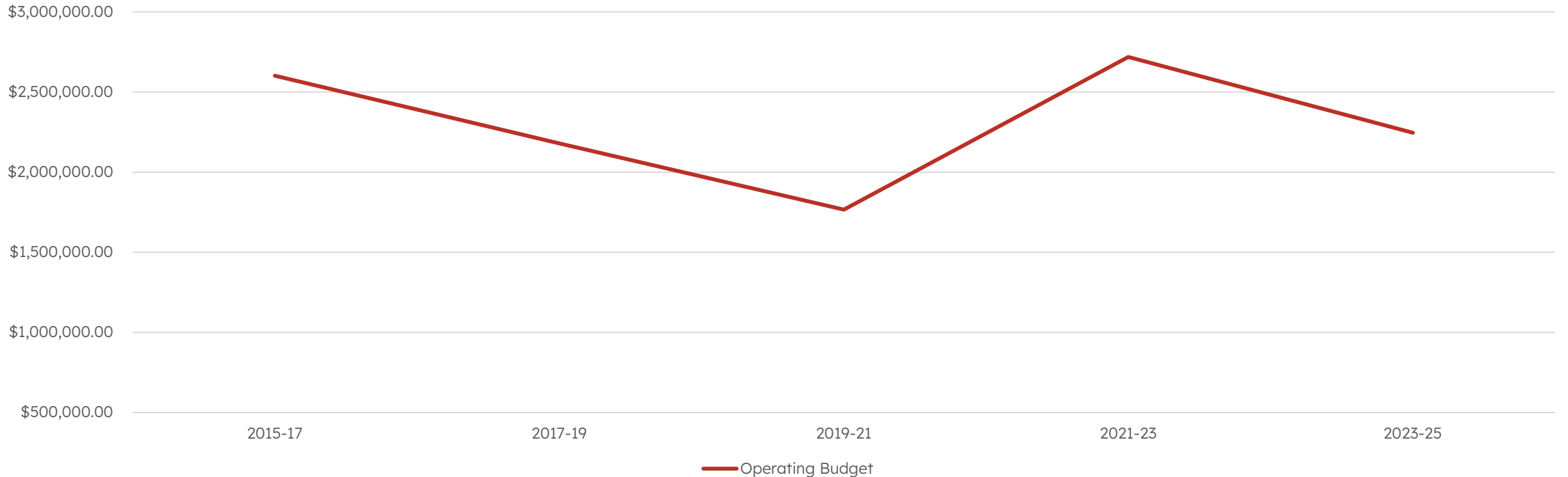
# Appropriated Salaries Over Time

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# Appropriated Operating Budget Over Time

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# Operating Cost Adjustments



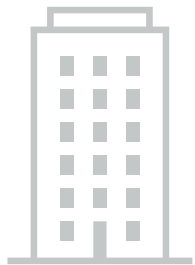
## Travel

2023-25 Cost: \$582,258



## IT

2023-25 Savings: \$80,000



## Rent

Savings this biennium:  
\$70,000



## Professional Services

2023-25 Cost: \$559,500



# »» Saving Taxpayer Dollars

Since the 2015-2017 Biennium...



**13.59%**

Operations Budget



**8.35%**

Salaries Budget



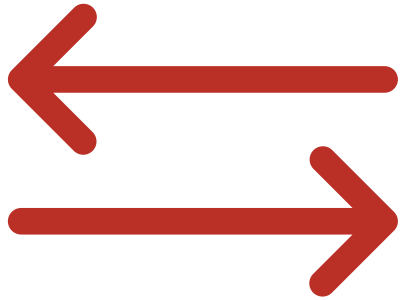
**25.25%**

FTEs

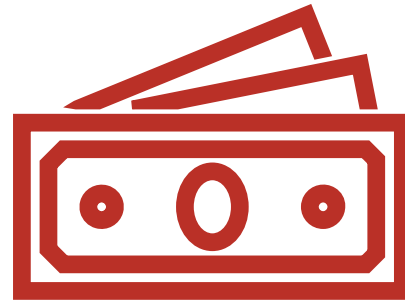




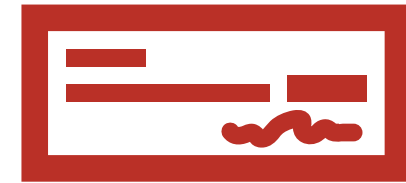
# »» SB 2211



**Transfer State Fire  
Marshal to Insurance  
Department**



**Allocate flat amount  
to ND Firefighter's  
Association**



**Restore continuing  
appropriation for  
premium tax  
distributions**



# »» Senate Version Changes



## MOVE

8 Fire Marshal FTEs  
to Insurance  
Department



## ADD

4 New Fire Marshal  
FTEs



## CHANGE

Funding Types &  
Sources for NDFA &  
Fire District Payments







# North Dakota Insurance Department

Safeguarding Promises. Fostering Fairness.  
Jon Godfred, Commissioner