



TESTIMONY

Jon Godfread, Insurance Commissioner

Senate Appropriations Committee, Government Operations Division
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Good Morning, Chairman Wanzek, 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 morning 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.

One-Time Funding and Office Space Improvements

We successfully utilized the \$75,000 allocated for our main entrance buildout, adding four new offices and reconfiguring space previously occupied by the Securities Commission. This renovation has been invaluable, providing a designated consumer assistance area with the necessary technology, additional

workspace for Fire Marshal staff, and accommodations for hybrid workers (currently 14). Importantly, we are not requesting additional construction funding for 2025-27, as the remodel was completed through the Capitol Space Utilization Improvements program in OMB's budget.

Since I took office eight years ago, we have expanded built-out offices from 17 to 37, eliminating two off-site leases and maximizing our 5th-floor space—a fiscally responsible move that has led to significant cost savings.

Fire Marshal Equipment and Capital Asset Requests:

Of the \$72,540 in one-time funding allocated to the Fire Marshal's Office, we have expended \$51,835, with \$20,704 remaining. These funds have been used to acquire essential investigative equipment, such as a trailer and sifter previously retained by the Attorney General's Office, and to outfit new vehicles for our growing Fire Marshal team.

For the 2025-27 biennium, we are requesting \$90,000 in capital asset funding, included in Governor Armstrong's Executive Budget and the House version. This funding will modernize critical equipment:

- \$10,000 to upgrade the Fraud Division's radios for full Statewide Interoperable Radio Network (SIRN) compatibility, ensuring seamless communication during investigations.
- \$80,000 for a second portable x-ray imager for the Fire Marshal's Office. Currently, we operate with only one, limiting investigative capacity due to distance and location constraints. A second unit will significantly enhance our ability to conduct fire cause investigations, improving efficiency and effectiveness.

Staffing Needs: Addressing Regulatory Growth

Governor Armstrong's budget includes two of our four requested FTEs:

- An additional Attorney to address growing legal and regulatory demands.
- A Company Licensing & Examination Analyst to manage compliance and oversight responsibilities.

Requested New Attorney Position: Expanding Legal Support for Regulatory Enforcement

Our department's legal responsibilities continue to expand as regulatory demands grow, particularly in areas such as fraud prosecution, fire investigation support, insurance licensing enforcement, and the oversight of domestic and unlicensed insurers. Our existing legal team is stretched thin, and without additional legal capacity, we risk delays in enforcement actions, compliance monitoring, and fraud prosecution—all of which could have significant consumer protection implications.

The requested attorney position would be responsible for six primary areas:

1. Primary Support for the Fire Marshal's Division:
 - This position would provide critical legal guidance on fire investigations, fire safety regulations, and enforcement actions, ensuring that our department is adequately equipped to uphold public safety standards.

- The increasing number of cases involving fire investigations and regulatory issues necessitates dedicated legal expertise to support compliance efforts and properly adjudicate disputes.
2. Secondary Fraud Prosecution Attorney:
 - As fraud cases grow in complexity, our current legal team cannot efficiently handle both civil and criminal fraud cases without additional support.
 - This attorney would assist in coordinating with law enforcement agencies, reviewing fraud-related complaints, and pursuing legal action against fraudulent actors in the insurance market.
 3. Civil Fraud Enforcement:
 - This role would handle the growing number of consent orders, compliance investigations, and enforcement actions that require significant legal oversight.
 - Without proper staffing, we risk delays in fraud investigations, potentially allowing fraudulent activities to persist longer than necessary.
 4. Administrative Rules Drafting & Hearing Representation:
 - The department is responsible for drafting, updating, and enforcing administrative rules that regulate insurers and related entities.
 - As regulatory changes continue at both the state and federal levels, this attorney would assist in drafting legally sound regulations, supporting administrative hearings, and ensuring our rules align with legislative intent.
 5. General Licensing Actions:
 - This attorney would manage enforcement actions related to insurance company and producer licensing.
 - With increasing compliance issues among insurance entities, we must ensure due process in licensing actions and take enforcement measures when necessary.
 6. Enforcement of Domestic and Unlicensed Companies:
 - The attorney would serve as the primary legal resource for enforcing compliance among North Dakota-based insurers and taking action against unlicensed companies operating unlawfully in the state.
 - As new entities enter the market, this role will be crucial in maintaining a fair and competitive insurance environment while ensuring consumers are protected.

The Cost of Inaction

Without this additional legal capacity, fraud investigations will take longer, enforcement actions may stall, and regulatory compliance could suffer. The risk to consumers increases when enforcement actions are delayed, and the department's ability to respond effectively is compromised. By approving this

attorney position, the state will ensure its regulatory agency has the necessary tools to safeguard the insurance market and protect policyholders.

Additional Company Licensing Analyst: Enhancing Efficiency & Reducing Costs

Our second FTE request—a Company Licensing & Examination Analyst—is a financially responsible solution that will lead to long-term savings for the department and the state.

Currently, the department relies heavily on external consultants to conduct company examinations, IT reviews, and actuarial assessments. While necessary in some cases, this reliance has become an ongoing financial burden, resulting in substantial costs that could be significantly reduced with internal staffing.

Financial Impact of Consultant Costs

Since 2020, we have spent a significant amount on external consultants for examinations. Based on past expenditures and future projections:

- Total consultant expenses since 2020: \$458,925.60
- Estimated savings with an internal analyst: \$360,000–\$400,000
- Projected contractor costs for upcoming exams: \$180,000 over the next two years

Had we employed an additional Company Licensing Analyst over the past four years, we would have saved at least \$360,000 by performing much of the examination work in-house.

Upcoming Examination Needs & Projected Cost Savings

Looking ahead, we have five upcoming company examinations that will require external contractor support:

- Three examinations will require actuarial support, as our current team lacks the bandwidth to handle this workload.
- Three examinations will require IT support, as our limited staff cannot simultaneously conduct IT reviews while completing all exam work.

If this FTE is approved, we could eliminate \$50,000 of the projected \$180,000 in external consultant costs for these exams. Additionally, we have already spent \$130,000 this year alone on IT and actuarial contractors—costs that could be reduced with adequate internal staffing.

Long-Term Benefits of Internal Staffing

By hiring a Company Licensing Analyst, the department can:

- Reduce Reliance on Costly External Contractors – Long-term savings by shifting critical examination tasks in-house.
- Increase Efficiency in Company Licensing & Oversight – Allowing staff to focus on core compliance responsibilities.
- Train & Develop Internal Expertise – Enabling the department to reduce external support over time and maintain institutional knowledge.

- Enhance Consumer & Market Protection – Ensuring timely and thorough regulatory oversight.

The Cost of Inaction

If this position is not approved, the department will continue to spend hundreds of thousands of dollars on external consultants, rather than investing in permanent, cost-effective solutions. This is an opportunity to save taxpayer dollars, increase efficiency, and ensure the department has the expertise needed to regulate a rapidly evolving insurance market.

We are also requesting:

- A Property & Casualty Consumer Analyst to address the increasing volume of consumer inquiries and complaints since 2020. This role is essential to educating policyholders, clarifying coverage, and ensuring North Dakotans make well-informed decisions.
- A Communications Specialist to enhance public engagement, stakeholder outreach, and consumer education.

Property & Casualty Consumer Analyst: Addressing Increased Consumer Complaints

In recent years, the department has seen a significant rise in consumer inquiries and complaints related to property and casualty insurance, including homeowners, auto, and commercial policies.

Why This Position is Needed

- The volume of consumer complaints has increased by 30% since 2020, straining our existing consumer services team.
- Many inquiries involve complex policy disputes, requiring deeper analysis and regulatory intervention.
- Consumers need better education on coverage options, policyholder rights, and insurance regulations.

Role & Responsibilities

A Property & Casualty Consumer Analyst would:

- Investigate and resolve consumer complaints related to property and casualty insurance.
- Educate policyholders on their coverage rights and responsibilities.
- Ensure insurers comply with state regulations and consumer protection laws.

Without this position, consumer complaints will take longer to resolve, potentially leaving policyholders without timely assistance in navigating disputes with their insurers.

Communications Specialist: Expanding Public Engagement & Consumer Education

The department's communications team currently consists of just one person, responsible for both the Insurance Department and the Fire Marshal's Office. Given the increasing demand for public engagement, financial literacy efforts, and stakeholder outreach, this is unsustainable.

Why This Position is Needed

- Consumer engagement has surged in the past three years, with more inquiries and requests for guidance.
- Many North Dakotans remain unaware of their rights, available resources, and the department's role in consumer protection.

- A dedicated Communications Specialist would allow the department to:
 - Expand consumer protection initiatives and financial literacy efforts.
 - Improve public access to insurance and fire safety information.
 - Free up the Director of Communications to focus on strategic initiatives.

Without this position, public outreach efforts will be limited, and many North Dakotans may remain uninformed about critical consumer protections.

To keep pace with growing regulatory demands, protect consumers, and reduce financial inefficiencies, we urge the committee to support these staffing requests.

- **The additional attorney** will ensure that fraud, licensing, and enforcement actions remain timely and effective.
- **The Company Licensing Analyst** will save the state money by reducing reliance on external consultants.
- **The Property & Casualty Consumer Analyst** will ensure that policyholders receive timely assistance and protections.
- **The Communications Specialist** will expand public education efforts and improve consumer awareness.

These positions represent a fiscally responsible investment in ensuring North Dakota’s insurance market remains fair, competitive, and consumer-friendly.

Financial Breakdown and Salary Adjustments

The four new FTEs—an Attorney, Company Financial Analyst, Consumer Analyst, and Communications Specialist—along with a 3% salary increase, would total \$911,628 (\$884,213 in salary/fringe benefits, \$27,415 in operating costs). This would increase our FTE count from 47 to 51, aligning staff levels with our expanding workload.

Addressing Salary Needs and the Loss of Budget Flexibility

The implementation of the FTE funding pool has effectively removed our ability to absorb necessary, yet unpredictable, costs—such as comptime, overtime, and retirements—within our existing budget. In the past, we were able to utilize salary savings to cover these expenses without issue. However, under the new funding structure, this flexibility no longer exists, meaning we must have a dedicated line items for these costs.

To be clear, we are not here to debate the implementation of the FTE funding pool—we recognize that decision has been made. However, as you move forward with this program, it is critical that agencies like ours have a designated funding mechanism to address these unavoidable and essential expenses.

This is especially true given the unpredictable nature of fire investigations and the responsibilities of the State Fire Marshal’s Office. There will be times when our Deputy Fire Marshals must work overtime—fires don’t happen on a schedule, and investigations don’t always fit neatly into a standard workweek. Without the ability to cover these costs within our budget, we would be forced to approach the Emergency Commission or engage in deficiency spending—neither of which is a responsible or efficient solution.

To ensure we can properly compensate our staff for the work they do without unnecessary bureaucratic hurdles, we are requesting the following:

- \$45,000 for Fire Marshal salary adjustments—the Fire Marshal’s Office has not undergone an equity review in over 40 years, and these adjustments are necessary to remain competitive and retain experienced professionals.
 - Increasing the starting salary from \$5,431 to \$6,000–\$6,200 per month will allow us to attract and keep qualified personnel in this critical public safety role.
- \$255,000 for attorney salary equity—our legal team lags behind peers in state government, putting us at risk of losing top legal talent.
 - The \$125,000 equity pool allocated last session helped adjust salaries for five attorneys, but additional funding is needed to maintain a competitive pay structure.

Additionally, we are requesting:

- \$63,250 in retirement funding—to cover payouts for two long-tenured employees (30+ years of service), ensuring a smooth transition without causing budget strain.
- \$20,000 for compensatory time (comptime) and overtime payouts—particularly for Deputy Fire Marshals, who often accrue time due to long-distance travel and unpredictable fire investigations.

These requests are not about expanding our budget—they are about ensuring we can pay for work that has already been done. As this committee moves forward with implementing the FTE funding pool, we urge you to provide agencies like ours with the necessary tools to manage essential expenses without unnecessary administrative roadblocks. The unpredictability of our workload requires budget flexibility, and we must ensure our Deputy Fire Marshals and other staff are compensated fairly and promptly for their critical work.

The Bottom Line

We fully understand the reasoning behind the FTE funding pool and the effort to remove flexibility in seeking additional savings. However, if you examine our track record, the North Dakota Insurance Department remains 2.5 FTEs below where we were eight years ago—even after absorbing the State Fire Marshal’s Office with 10 additional FTEs. Over that same period, our operating budget has grown by only 4.5%, despite an increasingly complex regulatory landscape and additional responsibilities assigned by this chamber.

As a reminder, we are a 100% special-funded agency, meaning our budget does not draw from the General Fund but is derived from the industry we regulate. We have consistently brought forward needs-based budgets, and in years when reductions were neither requested nor required, we proactively cut our budget in good faith—believing that our conservative stewardship would be recognized when we presented legitimate, necessary requests in future cycles.

With the pending transfer of the Securities Department, we are already analyzing a reorganization plan to ensure this transition results in meaningful efficiencies and cost savings. More details will follow, but

our approach remains rooted in responsible fiscal management and ensuring we are structured effectively to meet our statutory obligations.

The reality is this: over the past eight years, we have reduced our budget, maintained lean operations, and only requested strategic, necessary growth. Our current request seeks to responsibly utilize the special funds available to us to ensure we have the resources to fulfill our duty to North Dakota consumers. We recognize that budgets are always tight, but our agency has demonstrated time and again that we do not ask for more than what is needed. This session's request is no different.

I respectfully ask that this body consider our budget in the full context of the past eight years, the expanding scope of our responsibilities, and the new duties assigned by this legislature. We are simply requesting the tools necessary to effectively manage and operate the Insurance Department. Ensuring we have adequate staffing and resources is not about expansion for expansion's sake—it is about meeting our obligations, serving North Dakota consumers, and maintaining a strong and responsive regulatory environment.

Fire Marshal's Office Transition: Progress, Challenges & Solutions

Operational Improvements

Since the State Fire Marshal's Office transitioned to the Insurance Department in July 2023, we have enhanced efficiency and expanded support for local fire departments. Key achievements include:

- New Deputy Fire Marshals hired in Devils Lake and Jamestown, improving statewide coverage.
- Strategic staffing adjustments in Jamestown, reclassifying the Chief Deputy Fire Marshal role into a Deputy Fire Marshal position, allowing for career growth with the creation of Senior Deputy Fire Marshal positions.
- Improved training and resources through SB 2211, providing the North Dakota Firefighters Association (NDFA) with \$2.4 million per biennium from the Insurance Regulatory Trust Fund. This funding has expanded regional fire schools, enhanced training programs, and strengthened fire safety preparedness statewide.

In 2023, fire district funding from the Insurance Tax Distribution Fund increased by 37.8% to \$13.5 million and rose further to \$14.5 million in 2024. However, growing demand for equipment maintenance and instructor recruitment underscores the need for additional resources to sustain and expand these advancements.

Financial & Operational Efficiencies

Despite these successes, the Fire Marshal's Office transition and NDFA funding shifts have created cash flow challenges due to the \$1 million reserve cap in the Insurance Regulatory Trust Fund. While this issue was anticipated, an earlier request to increase the reserve limit was removed during legislative negotiations over SB 2211.

To address this, we introduced:

- HB 1123, modernizing outdated fees and fines to ensure they reflect the true administrative costs of regulatory functions.

- HB 1086, which closes a stagnant fund, transfers its balance to the Insurance Regulatory Trust Fund, and redirects cigarette certification fees into the trust fund for long-term financial stability.

Both bills have received strong legislative support and moved forward in the process. However, if HB 1123 does not pass, we will pursue increasing the Insurance Regulatory Trust Fund reserve from \$1 million to \$3 million to prevent cash flow disruptions.

Additionally, SB 2090 seeks to eliminate redundant billing between state agencies and the Fire Marshal's Office, streamlining operations, reducing inefficiencies, and allowing our team to focus on fire prevention and enforcement rather than bureaucratic obstacles.

Budget Overview: A Responsible, Needs-Based Request

The North Dakota Insurance Department plays a critical role in protecting consumers, ensuring market stability, and supporting fire safety. Our 2025-27 biennium budget request of \$18,509,420 is a measured, necessity-driven proposal that reflects both responsible fiscal management and the evolving demands on our agency.

Staffing & Salary Adjustments: Addressing Critical Needs

We currently operate with 47 FTEs, with four vacancies in the hiring process. Our request includes funding for four new FTEs to strengthen key areas where our responsibilities have expanded:

- A Property & Casualty Consumer Analyst to address rising consumer inquiries and complaints.
- A Communications Specialist to improve public engagement and education efforts.
- A Company Licensing & Examination Analyst to enhance regulatory oversight.
- An Attorney to handle increasing legal and enforcement responsibilities.

Our total salary and wage request of \$13,116,852 includes essential adjustments for:

- Retaining and attracting skilled personnel in highly specialized roles.
- Critical reclassifications to align with industry standards.
- Anticipated retirements and necessary overtime and comp-time payouts.

Additionally, due to the FTE funding pool, we no longer have the flexibility to absorb salary savings to cover necessary costs. As a result, we must directly budget \$83,250 for overtime, comp-time payouts, and retirements—expenses we previously managed within our salary structure. While we recognize the intent of the FTE funding pool, it is critical that agencies like ours retain some flexibility to handle these operational realities.

Operational Budget: Efficiency Without Compromise

Despite inflationary pressures, we have reduced our operational budget by 0.08% from the current biennium. However, uncontrollable cost drivers, such as fleet management and ITD data processing, continue to rise. To ensure uninterrupted operations, our total operating request is \$2,635,603, which includes:

- Capital asset funding of \$90,000 (approved by the House) to support critical upgrades in the Fraud Division and Fire Marshal's Office.
- Necessary funding for regulatory and consumer protection efforts in an increasingly complex insurance market.

A Lean Budget That Protects North Dakotans

This request represents a modest, targeted investment to maintain and enhance core functions—not an expansion for expansion's sake. The Insurance Department's work touches every North Dakota community, from ensuring the solvency of insurers to fighting fraud and improving fire safety.

Meeting these challenges requires attracting and retaining top-tier talent, particularly in insurance law, regulatory enforcement, and fire safety. Our budget strikes a balance between fiscal responsibility and providing the tools necessary to meet our growing responsibilities.

Pending Legislation with Potential Budgetary Impacts

As this subcommittee considers our budget request, I want to highlight key pieces of legislation still under consideration that could impact the Insurance Department's budget and operations.

State Fire and Tornado Fund & State Bonding Fund Transition

Since the 66th Legislative Assembly, the State Fire and Tornado Fund and the State Bonding Fund have been successfully administered in partnership with the North Dakota Insurance Reserve Fund (NDRIF). This arrangement has helped eliminate regulatory conflicts, improve coverage accuracy, and reduce public property risk exposure.

To further streamline fund administration, HB 1026 (Bonding) and HB 1027 (Fire & Tornado Fund) were 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) under Risk Management.

I fully support this transition as it represents a logical next step—aligning fund management with OMB's core responsibilities while ensuring continued effective oversight. We will continue to work with this committee to ensure a smooth transition that maintains program integrity and efficiency.

Strengthening North Dakota's Insurance Market

The Insurance Department has taken proactive steps to attract capital investment and improve market conditions for insurance companies in North Dakota.

At the June 19 Budget Section meeting, we requested \$1.5 million to fund four studies focused on strengthening the state's property and casualty insurance market. These studies are designed to identify legislative and regulatory initiatives that will:

- Expand access to capital for insurance companies.
- Increase market participation, which in turn can apply downward pressure on rates.
- Improve availability of property insurance for North Dakotans.

Among the legislative initiatives under discussion are:

- SB 2272 (Failed first half):
 - **ND Incentive Program** – Clarifying the "Earned Capital" section to specify whether a hearing is required for determinations, or preferably, confirming the Commissioner's determination is final.
- SB 2374
 - **Insurance Holding Company Systems** – Requiring prior approval of delegation agreements by the Commissioner for better oversight.
 - **Large Commercial Risk Rebates** – Allowing rebates for large commercial risks, creating more flexibility in the market.
 - **ND Purchasing Group Statutes** – Updating statutes to enhance their functionality and effectiveness.
 - **Surplus Lines Laws** – Improving surplus lines regulations to increase market responsiveness.
 - **Property Insurance Reform to Address Social Inflation** – Ensuring insured parties are informed about arbitration clauses and offering alternative policy options that do not require binding arbitration.

These reforms are intended to foster a more competitive, responsive, and accessible insurance market while addressing rising property insurance costs. We are actively engaged with Senate and House IBC and IBL Committee leadership to gauge interest in moving these initiatives forward.

Addressing Immediate Challenges

While these legislative initiatives provide long-term market solutions, County Mutuals continue to face significant reinsurance challenges. There is no immediate relief, and these companies are facing difficult decisions. However, we believe the steps we are taking now will position North Dakota as an attractive and stable environment for future insurance and reinsurance investment.

As the budget process moves forward, we are committed to transparency, engagement, and working closely with this committee. My team and I stand ready to answer any questions, provide further details, or dive into specific line items as needed. Thank you for your time and attention to these critical issues.

Senate-Approved Merger of the Securities Department with the Insurance Department

I want to highlight the importance of SB 2214, which proposes merging the Securities Department with the Insurance Department—a bill rightfully passed by the Senate.

This is not a new concept. A similar proposal was introduced in 2017, leading to a study on merging the Securities Commission with the Department of Financial Institutions. However, given the persistent and significant challenges in securities regulation in our state, the Senate's approval of this merger is a necessary and overdue step toward ensuring stronger oversight and investor protection in North Dakota.

Why This Merger is Necessary

While we do not need to be overly critical of the Securities Department, the reality is that there have been serious failures in securities regulation—and issues continue to persist. These gaps in oversight have put investors at risk, and without decisive action, these challenges will only grow. The Insurance Department has a proven track record of effective regulation, and moving securities under our oversight is the first step in restoring confidence and ensuring investor protection in North Dakota.

This merger is about accountability, efficiency, and modernization. Insurance and securities share critical consumer protection responsibilities, and consolidating these functions will:

- Strengthen regulatory oversight, ensuring that investors receive the same level of protection that policyholders currently do.
- Reduce redundancies by streamlining administrative processes like licensing, compliance monitoring, and enforcement.
- Enhance coordination across cybersecurity risks, complex investment products, and consumer education efforts, where insurance and securities increasingly intersect.

Operational and Budgetary Considerations

From an operational standpoint, this merger will allow for better resource allocation. Currently, the Securities Department is facing significant legal expenses due to its lack of in-house legal representation, forcing them to rely on costly outside counsel. These legal expenses were not accounted for in their budget, creating an unsustainable financial burden.

Additionally, the department is struggling with staffing and salary deficiencies, which must be addressed to ensure it can fulfill its regulatory responsibilities. While our goal is to identify efficiencies and streamline costs, the reality is that additional funding will likely be necessary including a contingency line for unexpected expenses. Transparency is key, and as we move forward with this transition, we will work to ensure these fiscal adjustments are implemented responsibly and effectively.

A Step Toward a Stronger Regulatory Framework

The Senate made the right decision in approving this bill. This is not just an administrative realignment—it is a critical step toward fixing long-standing issues and ensuring that securities regulation in North Dakota is as strong as it needs to be. With this merger, we can protect investors more effectively, modernize oversight, and create a regulatory structure that serves North Dakota's financial markets well into the future.

We look forward to working through this transition and ensuring that the efficiency, transparency, and accountability that define the Insurance Department are extended to securities regulation as well.

HB 1584 – PBM Regulation

HB 1584 passed the House without a fiscal note or fiscal impact assessment. While this bill was drafted ahead of the deadline, we recommended attaching a fiscal note and were assured by the House sponsors that the fiscal impact will be discussed in the second half. Based on our analysis, implementing HB 1584 will require the creation of a new division within the Insurance Department dedicated to enforcing its PBM regulations.

Currently, the Insurance Department has significant expertise in regulating insurance and financial services but has no experience or expertise in regulating pharmaceuticals, manufacturers, or pharmacies. Properly enforcing HB 1584 would require an additional 5-7 full-time employees (FTEs). We anticipate handling over 500 complaints per month, necessitating at least one to two staff members dedicated solely to complaint intake and processing. Once sorted, these complaints would require review and action from a pharmacist, one or two attorneys specializing in this space, a company analyst, and a fraud investigator. This is a highly specialized and complex area of regulation that cannot be effectively managed by reallocating existing staff across multiple agencies.

Simply put, if we do not allocate the necessary resources to implement this bill, we should not pass it at all. Half-measures will only lead to frustration and consumer outcry when expected results—such as lower drug prices or better pharmacy reimbursement—fail to materialize. To date, it remains unclear whether PBM regulations in other states have delivered tangible benefits, as drug prices have not decreased for consumers, and the impact on pharmacies is uncertain. However, if this legislature chooses to regulate PBMs, we will enforce the laws passed—but we will need to be given the appropriate tools, funding, and personnel to do so. Without them, the effort will be ineffective and misleading to the public.

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.