

2021 SENATE APPROPRIATIONS

SB 2008

Department 413 - Department of Financial Institutions
Senate Bill No. 2008

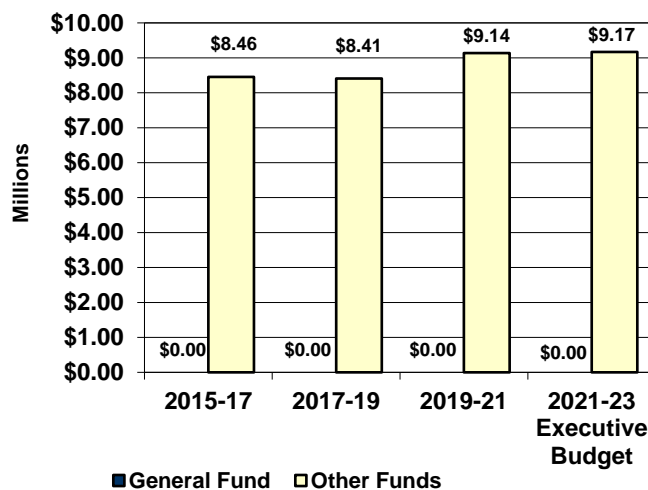
Executive Budget Comparison to Prior Biennium Appropriations

	FTE Positions	General Fund	Other Funds	Total
2021-23 Executive Budget	31.00	\$0	\$9,167,283	\$9,167,283
2019-21 Legislative Appropriations	31.00	0	9,135,872	9,135,872
Increase (Decrease)	0.00	\$0	\$31,411	\$31,411

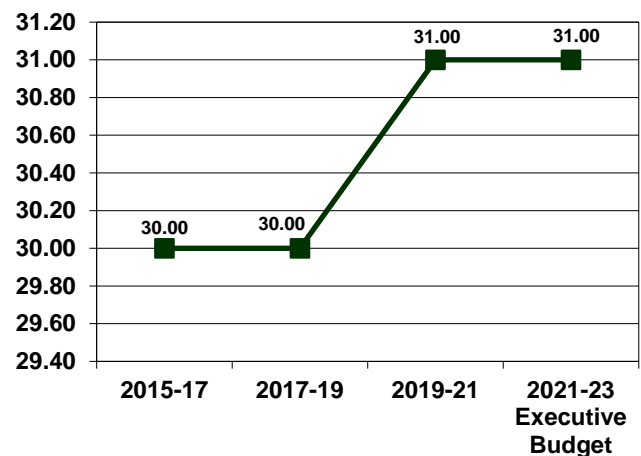
Ongoing and One-Time Other Funds Appropriations

	Ongoing Other Funds Appropriation	One-Time Other Funds Appropriation	Total Other Funds Appropriation
2021-23 Executive Budget	\$9,167,283	\$0	\$9,167,283
2019-21 Legislative Appropriations	8,684,567	451,305	9,135,872
Increase (Decrease)	\$482,716	(\$451,305)	\$31,411

Agency Funding



FTE Positions



Executive Budget Comparison to Base Level

	General Fund	Other Funds	Total
2021-23 Executive Budget	\$0	\$9,167,283	\$9,167,283
2021-23 Base Level	0	8,684,567	8,684,567
Increase (Decrease)	\$0	\$482,716	\$482,716

Attached as an appendix is a detailed comparison of the executive budget to the agency's base level appropriations.

Executive Budget Highlights

	General Fund	Other Funds	Total
1. Adds funding for state employee salary and benefit increases, of which \$189,706 is for salary increases, \$1,416 is for health insurance increases, and \$38,289 is for retirement contribution increases	\$0	\$229,411	\$229,411
2. Increases funding for salaries and wages to promote employee retention	\$0	\$50,000	\$50,000
3. Increases funding for professional development to provide a total of \$363,059	\$0	\$130,280	\$130,280
4. Reduces funding for travel to provide a total of \$547,376	\$0	(\$104,024)	(\$104,024)
5. Increases funding for information technology data processing to provide a total of \$351,744	\$0	\$95,789	\$95,789
6. Reduces funding for rentals/leases of buildings or land to provide a total of \$152,659	\$0	(\$65,425)	(\$65,425)

7. Increases operating expenses for the financial literacy program	\$0	\$40,000	\$40,000
8. Reduces funding for operating fees and services to provide a total of \$75,071	\$0	(\$29,459)	(\$29,459)
9. Reduces funding for other operating expenses as part of reprioritization of special funds	\$0	(\$21,831)	(\$21,831)
10. Reduces funding for professional services to provide a total of \$45,000	\$0	(\$19,139)	(\$19,139)
11. Adds funding for Microsoft Office 365 license expenses	\$0	\$3,305	\$3,305

**Other Sections Recommended to be Added in the Executive Budget
(As Detailed in the Attached Appendix)**

Line item transfers - Section 3 would authorize the Department of Financial Institutions to transfer between line items during the 2021-23 biennium and requires the department to notify the Office of Management and Budget and the Legislative Council.

Continuing Appropriations

No continuing appropriations for this agency.

Deficiency Appropriation

There are no deficiency appropriations for this agency.

Significant Audit Findings

There are no significant audit findings for this agency.

Major Related Legislation

Senate Bill No. 2101 - Amends various sections of North Dakota Century Code relating to credit union loans, the regulatory fund, assessment of civil money penalties, appointment of receivers, supervision and examinations, assessments, real estate loans, bank mergers, bank branches, bank investments, trust branches, credit union powers, credit union board notice, and sale or purchase of banking institutions or holding companies; and repeals Section 6-06-14, relating to credit union loans; and to provide a penalty.

Senate Bill No. 2102 - Amends various sections of the Century Code relating to dissolution, insolvency, suspension, emergency receivership, and liquidation of institutions under the Department of Financial Institutions' supervision; financial institutions cross references, cease and desist orders, and prompt corrective action; and repeals Chapter 6-07, relating to dissolution, insolvency, suspension, emergency receivership, and liquidation of institutions under the Department of Financial Institutions' supervision.

Senate Bill No. 2103 - Amends various sections of the Century Code relating to money broker charges, money broker exemptions, collection agency exemptions, and deferred presentment service transaction procedures; and repeals Section 13-04.1-09.2, relating to money broker charges.

Department of Financial Institutions - Budget No. 413
Senate Bill No. 2008
Base Level Funding Changes

	Executive Budget Recommendation			
	FTE Positions	General Fund	Other Funds	Total
2021-23 Biennium Base Level	31.00	\$0	\$8,684,567	\$8,684,567
2021-23 Ongoing Funding Changes				
Base payroll changes			\$173,809	\$173,809
Salary increase			\$189,706	\$189,706
Health insurance increase			\$1,416	\$1,416
Retirement contribution increase			\$38,289	\$38,289
Increases funding for salaries and wages for retention			\$50,000	\$50,000
Increases funding for professional development			\$130,280	\$130,280
Reduces funding for travel			(\$104,024)	(\$104,024)
Increases funding for data processing			\$95,789	\$95,789
Reduces funding for rentals/leases of buildings or land			(\$65,425)	(\$65,425)
Increases operating expenses for the financial literacy program			\$40,000	\$40,000
Reduces funding for operating fees and services			(\$29,459)	(\$29,459)
Reduces funding for other operating expenses			(\$21,831)	(\$21,831)
Reduces funding for professional services			(19,139)	(19,139)
Adds funding for Microsoft Office 365 license expenses			3,305	3,305
Total ongoing funding changes	0.00	\$0	\$482,716	\$482,716
One-time funding items				
No one-time funding items				\$0
Total one-time funding changes	0.00	\$0	\$0	\$0
Total Changes to Base Level Funding	0.00	\$0	\$482,716	\$482,716
2021-23 Total Funding	31.00	\$0	\$9,167,283	\$9,167,283
<i>Total ongoing changes as a percentage of base level</i>	0.0%		5.6%	5.6%
<i>Total changes as a percentage of base level</i>	0.0%		5.6%	5.6%

Other Sections in Department of Financial Institutions - Budget No. 413

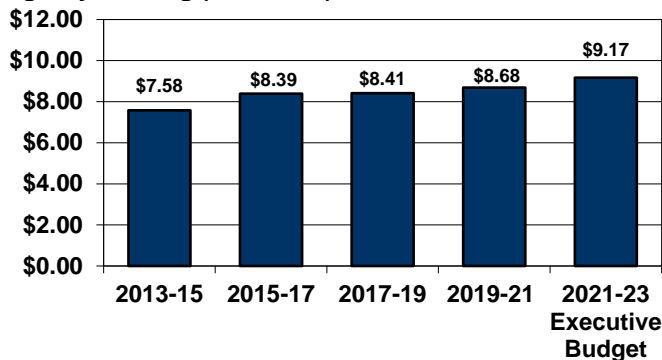
	Executive Budget Recommendation
Line item transfers	Section 3 would authorize the Department of Financial Institutions to transfer funds between line items during the 2021-23 biennium.

Department 413 - Department of Financial Institutions

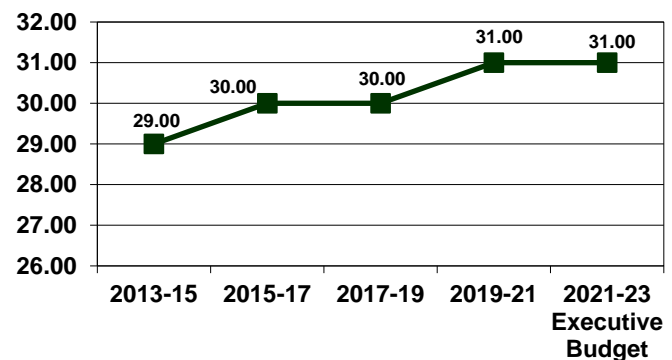
Historical Appropriations Information

Ongoing Other Funds Appropriations Since 2013-15

Agency Funding (in Millions)



FTE Positions



Ongoing Other Funds Appropriations					
	2013-15	2015-17	2017-19	2019-21	2021-23 Executive Budget
Ongoing general fund appropriations	\$7,580,217	\$8,389,442	\$8,409,912	\$8,684,567	\$9,167,283
Increase (decrease) from previous biennium	N/A	\$809,225	\$20,470	\$274,655	\$482,716
Percentage increase (decrease) from previous biennium	N/A	10.7%	0.2%	3.3%	5.6%
Cumulative percentage increase (decrease) from 2013-15 biennium	N/A	10.7%	10.9%	14.6%	20.9%

Major Increases (Decreases) in Ongoing Other Funds Appropriations

2015-17 Biennium

1. Added funding for 1 FTE credit union examiner position and related operating expenses \$218,089
2. Added funding for operating expenses \$116,207
3. Reduced contingency funding (\$79,000)

2017-19 Biennium

1. Reduced funding for salaries and wages in anticipation of savings from vacant positions and employee turnover (\$185,196)
2. Reduced contingency funding to provide \$20,000 (\$57,000)

2019-21 Biennium

1. Added 1 FTE cybersecurity/money transmitter examiner (\$194,559) and related operating expenses (\$60,000) \$254,559

2021-23 Biennium (Executive Budget Recommendation)

1. Increases funding for salaries and wages to promote employee retention \$50,000
2. Increases funding for professional development to provide a total of \$363,059 \$130,280
3. Reduces funding for travel to provide a total of \$547,376 (\$104,024)
4. Increases funding for information technology data processing to provide a total of \$351,744 \$95,789
5. Reduces funding for rentals/leases of buildings or land to provide a total of \$152,659 (\$65,425)
6. Increases operating expenses for the Financial Literacy Program \$40,000
7. Reduces funding for operating fees and services to provide a total of \$75,071 (\$29,459)
8. Reduces funding for other operating expenses as part of reprioritization of special funds (\$21,831)
9. Reduces funding for professional services to provide a total of \$45,000 (\$19,139)
10. Adds funding for Microsoft Office 365 license expenses \$3,305

**GOVERNOR'S RECOMMENDATION FOR THE
DEPT. OF FINANCIAL INSTITUTIONS AS SUBMITTED
BY THE OFFICE OF MANAGEMENT AND BUDGET**

SECTION 1. APPROPRIATION. The funds provided in this section, or so much of the funds as may be necessary, are appropriated from special funds derived from other income, to the department of financial institutions for the purpose of defraying the expenses of the department of financial institutions, for the biennium beginning July 1, 2021 and ending June 30, 2023 as follows:

	<u>Base Level</u>	<u>Adjustments or Enhancements</u>	<u>Appropriation</u>
Salaries and Wages	\$7,022,654	\$453,220	\$7,475,874
Operating Expenses	1,641,913	29,496	1,671,409
Contingency	<u>20,000</u>	<u>0</u>	<u>20,000</u>
Total Special Funds	\$8,684,567	\$482,716	\$9,167,283
Full-time Equivalent Positions	31.00	0.00	31.00

SECTION 2. ONE-TIME FUNDING. The following amounts reflect the one-time funding items approved by the sixty-sixth legislative assembly for the 2019-21 biennium:

<u>One-Time Funding Description</u>	<u>2019-21</u>	<u>2021-23</u>
IT Project	\$451,305	\$ 0
Total Other Funds	\$451,305	\$ 0

SECTION 3. LINE ITEM TRANSFERS. Notwithstanding section 54-16-04, the department of financial institutions may transfer between line items within section 1 of this Act during the biennium beginning July 1, 2021 and ending June 30, 2023. The department of financial institutions shall notify the office of management and budget and the legislative council of any transfer made pursuant to this section.

2021 SENATE STANDING COMMITTEE MINUTES

Appropriations Committee
Roughrider Room, State Capitol

SB 2008
1/8/2021
Senate Appropriations Committee

A BILL for an Act to provide an appropriation for defraying the expenses of the department of financial institutions.

Co-Chairman Krebsbach opened the hearing at 11:05 AM. Senators Holmberg, Krebsbach, Wanzek, Bekkedahl, Poolman, Erbele, Dever, Oehlke, Rust, Davison, Hogue, Sorvaag, Mathern, and Heckaman were present.

Discussion Topics:

- Agency Overview
- ND charter for banks
- Consumer Education
- Cyber Security

Lisa Kruse, Commissioner, Dept. of Financial Institutions gave an overview of the agency – Testimony #277.

Rick Clayburgh, Director, ND Bankers Association, presented proposed amendment #305.
Additional testimony in favor #304.

Barry Haugen, Independent Community Banks testified in favor of the proposed amendment.

Kayla Pulvermacher, Dakota Credit Union Association testified in favor of the proposed amendment.

Co-Chairman Krebsbach closed the hearing at 12:03 PM.

Rose Laning, Committee Clerk



DATE: January 8, 2021

TO: Senate Appropriations Committee

FROM: Lise Kruse, Commissioner

SUBJECT: Testimony in Support of SB 2008

Chairman Holmberg and members of the Appropriations Committee, thank you for the opportunity to provide testimony regarding the Department of Financial Institutions Appropriation request for the 2021-2023 biennium, SB 2008.

1. DEPARTMENT SUPERVISORY AUTHORITY

The Department of Financial Institutions supervises state-chartered banks, credit unions, trust companies, and other financial corporations which includes collection agencies, money brokers, deferred presentment service providers (payday lenders), money transmitters, mortgage loan originators and debt settlement service providers. The Department also has examination responsibilities for the Bank of North

Dakota. North Dakota Century Code chapters 6, 13, and 51 are associated with the Department.

The Department is a special fund, self-supporting agency, receiving no general fund dollars. The Department's budget consists of three cost centers: (1) banks and trust companies, (2) credit unions, and (3) consumer licensees. Banks, trust companies, and credit unions pay annual assessments that cover all direct examination costs and allocated overhead for the respective cost centers. The State Banking Board and State Credit Union Board are given the authority to set the assessment formula to cover the examination and allocated overhead costs for the respective industry. In addition, trust companies pay examination fees for their safety and soundness examinations; by statute the commissioner sets the examination fee at an amount sufficient to recover costs. Consumer licensees pay fees for processing and supervisory responsibilities related to the consumer cost center: investigation fees upon initial licensing, annual license fees, and examination fees when an examination is performed. Again, the examination fee is set by the commissioner at an amount sufficient to recover all costs.

2. DEPARTMENT PURPOSE

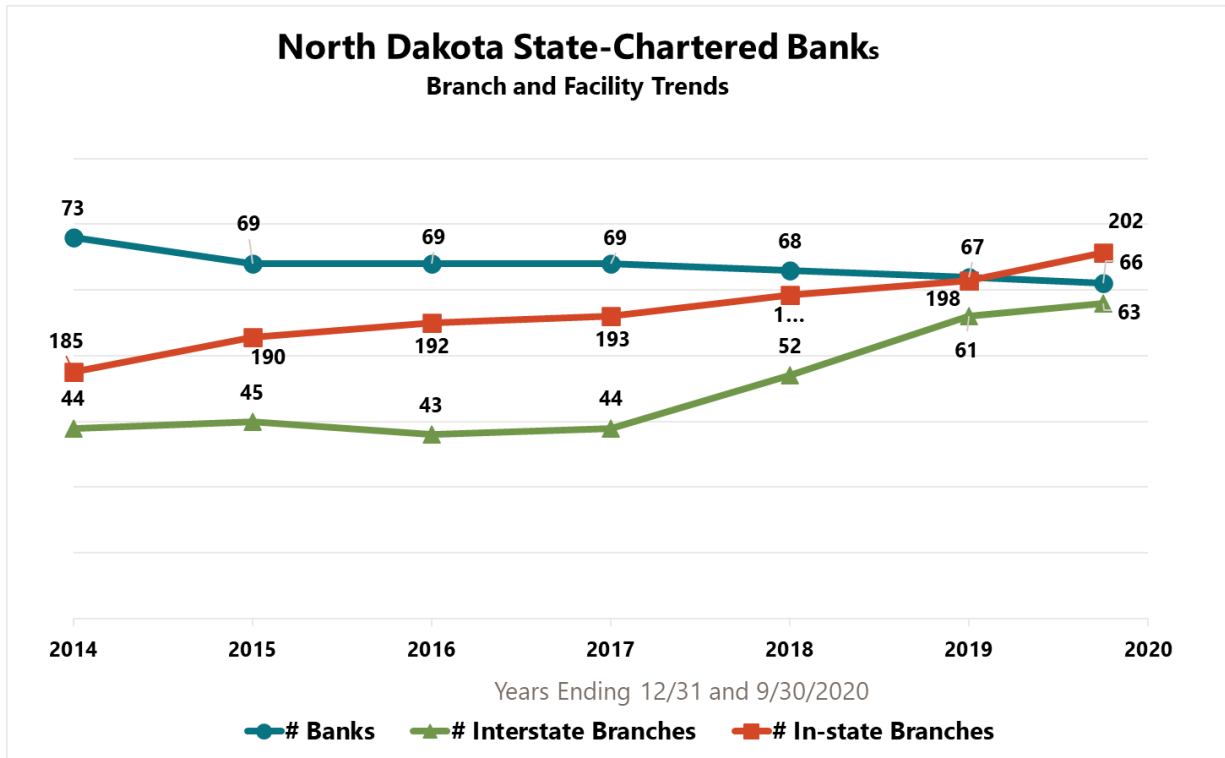
The Department directly serves our banks, credit unions and non-depository financial institutions. Indirectly, every citizen of North Dakota is impacted as they can be confident in the financial services to which they have access. The Department's purpose is to ensure

the safety and soundness of the institutions we regulate, which then results in financial services being available to the North Dakota citizen.

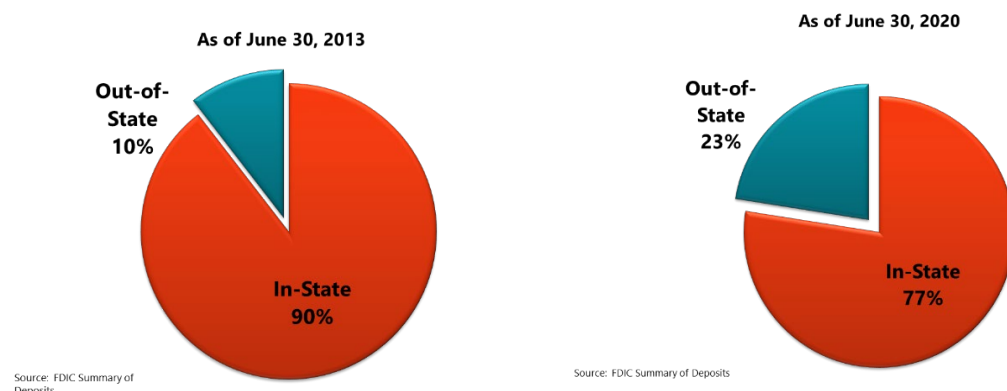
A community bank and credit union are central to economic development. Since our institutions are closely connected to their local markets, they are directly affected when the economy weakens, and throughout North Dakota, the agricultural economy has a large impact. Similarly, any economic pressures resulting from the pandemic may result in an increasing number of bank and credit union customers experiencing difficulties repaying their loans, and the institution ends up with troubled loans or loan losses. When an institution has a large volume of problem assets, and is then categorized as a troubled institution, our Department must exert more resources to ensure the institution is restored to a healthy condition. Key to our mission is to identify and find ways to remediate problem institutions. Our objective is to ensure institutions are financially strong and in compliance with applicable laws and regulations. Strong institutions can take targeted risks that can help their communities.

State-Chartered Banks

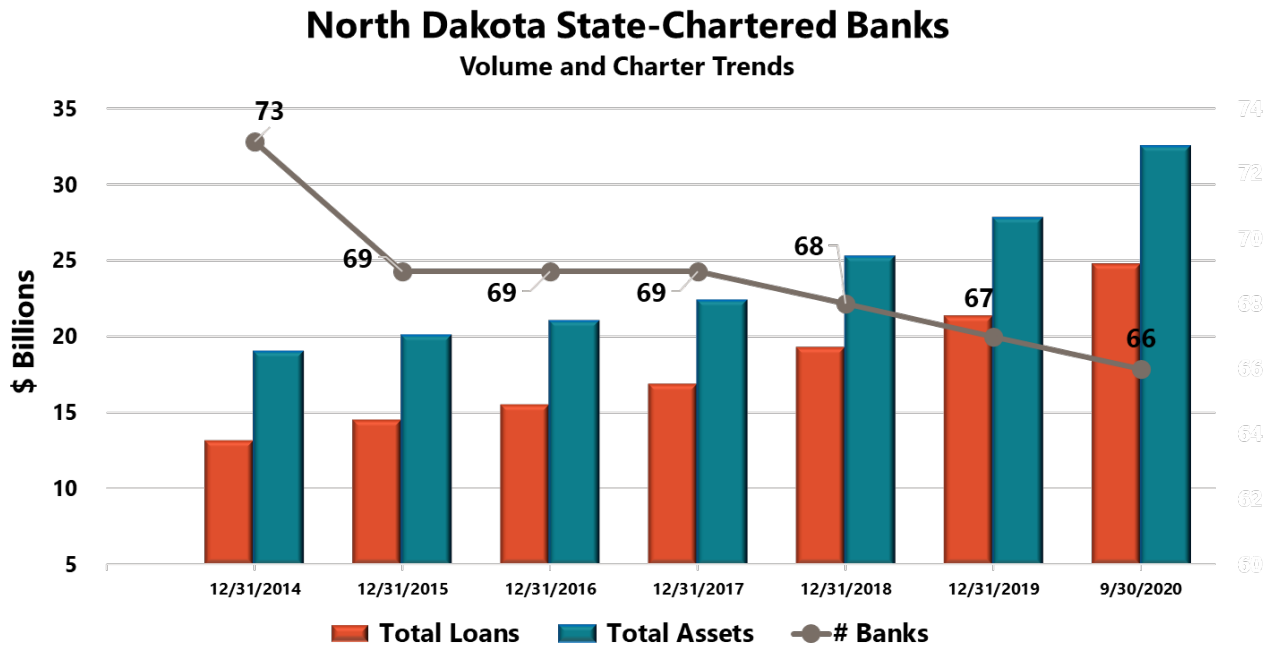
Currently, there are 64 state-chartered banks, plus the Bank of North Dakota, down from the 66 shown in the graph below due to mergers in the last quarter of 2020. The number of banks continue to decline by a few each year due to merger and consolidation activity. While the total number of banks has declined and is expected to further decline, total branches and total assets continue to grow.



Our banks are expanding outside of North Dakota borders. This pie chart shows the banks' deposit percentage that comes from outside of North Dakota.



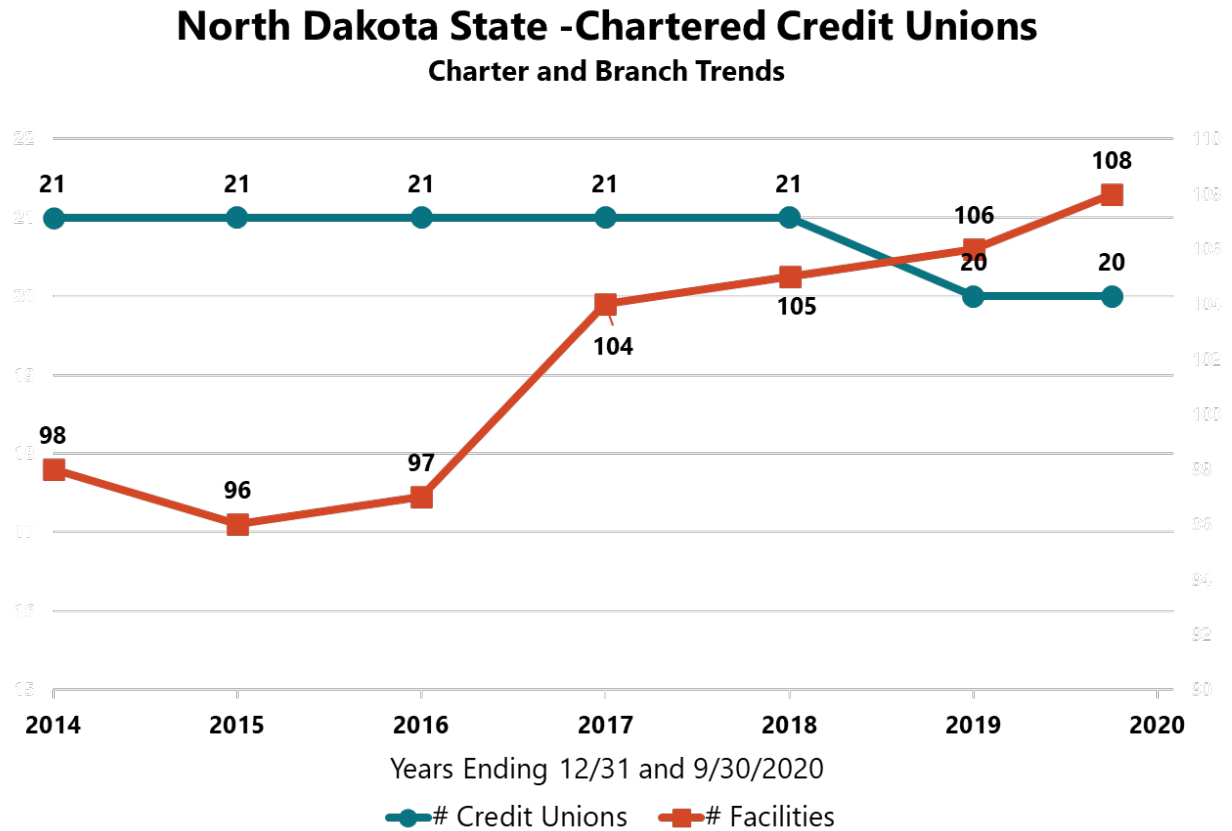
Our banks have merged with out of state banks and have elected to keep the North Dakota charter. We expect the June 2021 numbers to be closer to 30%.



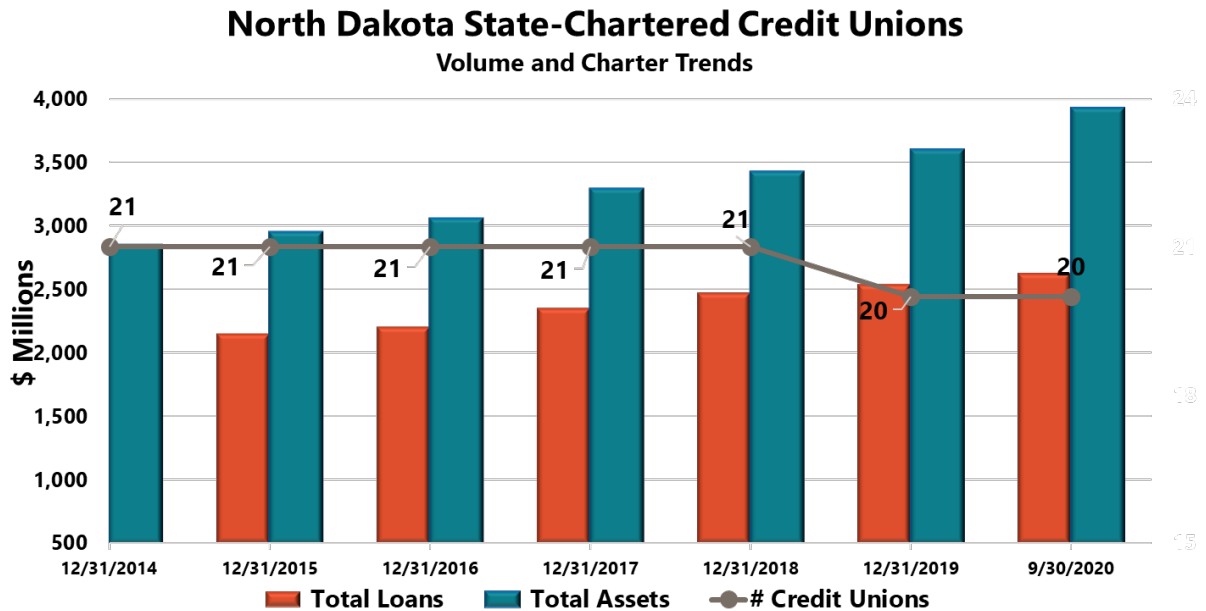
Assets increased 32% from \$25 billion on December 31, 2018, to \$33 billion on September 30, 2020. The continued asset growth increases the Department's responsibilities and time needed to conduct examinations. A majority of examination time is spent on loan review, and total loan volume grew 32% from \$19 billion on December 31, 2018, to \$25 billion on September 30, 2020. Commercial loans are becoming more complex, which requires experienced examiner review. Cybersecurity is a significant concern and therefore more time is dedicated to information technology review during our safety and soundness examinations.

State-Chartered Credit Unions

Currently, there are 20 state-chartered credit unions. As with banks, credit union branches are increasing.



Credit unions also continue to show asset growth, with total assets increasing 14% from \$3.4 billion as of December 31, 2018, to \$3.9 billion as of September 30, 2020.

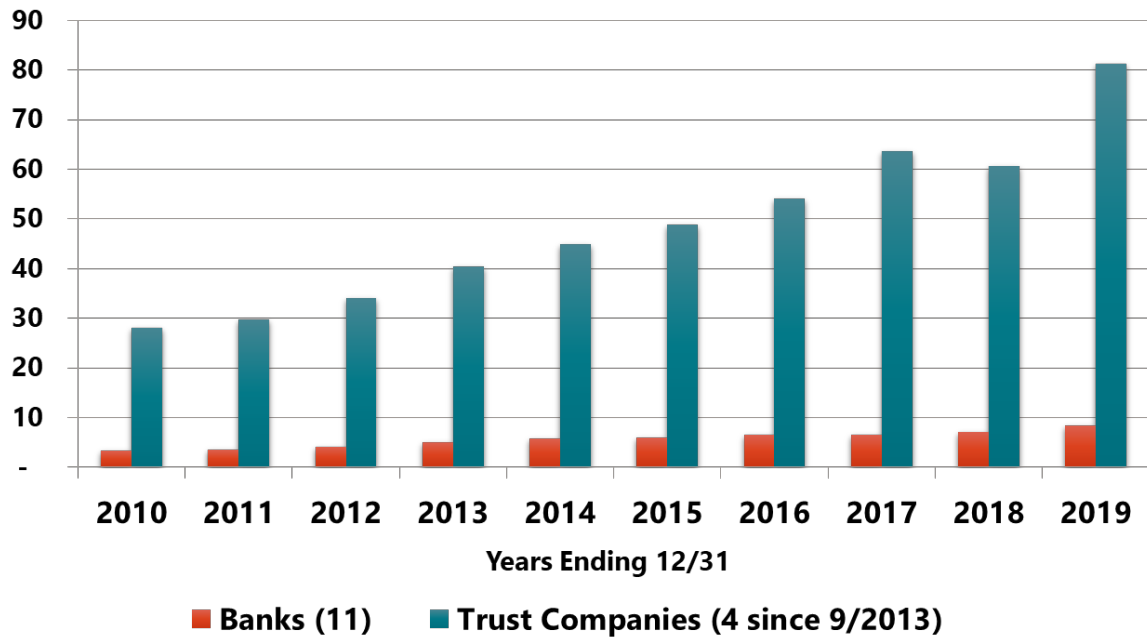


Again, asset growth translates into increased loan volume from \$2.5 billion on December 31, 2018, to \$2.6 billion as of September 30, 2020 (4%).

State-Chartered Trust Companies and Bank Trust Departments

There are four state-chartered independent trust companies for which the Department has oversight responsibility; we also have 11 banks which exercise trust powers. The independent trust company examinations are conducted by bank examiners who have acquired specialized trust examination training. The total combined fiduciary assets as of September 30, 2020, of the four independent trust companies total \$87 billion, which compares to \$61 billion as of December 31, 2018; this represents a 43% increase. The banks with trust powers had combined fiduciary assets of \$8.3 billion as of December 31, 2019, compared to \$7.1 billion a year earlier, a 17% increase.

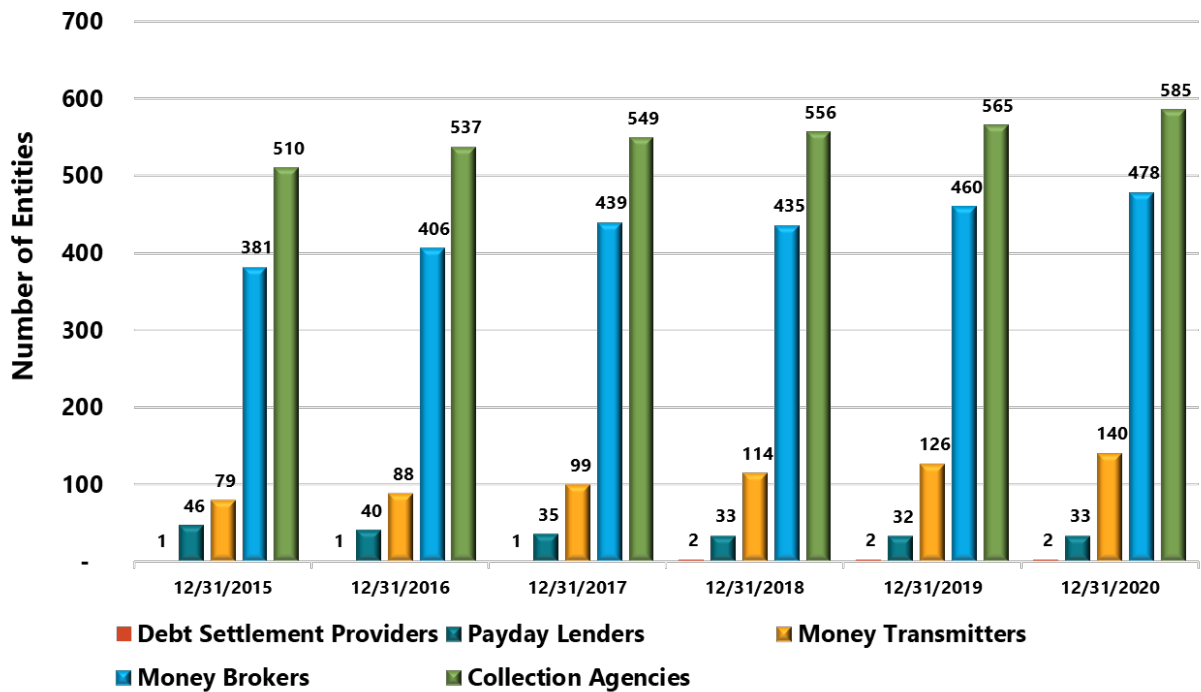
Total Fiduciary Assets - ND State-Chartered Entities (\$ Billions)



Consumer Licenses

As of January 4, 2021, the consumer division has active licenses totaling a combined 7,061 entities (compared to 4,733 two years ago) including collection agencies, money brokers, mortgage loan originators, deferred presentment service providers (payday lenders), money transmitters, and debt-settlement service providers. The breakdown of the licenses is as follows:

North Dakota Department of Financial Institutions Licensed Non-Depository Entities Trends (by Year)



Not included in the graph above are the 5,823 licensed mortgage loan originators, for which we are responsible to track pre-licensing and continuing education requirements.

Attachment 1 is our organizational chart, which shows the structure of our Department. The Department has 31 FTEs and is fully staffed. As you can see from the chart, the Department has 2 chief examiners, 17 bank examiners, 4 credit union examiners, 4 non-depository examiners, and 5 office staff to supervise and examine our regulated entities. The Department has 3 offices; in Bismarck, Grand Forks and Fargo.

3. FINANCIAL AUDIT FINDINGS

There were no audit findings in the most recent audit of our Department.

4. ACCOMPLISHMENTS AND CHALLENGES

Accomplishments

In order to help with the availability of financial services to North Dakota citizens, the Department and the Governor partnered with the banking and credit union associations and applied for a temporary waiver from appraisal credential requirements from the Appraisal Subcommittee in Washington D.C. The waiver is intended to help address the ongoing shortage of licensed appraisers in North Dakota, which has led to significant delays in obtaining appraisals for real estate transactions – especially in rural markets. A temporary waiver was granted in August 2019, the first one granted in nearly 30 years, and it was extended for another year in 2020. This waiver provides relief for North Dakota citizens by giving another option for real estate transactions, it has influenced national policy, and opened necessary dialogue to seek lasting solutions.

The Department received re-accreditation in 2020. The Department's banking division has maintained accreditation through the Conference of State Bank Supervisors (CSBS) since 1992, the credit union division through the National Association of State Credit Union Supervisors (NASCUS) since 2000 and the consumer division through the CSBS/AARMR (American Association of Residential Mortgage Regulators) Mortgage Accreditation Program since 2015.

Accreditation signifies that our Department meets or exceeds comprehensive organizational and performance standards. It assures the public of the competency of the agency charged with supervising the safety and soundness of the financial institutions entrusted with the savings and personal finances of North Dakota citizens. It assures the industries that their regulator is effective and efficient with highly trained professionals. It also provides you, our legislators, with an independent validation of the quality and faithfulness to our mission.

The Department continues its involvement on a national basis to ensure North Dakota's voice is heard. I was elected to serve on the CSBS Executive Board in March 2020, and Corey Krebs, the Department's assistant commissioner, serves on the Legislative & Regulatory Affairs Committee and he is the Chair of the Accreditation Committee for NASCUS. In addition, I also serve on the FDIC Regulatory Advisory Board. This involvement ensures that North Dakota interests are represented on the national stage.

The Department has maintained bank and credit union examination frequency within the requirements set by statute and federal regulations. Examinations have continued throughout the pandemic and have been conducted remotely to ensure the safety of our institutions' employees and Department staff.

Challenges

One of the greatest challenges is to make sure the Department is fully staffed with skilled employees. With increased complexities in the

financial industry and since our examiners have to be competent in every aspect of banking, it takes 3 to 5 years for an examiner to be fully proficient. Retention has been an issue with about 40% of employees joining our Department within the last two years. Most employees who leave go to the private industry (banks or credit unions) when they have been with our Department around 3 years, just when they are starting to learn the job. The skills Department staff acquire are highly valued by the very same industries we regulate, and these industries often pay a premium to lure away our examiners. The result is turnover and an inexperienced staff.

As we are entering a phase of economic challenges caused by the pandemic, financial institutions will be affected, which will cause a higher demand on our Department. We must identify and address problems quickly with enhanced monitoring and conduct proactive outreach to address problems as early as possible. When an institution deteriorates, our examination efforts must increase to help aid the institution back to health. This requires increased coordination with our federal counterparts. Typically, for our banks, we alternate examinations every 18 months (every 12 months for larger institutions). When an institution's condition declines, our examination frequency increases with in-person visitations every 6 months and annual comprehensive examinations conducted jointly with our federal counterparts. We also require quarterly progress reports to ensure the institution is addressing weaknesses. In a normal year, on the bank side, we conduct between 25 to 30 examinations. In the last crisis, we conducted 35 to 40 examinations a year, plus semi-annual visitations.

The goal is to restore the institution to a safe and sound condition since a healthy institution is better equipped and has more flexibility to serve customers.

Goals

We plan to expand our financial literacy program. Currently, our program is limited to a website and we speak at schools and other venues when invited. We believe the Department should be more intentional in reaching our citizens, especially with the increased fraud we are seeing, which often targets the elderly. Elder financial exploitation is exploding and with an aging population in North Dakota, it is very concerning. The Senate Special Committee on Aging found that older Americans lose approximately \$3 billion each year to financial scams and abuse; however, others estimates say \$36 billion a year. It is estimated that 1 in 5 are victims with an average loss of \$120,000 a person. More education and information can hopefully help our elderly citizens protect themselves. In addition, we have under-banked and non-banked populations that we can reach – where financial education can help break the cycle of poverty when individuals learn basic financial best practices. The immigrant and refugee populations often come from countries where there is an unstable or non-existent banking system. More targeted outreach can help these individuals succeed within our financial system. Also, our Department has experience and knowledge about new financial products in the marketplace. Our goal would be to educate citizens on how to stay safe, and also combat money laundering through education. Our Department is here to protect citizens from financial

exploitation and help our citizens safely navigate the many financial products available in the marketplace. We recognize that other entities and our financial institutions are doing great work in this area; we are not looking to duplicate efforts, rather fill holes where there is a need; partner with other entities; and provide credibility to educational efforts since, as a government agency, we are not selling anything. The Governor's budget recommendations include allocation to establish a line item in our operating budget for financial literacy.

Last legislative session we were granted an additional FTE to cover money transmitter/fintech oversight. We have started our examinations and are looking to enhance this area further. This requires extensive collaboration with other states due to many of these companies operating in many different states. To ensure North Dakota citizens are protected, it is important that our Department participates in these examinations. Although the examinations are paid for by the examined entity, it does not offset our examination expense – the expense is still falling under our overall allocated budget appropriations. The Governor's budget recommendations include an allocation to ensure that we have the funds to conduct examinations.

As discussed during the last legislative session, we have engaged in automation projects with the goal of making us more efficient. We will continue to automate processes as opportunities become available, to deliver quality services conveniently and in an economical manner.

5. BUDGET REQUEST/RECOMMENDATION

Line Item	Base Level	<i>Proposed budget request</i>	Governor's Recommendation	Increase (Decrease) from Base Level
Salaries	\$7,022,654	\$7,396,463	\$7,475,874	\$453,220
Operating	\$1,641,913	\$1,668,104	\$1,671,409	\$29,496
Contingency	\$20,000	\$20,000	\$20,000	\$0
Total	\$8,684,567	\$9,084,567	\$9,167,283	\$482,716
FTE	31.00	31.00	31.00	0.00

**The above amounts exclude the 2019 one-time funding of \$451,305*

The Governor's budget guideline was for us to reallocate 5% of our budget, which totals \$434,228. We reallocated \$195,709 within our operating budget and \$208,155 within our salary line item. The lower impact areas that were reduced were primarily travel, rent, operating fees and services, and professional fees. The higher impact areas where these funds were re-allocated to include IT data processing and professional development. The IT costs allow us to be more efficient, therefore we are able to spend time on tasks that make more of a difference to the citizens and industries we regulate. Due to efficiencies, we have been able to regulate expanding industries with less than half the resources used by some comparable federal agencies. With increased use of technology and electronic documents available from our financial institutions, we are able to reduce our travel costs and re-invest in professional development costs to provide our examiners additional training. Enhanced training ensures that we are

up to date with current issues and can address problems quickly. Also, training is more costly for more seasoned examiners and specialty areas such as cyber security. With the increase in cyber security breaches and fraud, having educated examiners is important.

The Department has for many years planned to move its Bismarck office, which is why the rent allocation is reduced. With increased efficiencies we also reduced operating fees and services and lowered our professional fees.

The reallocation within the salary line item is within our administrative function. There are two administrative positions that currently spend much time on tasks such as copying, scanning, etc. The intent is to eliminate as many of these tasks as possible to redirect their time to high impact activities. One of our administrative employees will be moving into a "project manager" type role, overseeing the financial literacy program and other projects as they arise.

As you can see from the above table and Attachment 2 (Change Package Summary). The overall reallocation was \$608,037, which included our 5% \$434,228 recommended reallocation and a base payroll change of \$173,809 for administrative position changes, scheduled promotions in the next biennium, and salary shortfall as described below. The net effect to our budget was \$0. The Governor's recommendations include the following:

1) Salary shortfall of \$50,000

One tool long employed by the Department to promote retention, reduce the loss of human capital investments, and to ensure compliance with industry accreditation standards is staff promotion tiers which are tied to the individual staff persons' performance and ability. If we are successful in retaining staff, we will have more staff reaching our higher performance tiers. If we achieve short term success with our strategic goal of improving staff retention, our salary budget line item will not be enough to continue with this tiered program as more staff reach the higher level of expertise. Our proposed budget request asked for \$200,000 to fund this difference, the recommendation presented here reflects an increase of \$50,000. The budget shortfall would effectively eliminate our ability to offer the promotion tiers based on performance and ability, which would reduce staff incentives for high levels of achievement, reduce our ability to retain our most talented staff members, and force us to operate outside of industry standards which may jeopardize accreditation and federal recognition of our work product.

2) Money transmitter examinations of \$160,000

The Department licenses 140 money transmitters operating in North Dakota, transmitting more than \$10 billion each year. Last year, we were granted another FTE to cover this area; however, although the examination costs are covered by the companies, we did not get corresponding authority to spend the money to conduct examinations. Most of these companies are out of state, and although we try to do

examinations remotely, there are many times we need to be at the company in person. If we conduct 10 examinations a year, the biennium spending cost is \$160,000.

3) Financial literacy program of \$40,000

The establishment of a financial literacy program was covered above, focusing on educating citizens about basic financial principles and protecting citizens from fraud and financial abuse.

4) Office 365 increase of \$3,305.

The Department utilized Office 365, and this is the increased fee for our Department.

5) Compensation increase of \$229,411.

This is the Governor's annual compensation adjustment, which is funding for salary increases that average 2% each year of the biennium.

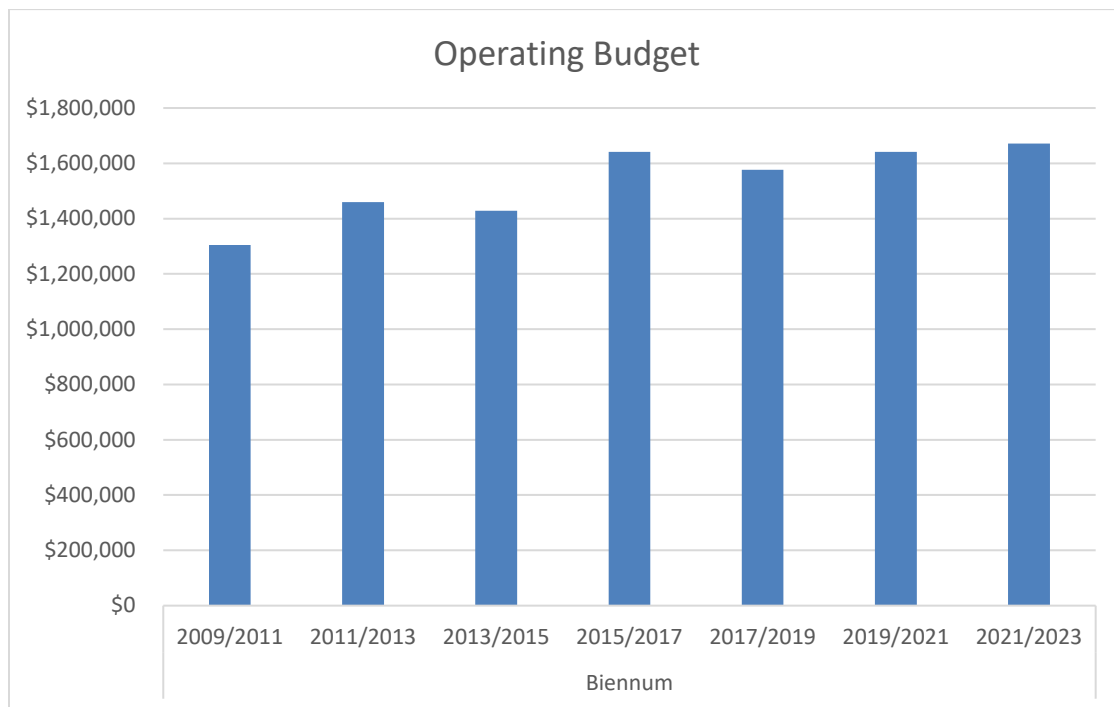
6. FUNDING AND BUDGET CHANGES

The largest component of the Department's budget is salaries at 81% of the current total budget, which in the proposed budget is increasing slightly to 82%. Our largest operating expenses are as follows:

- i. Travel-39.7% of operating/proposed 26.4%
- ii. Data Processing-15.3% of operating/proposed 23.7%
- iii. Rental/Lease-Bldg-13.3% of operating/proposed 10.4%
- iv. Professional Development-14.2% of operating/proposed 24.7%

**Base budget % is excluding the one-time funding for IT.*

The Department's operating budget has stayed relatively flat the last 10 years as shown in this graph:



This illustrates how the Department has strived for efficiencies, doing more with less, while regulating more entities than ever before, with more assets and complex financial products under our supervision. In this time period, the North Dakota financial industry experienced growth and economic stability. The Department is expecting pressure on our industries, and our work must keep up to ensure depositor money stay safe and protected. In challenging times, the Department does not only experience increased examination costs, but also increased legal costs. The Department should not be put in a position of weak supervision due to limited authority to spend.

The Department has high travel expenses since examiners must travel to the institutions to conduct examinations. With the increasing use of technology, we are able to complete more offsite work; however, an onsite presence in the community institution will always be an important part of our safety and soundness examinations. For banks and credit unions, the travel increases if there is economic/industry deterioration, and therefore, reduction to travel is dependent on the economy and the condition of the institutions we supervise. If the economy deteriorates, and if any of our institutions struggle as a result, our examination frequency increases, and travel costs will also increase. Due to the pandemic, examinations have been completed remotely. After the pandemic, the expectation is to continue with more remote work; however, both the industry and the examiners recognize the importance of face-to-face interactions when discussing challenging topics.

Travel is also affected by training out of state. The work of an examiner is specialized, and significant training is necessary the first five years of an examiner's employment. Although we use online training tools, much of the training for examiners is done in a classroom setting where simulations are utilized, making reductions to travel and professional development challenging. Training is conducted along with our federal counterparts, which keeps our examiners up to date on the most recent laws and regulations. Also, providing this specific training to examiners is crucial to remain competent and consistent with our federal counterparts, which also benefits our institutions. During the pandemic, training has been conducted virtually, which is expected to

continue; however, as examiners become more seasoned, simulations are more valuable and face to face interaction is an important element to build a network of resources throughout the country. It is our priority to continue to hire well-qualified employees and invest significant time and financial resources into their training and development to ensure the entire workforce has the necessary experience and qualifications to effectively perform their duties. Also, regulatory, accounting, and legal changes require constant training, especially in areas such as anti-money laundering enforcement and information technology issues such as cybersecurity. With the enhanced risk posed by cyber and fraud, we are reallocating our travel funds to cover enhanced training.

7. ONE-TIME FUNDING FOR CURRENT BIENNIUM

Last legislative session the Department received one-time funding to replace our antiquated records management system and create a portal for our institution on our website. This project is still underway. A consumer complaint form was completed first, to make sure citizens can file complaints with the Department using a secure method. Forms have recently been rolled out to streamline the communication and application process for our industries, and the records management piece is scheduled to be completed by June 30, 2021. To date, we have spent \$243,856 of the authorized amount. The Department has also invested additional funds from our operating appropriation in IT to ensure the Department's systems and processes are as efficient as possible.

8. ONE-TIME FUNDING REQUESTED

No one-time funding requested.

9. AGENCY COLLECTIONS

The Department is a special funds agency. Assessments are set by the State Credit Union Board and the State Banking Board for their respective areas. The assessments are set based on what the expected expenses are, which do not exceed our appropriated amount. For 2020/2021, the industries received discounts based on the reduced spending due to limited travel. The non-bank fees are set in statute and fluctuate depending on the number of companies we license.

10. OTHER REQUEST

Section 3 of the Governor's recommendation would allow the Department to transfer between line items during the biennium, with a report to OMB. This allowance will allow us to be responsive to changing circumstances as well as giving us the ability to operate in the most efficient and effective manner. If the economy deteriorates and travel costs increase related to examinations, it will be difficult to meet our mandates unless we can transfer from salaries if able. Although we have the ability to go to the Emergency Commission, the concern is that matters we handle are often strictly confidential under law. Outlining a specific request, for example for legal costs related to a bank closure, is difficult when such information must be confidential to prevent a bank run and protect the North Dakota citizen and community. It should be noted that this transfer authority has

previously been authorized for the legislative and judicial branches and without any limitation. It should also be noted that the Department's budget and expenses are reviewed by the State Credit Union Board and State Banking Board at every meeting. No other state agency has such oversight by groups of financial institution CEOs, whom are also the ones paying our expenses.

11. OTHER BILLS

The Department is not aware of any other bills considered by the Legislative Assembly with a budgetary impact. The Department did introduce three agency bills: SB 2101, SB 2102, and SB 2103. None of these bills include fiscal notes.

12. GOVERNOR BUDGET GUIDELINES

The budget impact from the Governor's 5% reallocation budget guidelines were discussed in detail above.

13. CHANGES AGENCY IS REQUESTING TO THE EXECUTIVE RECOMMENDATION

None

14. OPTIONAL ADJUSTMENT REQUESTS

Not applicable

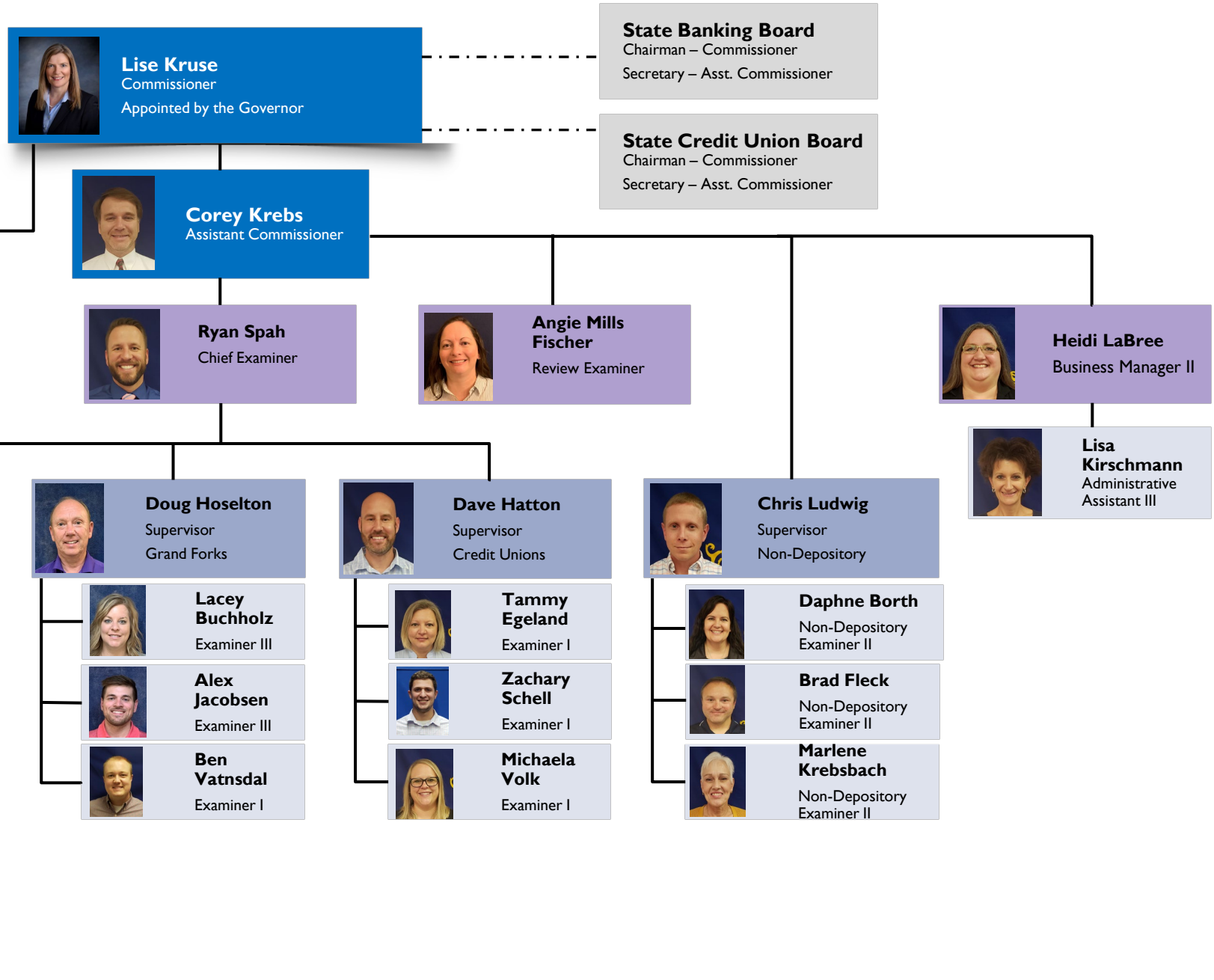
15. FEDERAL FUNDING RELATING TO COVID-19

Not Applicable

16. ADDITIONAL INFORMATION

The importance of the state supervisory role in the financial regulatory environment is recognized by our federal counterparts. Attachment 3 is a letter from the Director of the Division of Supervision and Regulation at the Board of Governors of the Federal Reserve System, which illustrates the importance of the states' role in the supervision and regulation of state-chartered banks.

Mr. Chairman and members of the Committee, I thank you for your time and I welcome any questions you may have.



CHANGE PACKAGE SUMMARY

00413 Department of Financial Institutions

Biennium:2021-2023

Description	Priority	FTE	General Fund	Federal Funds	Special Funds	Total Funds
<u>Base Budget Changes</u>						
Ongoing Budget Changes						
A-A 200 Reallocation Reduction		(1.00)	0	0	(608,037)	(608,037)
A-A 300 Reallocation Increase		1.00	0	0	434,228	434,228
R-A 1 Salary Shortfall		0.00	0	0	50,000	50,000
R-A 2 Money Transmitter Exams		0.00	0	0	160,000	160,000
R-A 3 Financial Literacy Program		0.00	0	0	40,000	40,000
R-A 100 Office 365		0.00	0	0	3,305	3,305
Base Payroll Change		0.00	0	0	173,809	173,809
Compensation Changes		0.00	0	0	229,411	229,411
Total Ongoing Budget Changes		0.00	0	0	482,716	482,716
Total Base Budget Changes		0.00	0	0	482,716	482,716



BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
WASHINGTON, D. C. 20551

DIVISION OF
SUPERVISION AND REGULATION

September 30, 2020

Mr. John Ryan
President & CEO
Conference of State Bank Supervisors
1129 20th St., N.W.
9th Floor
Washington, DC 20036

Dear John,

The COVID-19 pandemic has caused significant hardship across the United States and around the world, including continued severe disruptions to our economy. As Chair Powell has said, a full recovery is likely to come only when people are confident that it is safe to reengage in a broad range of activities, and the path forward will depend on keeping the virus under control and on policy actions taken at all levels of government.

Continued resilience of our financial system remains key to mitigating the hardships of the current situation and to enabling a strong recovery. Our role as bank regulators and supervisors helps to ensure that banks can continue providing credit and services to their customers and communities in a prudent and fair manner while meeting the challenges they face. Under our nation's dual banking system, the ability of the states to continue to play an important role in the supervision and regulation of state-chartered banks is a critical element for ensuring effective and coordinated supervision.

In this challenging time, it is vitally important that state banking agencies have sufficient resources and expertise to meet their responsibilities within the U.S. bank regulatory framework. We recognize that in the current environment, many state governments are facing significant budget pressures. We encourage the CSBS to continue to work with state banking commissioners to ensure sufficient resources going forward. As demonstrated most recently during the 2007-2009 financial crisis and its aftermath, significant resources are required at both the state and federal levels to

maintain stable banking conditions and ensure that banks are appropriately addressing their risks.

The Federal Reserve values its longstanding partnership with state banking agencies in supervising state member banks. We continue to appreciate state banking agencies' collaboration during these challenging times to ensure that our banking system remains safe, sound, and efficient.

Sincerely,

A handwritten signature in blue ink, appearing to read "Michael Gibson", is centered below the word "Sincerely,".

Michael S. Gibson
Director
Division of Supervision and Regulation

PROPOSED AMENDMENTS TO SENATE BILL NO. 2008

SECTION 1. AMENDMENT. Section 6-01-07.1 of the North Dakota Century Code is amended and reenacted as follows:

6-01-07.1. Records – Confidential.

1. All facts and information obtained or created by the commissioner or the department in the following ways are confidential, except as provided in subsections 2 through 7:
 - a. In the course of examining financial institutions, credit unions, and other licensed entities under the supervision of the commissioner, or in the course of receiving audit reports, reports of examining committee and reports of annual meetings of stockholders and directors of such institutions and licensees. The reports of examination may be made available to the financial institution's or licensee's board of directors, or the board's specifically authorized agents or representatives, but the reports remain the property of the department.
 - b. From the federal reserve system, federal deposit insurance corporation, federal home loan bank board, national credit union administration, or any state bank or credit union supervisors or supervisors of other licensed entities of other states.
 - c. In the course of investigating an institution under the supervision of, or licensed by, the commissioner, until such investigation is complete.
 - d. In the course of a special investigation being carried out at the request of the governor or any court.
 - e. In the form or nature of an application for a charter, license, or permission which meets any of the following criteria:
 - (1) Trade secrets and commercial or financial information.
 - (2) Personnel and medical files and similar files the disclosure of which would constitute a clearly unwarranted invasion of personal privacy.

(3) Information contained in the application form which is in the nature of examination report information.

Determination of what required application information falls within each category must be made by the body before which the application is brought.

- f. Complaints or comments from the public regarding financial institutions, credit unions, and other licensed entities under the supervision of commissioner, unless the commissioner is providing aggregate, non-specific information.
2. When the commissioner is required or permitted by law to report upon or take special action regarding the affairs of any institution or licensed entity under the commissioner's supervision, the commissioner shall divulge only such information specified in subsection 1 as is necessary and sufficient for the action taken or to be taken.
3. The commissioner may furnish information to the attorney general, other state agencies, any prosecuting officials requiring the information for use in pursuit of official duties, and legislative investigations under chapter 54-03.2, as the commissioner considers necessary or proper to the enforcement of federal laws, the laws of this state or in the best interest of the public. Information furnished by the commissioner to any third party which is confidential in the commissioner's possession remains confidential in the possession of the third party. Information received by the commissioner from any third party which is confidential in the third party's possession remains confidential in the commissioner's possession.
4. The commissioner may furnish information and enter sharing agreements as to matters of mutual interest to an official or examiner of the federal reserve system, federal deposit insurance corporation, federal home loan bank board, national credit union administration, office of thrift supervision, comptroller of the currency, any other federal government agency, insurance commissioner, office of the securities commissioner, regulatory trade associations, any state bank or credit union supervisors or supervisors of other licensed entities of other states, or a nationwide multistate licensing system.
5. Information regarding complaints or comments from the public may be provided to other regulatory agencies, to the individual in response to the complaint or comment,

or to the subject financial institution, credit union, or other licensed entity under the supervision of the commissioner.

56. The commissioner shall not be required to disclose the name of any debtor of any financial institution, credit union, or licensed entity reporting to or under the supervision of the commissioner or anything relative to the private accounts, ownership, or transactions of any such institution, or any fact obtained in the course of any examination thereof, except as herein provided. All disclosures shall be limited to only those documents directly relevant to the inquiry at issue.
67. This section does not limit the right of access of stockholders, shareholders, depositors, creditors, and sureties on bonds to specified department records as, and to the extent, provided by section 6-01-07.
78. The standards for confidentiality and disclosure by the commissioner set forth in this section, except the standard of the exercise of discretion, which shall only be exercised by the commissioner, apply equally to the state banking board, the state credit union board, and all department employees.

SECTION 2. AMENDMENT. Section 54-10-22.1 of the North Dakota Century Code is amended and reenacted as follows:

54-10-22.1. State auditor's access to information relating to operations of governmental entities subject to audit.

Notwithstanding any other specific sections of law, the state auditor and persons employed by the state auditor, when necessary in conducting an audit, shall have access to all information relating to operations of all governmental units or component units subject to audit except active investigatory work product of the attorney general as defined in section 44-04-19.1 and financial records and estate planning records a donor provides to a nonprofit organization affiliated with an institution under the control of the state board of higher education which provides support to and is organized and operated for the benefit of the institution. Except for active investigatory work product of the attorney general as defined in section 44-04-19.1 and tax records as described in section 54-10-24 and all facts and information obtained or created by the department of financial institutions as described in section 1 of section 6-01-07.1, the state auditor may inspect any state agency's books, papers, accounts, or records that may be relevant to an ongoing audit of any other state agency or computer system audit. The state auditor and persons employed by the state auditor

examining any information, which is confidential by law, shall guard the secrecy of such information except when otherwise directed by judicial order or as is otherwise provided by law.



NDBA is proposing amendments to sections 6-01-07.1 and 54-10-22.1 of the North Dakota Century Code, which relate to the confidentiality of facts and information about bank owners, borrowers, or customers obtained by the commissioner or the department of financial institutions.

Background

The confidentiality of customer records at financial institutions are guarded by several federal and state laws (*i.e.*, Gramm-Leach-Bliley Act, Fair Credit Reporting Act, etc.).

Financial institutions are highly regulated by federal and state agencies. The North Dakota Department of Financial Institutions (“DFI”) is responsible for chartering, regulating, and examining North Dakota state-chartered banks, credit unions, and trust companies. As a result, DFI obtains and maintains information about banking data and customer information, including, but not limited to:

- Examination Records
- Financial information of borrowers
- Financial information of bank directors and officers
- Loan information
- Bank employee records, including salaries and background checks.

The Issue

There are laws in place to protect the foregoing confidential and sensitive information from disclosure. Specifically, section 6-01-07.1 of the North Dakota Century Code broadly regulates the confidentiality of facts and information obtained by DFI. There are, however, several exceptions which allow or require the commissioner to furnish said information. In addition, other statutes that provide state agencies access to information have been read broadly to gain access to confidential information. One such statute is section 54-10-22.1, which allows the state auditor access to

“inspect any state agency’s books, papers, accounts, or records that may be relevant to an ongoing audit of any other state agency or computer system audit.” This has been read to give the auditor’s office full access to banking data and customer information, which is in direct conflict of both federal and state laws protecting banking and customer information.

The Amendments

The proposed amendments include the following changes to sections 6-01-07.1 and 54-10-22.1, N.D.C.C.:

- Includes not only information obtained by the commissioner, but *created* by the commissioner.
- Includes as confidential complaints or comments from the public.
- Gives the commissioner more discretion in furnishing information to other state agencies.
- Limits disclosures to documents “directly relevant to the inquiry at issue”.
- Adds information protected under 6-01-07.1 as an exception to the information accessible to the state auditor.

The new language will more strongly protect confidential bank information obtained by DFI, and thereby protect confidential banking information and customer data.

2021 SENATE STANDING COMMITTEE MINUTES

Appropriations Committee Roughrider Room, State Capitol

SB 2008
2/15/2021
Senate Appropriations Committee

A BILL for an Act to provide an appropriation for defraying the expenses of the department of financial institutions.

Senator Holmberg opened committee work at 10:20 p.m.

Senators present: **Holmberg, Krebsbach, Wanzek, Bekkedahl, Poolman, Erbele, Dever, Oehlke, Rust, Davison, Hogue, Sorvaag, Mathern, and Heckaman.**

Discussion Topics:

- Amendments to SB 2008

Senator Krebsbach presented amendment LC 21.0290.01002 – testimony #6629 and explained the amendments.

Senator Davison second.

Senators		Senators	
<i>Senator Holmberg</i>	Y	<i>Senator Hogue</i>	Y
<i>Senator Krebsbach</i>	Y	<i>Senator Oehlke</i>	Y
<i>Senator Wanzek</i>	Y	<i>Senator Poolman</i>	Y
<i>Senator Bekkedahl</i>	Y	<i>Senator Rust</i>	Y
<i>Senator Davison</i>	Y	<i>Senator Sorvaag</i>	Y
<i>Senator Dever</i>	Y	<i>Senator Heckaman</i>	Y
<i>Senator Erbele</i>	Y	<i>Senator Mathern</i>	Y

Roll call vote - 14-0-0. Motion carried.

Senator Krebsbach moved DO PASS as Amended on SB 2008.

Senator Davison second.

Senators		Senators	
<i>Senator Holmberg</i>	Y	<i>Senator Hogue</i>	Y
<i>Senator Krebsbach</i>	Y	<i>Senator Oehlke</i>	Y
<i>Senator Wanzek</i>	Y	<i>Senator Poolman</i>	Y
<i>Senator Bekkedahl</i>	Y	<i>Senator Rust</i>	Y
<i>Senator Davison</i>	Y	<i>Senator Sorvaag</i>	Y
<i>Senator Dever</i>	Y	<i>Senator Heckaman</i>	Y
<i>Senator Erbele</i>	Y	<i>Senator Mathern</i>	Y

Roll Call vote - 14-0-0. Motion carried.

Senator Holmberg closed the committee work at 10:35 a.m.

Rose Laning, Committee Clerk

PROPOSED AMENDMENTS TO SENATE BILL NO. 2008

Page 1, line 2, after "institutions" insert "; and to provide for a transfer"

Page 1, replace lines 9 through 15 with:

	<u>Base Level</u>	<u>Adjustments or Enhancements</u>	<u>Appropriation</u>
Salaries and wages	\$7,022,655	\$413,751	\$7,436,406
Operating expenses	1,641,912	29,497	1,671,409
Contingency	<u>20,000</u>	<u>0</u>	<u>20,000</u>
Total special funds	\$8,684,567	\$443,248	\$9,127,815
Full-time equivalent positions	31.00	0.00	31.00"

Page 1, after line 20, insert:

"SECTION 3. EXEMPTION - LINE ITEM TRANSFERS. Notwithstanding section 54-16-04, the director of the office of management and budget shall transfer appropriation authority among the line items in section 1 of this Act as requested by the commissioner of the department of financial institutions. The department of financial institutions shall notify the legislative council of any transfers made pursuant to this section."

Renumber accordingly

STATEMENT OF PURPOSE OF AMENDMENT:

Senate Bill No. 2008 - Department of Financial Institutions - Senate Action

	<u>Base Budget</u>	<u>Senate Changes</u>	<u>Senate Version</u>
Salaries and wages	\$7,022,655	\$413,751	\$7,436,406
Operating expenses	1,641,912	29,497	1,671,409
Contingency	<u>20,000</u>		<u>20,000</u>
Total all funds	\$8,684,567	\$443,248	\$9,127,815
Less estimated income	<u>8,684,567</u>	<u>443,248</u>	<u>9,127,815</u>
General fund	\$0	\$0	\$0
FTE	31.00	0.00	31.00

Department 413 - Department of Financial Institutions - Detail of Senate Changes

	<u>Adjusts Funding for Base Payroll Changes¹</u>	<u>Adds Funding for Salary and Benefit Increases²</u>	<u>Adds Funding for Employee Retention³</u>	<u>Adds Funding for a Financial Literacy Program⁴</u>	<u>Adjusts Funding to Reprioritize Special Funds⁵</u>	<u>Adjusts Funding for Operating Expenses⁶</u>
Salaries and wages	\$173,809	\$189,943	\$50,000		(\$1)	
Operating expenses				\$40,000	(21,830)	\$8,022
Contingency						
Total all funds	\$173,809	\$189,943	\$50,000	\$40,000	(\$21,831)	\$8,022
Less estimated income	<u>173,809</u>	<u>189,943</u>	<u>50,000</u>	<u>40,000</u>	<u>(21,831)</u>	<u>8,022</u>
General fund	\$0	\$0	\$0	\$0	\$0	\$0
FTE	0.00	0.00	0.00	0.00	0.00	0.00

5
2116
282

	Adds Funding for Microsoft Office 365 License Expenses ⁷	Total Senate Changes
Salaries and wages		\$413,751
Operating expenses	\$3,305	29,497
Contingency		
Total all funds	\$3,305	\$443,248
Less estimated income	3,305	443,248
General fund	\$0	\$0
FTE	0.00	0.00

¹ Funding is adjusted for base payroll changes.

² The following funding is added for 2021-23 biennium salary adjustments of 2 percent on July 1, 2021, with a minimum monthly increase of \$80 and a maximum monthly increase of \$300 and 2 percent on July 1, 2022, and increases in health insurance premiums from \$1,427 to \$1,429 per month:

	<u>Other Funds</u>
Salary increase	\$188,527
Health insurance increase	1,416
Total	\$189,943

³ Funding is added for salary adjustments to retain employees.

⁴ Funding is added for operating expenses for a financial literacy program.

⁵ Funding from special funds is reduced for salaries and wages (\$1) and operating expenses (\$21,830) as a result of the department's reprioritization of special funds.

⁶ Funding for operating expenses is adjusted as follows:

	<u>Other Funds</u>
Professional development	\$130,280
Travel	(104,024)
Data processing	95,789
Rent	(65,425)
Operating fees and services	(29,459)
Professional services	(19,139)
Total operating expense adjustment	\$8,022

⁷ Adds funding for Microsoft Office 365 license expenses.

This amendment also authorizes the Department of Financial Institutions to transfer appropriation authority between line items.

REPORT OF STANDING COMMITTEE

SB 2008: Appropriations Committee (Sen. Holmberg, Chairman) recommends **AMENDMENTS AS FOLLOWS** and when so amended, recommends **DO PASS** (14 YEAS, 0 NAYS, 0 ABSENT AND NOT VOTING). SB 2008 was placed on the Sixth order on the calendar.

Page 1, line 2, after "institutions" insert "; and to provide for a transfer"

Page 1, replace lines 9 through 15 with:

	<u>Base Level</u>	<u>Adjustments or Enhancements</u>	<u>Appropriation</u>
Salaries and wages	\$7,022,655	\$413,751	\$7,436,406
Operating expenses	1,641,912	29,497	1,671,409
Contingency	<u>20,000</u>	<u>0</u>	<u>20,000</u>
Total special funds	\$8,684,567	\$443,248	\$9,127,815
Full-time equivalent positions	31.00	0.00	31.00"

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Renumber accordingly

STATEMENT OF PURPOSE OF AMENDMENT:

Senate Bill No. 2008 - Department of Financial Institutions - Senate Action

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Operating expenses	1,641,912	29,497	1,671,409
Contingency	<u>20,000</u>		<u>20,000</u>
Total all funds	\$8,684,567	\$443,248	\$9,127,815
Less estimated income	<u>8,684,567</u>	<u>443,248</u>	<u>9,127,815</u>
General fund	\$0	\$0	\$0
FTE	31.00	0.00	31.00

Department 413 - Department of Financial Institutions - Detail of Senate Changes

	<u>Adjusts Funding for Base Payroll Changes¹</u>	<u>Adds Funding for Salary and Benefit Increases²</u>	<u>Adds Funding for Employee Retention³</u>	<u>Adds Funding for a Financial Literacy Program⁴</u>	<u>Adjusts Funding to Reprioritize Special Funds⁵</u>	<u>Adjusts Funding for Operating Expenses⁶</u>
Salaries and wages	\$173,809	\$189,943	\$50,000		(\$1)	
Operating expenses				\$40,000	(21,830)	\$8,022
Contingency						
Total all funds	\$173,809	\$189,943	\$50,000	\$40,000	(\$21,831)	\$8,022
Less estimated income	<u>173,809</u>	<u>189,943</u>	<u>50,000</u>	<u>40,000</u>	<u>(21,831)</u>	<u>8,022</u>
General fund	\$0	\$0	\$0	\$0	\$0	\$0
FTE	0.00	0.00	0.00	0.00	0.00	0.00

	Adds Funding for Microsoft Office 365 License Expenses ⁷	
Salaries and wages		
Operating expenses	\$3,305	
Contingency		
Total all funds	\$3,305	
Less estimated income	3,305	
General fund	\$0	
FTE	0.00	

Total Senate Changes	\$413,751
	29,497
	\$443,248
	443,248
	\$0
	0.00

¹ Funding is adjusted for base payroll changes.

² The following funding is added for 2021-23 biennium salary adjustments of 2 percent on July 1, 2021, with a minimum monthly increase of \$80 and a maximum monthly increase of \$300 and 2 percent on July 1, 2022, and increases in health insurance premiums from \$1,427 to \$1,429 per month:

	<u>Other Funds</u>
Salary increase	\$188,527
Health insurance increase	<u>1,416</u>
Total	\$189,943

³ Funding is added for salary adjustments to retain employees.

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Rent	(65,425)
Operating fees and services	(29,459)
Professional services	<u>(19,139)</u>
Total operating expense adjustment	\$8,022

⁷ Adds funding for Microsoft Office 365 license expenses.

This amendment also authorizes the Department of Financial Institutions to transfer appropriation authority between line items.

21.0290.01002

Sixty-seventh
Legislative Assembly
of North Dakota

SENATE BILL NO. 2008

Introduced by

Appropriations Committee

1 A BILL for an Act to provide an appropriation for defraying the expenses of the department of
2 financial institutions; and to provide for transfers.

3 BE IT ENACTED BY THE LEGISLATIVE ASSEMBLY OF NORTH DAKOTA:

4 **SECTION 1. APPROPRIATION.** The funds provided in this section, or so much of the funds
5 as may be necessary, are appropriated from special funds derived from other income, to the
6 department of financial institutions for the purpose of defraying the expenses of the department
7 of financial institutions, for the biennium beginning July 1, 2021, and ending June 30, 2023, as
8 follows:

9	Governor's		
10	Base Level	Recommendation	Appropriation
11	Salaries and wages	\$7,022,655	\$7,475,874
12	Operating expenses	1,641,912	1,671,409
13	Contingency	20,000	20,000
14	Total special funds	\$8,684,567	\$9,167,283
15	Full-time equivalent positions	31.00	31.00
16	<u>Adjustment's or</u>		
17	<u>Base Level</u>	<u>Enhancements</u>	<u>Appropriation</u>
18	<u>Salaries and wages</u>	<u>\$7,022,655</u>	<u>\$7,436,406</u>
19	<u>Operating expenses</u>	<u>1,641,912</u>	<u>1,671,409</u>
20	<u>Contingency</u>	<u>20,000</u>	<u>0</u>
21	<u>Total special funds</u>	<u>\$8,684,567</u>	<u>\$9,127,815</u>
22	<u>Full-time equivalent positions</u>	<u>31.00</u>	<u>0.00</u>

23 **SECTION 2. ONE-TIME FUNDING.** The following amounts reflect the one-time funding
24 items approved by the sixty-sixth legislative assembly for the 2019-21 biennium:

Sixty-seventh
Legislative Assembly

1	<u>One-Time Funding Description</u>	<u>2019-21</u>	<u>2021-23</u>
2	Website redesign	<u>\$451,305</u>	<u>\$0</u>
3	Total special funds	\$451,305	\$0

4 **SECTION 3. EXEMPTION - LINE ITEM TRANSFERS.** Notwithstanding section 54-16-04,
5 the director of the office of management and budget shall transfer appropriation authority
6 among the line items in section 1 of this Act as requested by the commissioner of the
7 department of financial institutions. The department of financial institutions shall notify the
8 legislative council of any transfers made pursuant to this section.

PROPOSED AMENDMENTS TO SENATE BILL NO. 2008

Page 1, line 2, after "institutions" insert "; and to provide for transfers"

Page 1, replace lines 9 through 15 with:

	<u>Base Level</u>	<u>Adjustment's or Enhancements</u>	<u>Appropriation</u>
Salaries and wages	\$7,022,655	\$413,751	\$7,436,406
Operating expenses	1,641,912	29,497	1,671,409
Contingency	<u>20,000</u>	<u>0</u>	<u>20,000</u>
Total special funds	\$8,684,567	\$443,248	\$9,127,815
Full-time equivalent positions	31.00	0.00	31.00"

Page 1, after line 20, insert:

"SECTION 3. EXEMPTION - LINE ITEM TRANSFERS. Notwithstanding section 54-16-04, the director of the office of management and budget shall transfer appropriation authority among the line items in section 1 of this Act as requested by the commissioner of the department of financial institutions. The department of financial institutions shall notify the legislative council of any transfers made pursuant to this section."

Renumber accordingly

STATEMENT OF PURPOSE OF AMENDMENT:

Senate Bill No. 2008 - Department of Financial Institutions - Senate Action

	<u>Base Budget</u>	<u>Senate Changes</u>	<u>Senate Version</u>
Salaries and wages	\$7,022,655	\$413,751	\$7,436,406
Operating expenses	1,641,912	29,497	1,671,409
Contingency	<u>20,000</u>		<u>20,000</u>
Total all funds	\$8,684,567	\$443,248	\$9,127,815
Less estimated income	<u>8,684,567</u>	<u>443,248</u>	<u>9,127,815</u>
General fund	\$0	\$0	\$0
FTE	31.00	0.00	31.00

Department 413 - Department of Financial Institutions - Detail of Senate Changes

	<u>Adjusts Funding for Base Payroll Changes¹</u>	<u>Adds Funding for Salary and Benefit Increases²</u>	<u>Adds Funding for Employee Retention³</u>	<u>Adds Funding for a Financial Literacy Program⁴</u>	<u>Adjusts Funding to Reprioritize Special Funds⁵</u>	<u>Adjusts Funding for Operating Expenses⁶</u>
Salaries and wages	\$173,809	\$189,943	\$50,000		(\$1)	
Operating expenses				\$40,000	(21,830)	\$8,022
Contingency						
Total all funds	\$173,809	\$189,943	\$50,000	\$40,000	(\$21,831)	\$8,022
Less estimated income	<u>173,809</u>	<u>189,943</u>	<u>50,000</u>	<u>40,000</u>	<u>(21,831)</u>	<u>8,022</u>
General fund	\$0	\$0	\$0	\$0	\$0	\$0
FTE	0.00	0.00	0.00	0.00	0.00	0.00

	Adds Funding for Microsoft Office 365 License Expenses ⁷	Total Senate Changes
Salaries and wages		\$413,751
Operating expenses	\$3,305	29,497
Contingency		
Total all funds	\$3,305	\$443,248
Less estimated income	3,305	443,248
General fund	\$0	\$0
FTE	0.00	0.00

¹ Funding is adjusted for base payroll changes.

² The following funding is added for 2021-23 biennium salary adjustments of 2 percent on July 1, 2021, with a minimum monthly increase of \$80 and a maximum monthly increase of \$300 and 2 percent on July 1, 2022, and increases in health insurance premiums from \$1,427 to \$1,429 per month:

	<u>Other Funds</u>
Salary increase	\$188,527
Health insurance increase	<u>1,416</u>
Total	\$189,943

³ Funding is added for salary adjustments to retain employees.

⁴ Funding is added for operating expenses for a financial literacy program.

⁵ Funding from special funds is reduced for salaries and wages (\$1) and operating expenses (\$21,830) as a result of the department's reprioritization of special funds.

⁶ Funding for operating expenses is adjusted as follows:

	<u>Other Funds</u>
Professional development	\$130,280
Travel	(104,024)
Data processing	95,789
Rent	(65,425)
Operating fees and services	(29,459)
Professional services	<u>(19,139)</u>
Total operating expense adjustment	\$8,022

⁷ Adds funding for Microsoft Office 365 license expenses.

This amendment also authorizes the Department of Financial Institutions to transfer appropriation authority between line items.

2021 HOUSE APPROPRIATIONS

SB 2008

Department 413 - Department of Financial Institutions
Senate Bill No. 2008

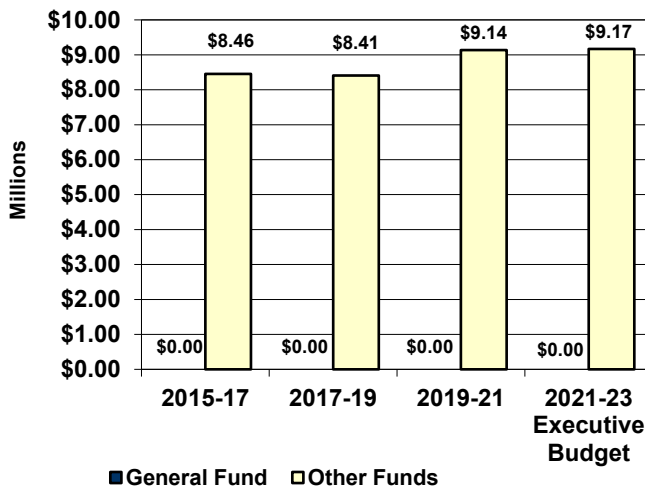
Executive Budget Comparison to Prior Biennium Appropriations

	FTE Positions	General Fund	Other Funds	Total
2021-23 Executive Budget	31.00	\$0	\$9,167,283	\$9,167,283
2019-21 Legislative Appropriations	31.00	0	9,135,872	9,135,872
Increase (Decrease)	0.00	\$0	\$31,411	\$31,411

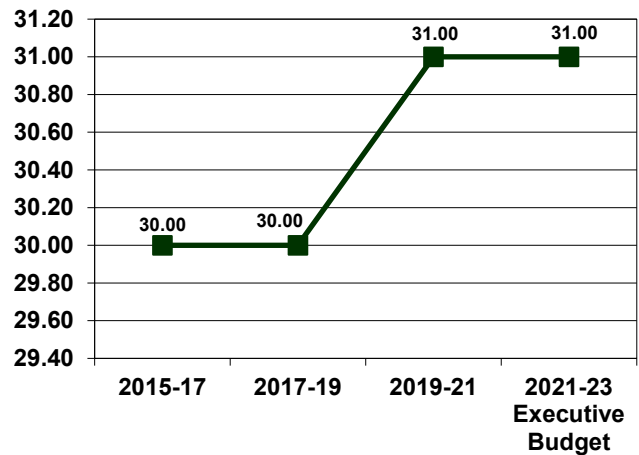
Ongoing and One-Time Other Funds Appropriations

	Ongoing Other Funds Appropriation	One-Time Other Funds Appropriation	Total Other Funds Appropriation
2021-23 Executive Budget	\$9,167,283	\$0	\$9,167,283
2019-21 Legislative Appropriations	8,684,567	451,305	9,135,872
Increase (Decrease)	\$482,716	(\$451,305)	\$31,411

Agency Funding



FTE Positions



Executive Budget Comparison to Base Level

	General Fund	Other Funds	Total
2021-23 Executive Budget	\$0	\$9,167,283	\$9,167,283
2021-23 Base Level	0	8,684,567	8,684,567
Increase (Decrease)	\$0	\$482,716	\$482,716

First House Action

Attached is a comparison worksheet detailing first house changes to base level funding and the executive budget.

Executive Budget Highlights
(With First House Changes in Bold)

	General Fund	Other Funds	Total
1. Adds funding for state employee salary and benefit increases, of which \$189,706 is for salary increases, \$1,416 is for health insurance increases, and \$38,289 is for retirement contribution increases. The Senate added funding for salary adjustments of 2 percent on July 1, 2021, with a minimum monthly increase of \$80 and a maximum monthly increase of \$300 and 2 percent on July 1, 2022, and increases in health insurance premiums from \$1,427 to \$1,429 per month. The Senate did not add funding for retirement contribution increases.	\$0	\$229,411	\$229,411
2. Increases funding for salaries and wages to promote employee retention	\$0	\$50,000	\$50,000

3. Increases funding for professional development to provide a total of \$363,059	\$0	\$130,280	\$130,280
4. Reduces funding for travel to provide a total of \$547,376	\$0	(\$104,024)	(\$104,024)
5. Increases funding for information technology data processing to provide a total of \$351,744	\$0	\$95,789	\$95,789
6. Reduces funding for rentals/leases of buildings or land to provide a total of \$152,659	\$0	(\$65,425)	(\$65,425)
7. Increases operating expenses for the financial literacy program	\$0	\$40,000	\$40,000
8. Reduces funding for operating fees and services to provide a total of \$75,071	\$0	(\$29,459)	(\$29,459)
9. Reduces funding for other operating expenses as part of reprioritization of special funds	\$0	(\$21,831)	(\$21,831)
10. Reduces funding for professional services to provide a total of \$45,000	\$0	(\$19,139)	(\$19,139)
11. Adds funding for Microsoft Office 365 license expenses	\$0	\$3,305	\$3,305

Other Sections in Senate Bill No. 2008

Line item transfers - Section 3 authorizes the Department of Financial Institutions to transfer between line items during the 2021-23 biennium and requires the department to notify the Legislative Council.

Continuing Appropriations

No continuing appropriations for this agency.

Deficiency Appropriation

There are no deficiency appropriations for this agency.

Significant Audit Findings

There are no significant audit findings for this agency.

Major Related Legislation

Senate Bill No. 2101 - Amends various sections of North Dakota Century Code relating to credit union loans, the regulatory fund, assessment of civil money penalties, appointment of receivers, supervision and examinations, assessments, real estate loans, bank mergers, bank branches, bank investments, trust branches, credit union powers, credit union board notice, and sale or purchase of banking institutions or holding companies; and repeals Section 6-06-14, relating to credit union loans; and to provide a penalty.

Senate Bill No. 2102 - Amends various sections of the Century Code relating to dissolution, insolvency, suspension, emergency receivership, and liquidation of institutions under the Department of Financial Institutions' supervision; financial institutions cross references, cease and desist orders, and prompt corrective action; and repeals Chapter 6-07, relating to dissolution, insolvency, suspension, emergency receivership, and liquidation of institutions under the Department of Financial Institutions' supervision.

Senate Bill No. 2103 - Amends various sections of the Century Code relating to money broker charges, money broker exemptions, collection agency exemptions, and deferred presentment service transaction procedures; and repeals Section 13-04.1-09.2, relating to money broker charges.

Senate Bill No. 2197 - Amends Sections 6-01-07.1 and 54-10-22.1 to clarify the confidentiality of facts and information obtained by the Department of Financial Institutions, including information regarding complaints about financial institutions or credit unions.

Department of Financial Institutions - Budget No. 413
Senate Bill No. 2008
Base Level Funding Changes

	Executive Budget Recommendation				Senate Version			
	FTE Positions	General Fund	Other Funds	Total	FTE Positions	General Fund	Other Funds	Total
2021-23 Biennium Base Level	31.00	\$0	\$8,684,567	\$8,684,567	31.00	\$0	\$8,684,567	\$8,684,567
2021-23 Ongoing Funding Changes								
Base payroll changes			\$173,809	\$173,809			\$173,809	\$173,809
Salary increase			189,706	189,706			188,527	188,527
Health insurance increase			1,416	1,416			1,416	1,416
Retirement contribution increase			38,289	38,289				0
Increases funding for salaries and wages for retention			50,000	50,000			50,000	50,000
Increases funding for professional development			130,280	130,280			130,280	130,280
Reduces funding for travel			(104,024)	(104,024)			(104,024)	(104,024)
Increases funding for data processing			95,789	95,789			95,789	95,789
Reduces funding for rentals/leases of buildings or land			(65,425)	(65,425)			(65,425)	(65,425)
Increases operating expenses for the financial literacy program			40,000	40,000			40,000	40,000
Reduces funding for operating fees and services			(29,459)	(29,459)			(29,459)	(29,459)
Reduces funding for other operating expenses			(21,831)	(21,831)			(21,831)	(21,831)
Reduces funding for professional services			(19,139)	(19,139)			(19,139)	(19,139)
Adds funding for Microsoft Office 365 license expenses			3,305	3,305			3,305	3,305
Total ongoing funding changes	0.00	\$0	\$482,716	\$482,716	0.00	\$0	\$443,248	\$443,248
One-time funding items								
No one-time funding items				\$0				\$0
Total one-time funding changes	0.00	\$0	\$0	\$0	0.00	\$0	\$0	\$0
Total Changes to Base Level Funding	0.00	\$0	\$482,716	\$482,716	0.00	\$0	\$443,248	\$443,248
2021-23 Total Funding	31.00	\$0	\$9,167,283	\$9,167,283	31.00	\$0	\$9,127,815	\$9,127,815
<i>Total ongoing changes as a percentage of base level</i>	0.0%		5.6%	5.6%	0.0%		5.1%	5.1%
<i>Total changes as a percentage of base level</i>	0.0%		5.6%	5.6%	0.0%		5.1%	5.1%

Other Sections in Department of Financial Institutions - Budget No. 413

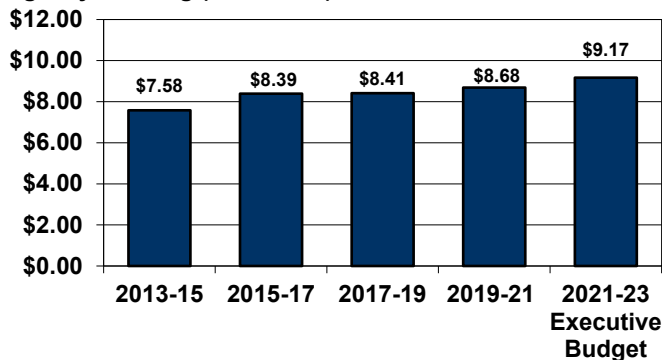
	Executive Budget Recommendation	Senate Version
Line item transfers	Section 3 would authorize the Department of Financial Institutions to transfer funds between line items during the 2021-23 biennium.	Section 3 authorizes the Department of Financial Institutions to transfer funds between line items during the 2021-23 biennium and requires the department to report the transfers to the Legislative Council.

Department 413 - Department of Financial Institutions

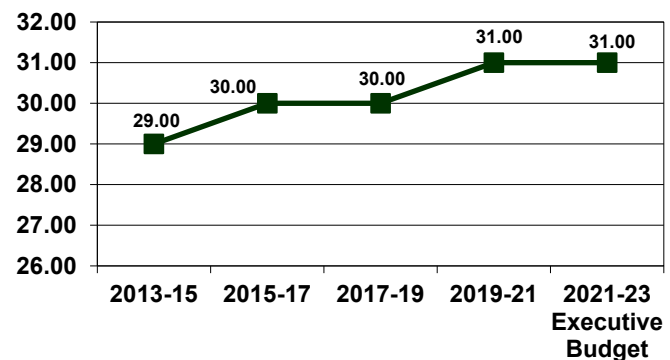
Historical Appropriations Information

Ongoing Other Funds Appropriations Since 2013-15

Agency Funding (in Millions)



FTE Positions



Ongoing Other Funds Appropriations					
	2013-15	2015-17	2017-19	2019-21	2021-23 Executive Budget
Ongoing general fund appropriations	\$7,580,217	\$8,389,442	\$8,409,912	\$8,684,567	\$9,167,283
Increase (decrease) from previous biennium	N/A	\$809,225	\$20,470	\$274,655	\$482,716
Percentage increase (decrease) from previous biennium	N/A	10.7%	0.2%	3.3%	5.6%
Cumulative percentage increase (decrease) from 2013-15 biennium	N/A	10.7%	10.9%	14.6%	20.9%

Major Increases (Decreases) in Ongoing Other Funds Appropriations

2015-17 Biennium

1. Added funding for 1 FTE credit union examiner position and related operating expenses \$218,089
2. Added funding for operating expenses \$116,207
3. Reduced contingency funding (\$79,000)

2017-19 Biennium

1. Reduced funding for salaries and wages in anticipation of savings from vacant positions and employee turnover (\$185,196)
2. Reduced contingency funding to provide \$20,000 (\$57,000)

2019-21 Biennium

1. Added 1 FTE cybersecurity/money transmitter examiner (\$194,559) and related operating expenses (\$60,000) \$254,559

2021-23 Biennium (Executive Budget Recommendation)

1. Increases funding for salaries and wages to promote employee retention \$50,000
2. Increases funding for professional development to provide a total of \$363,059 \$130,280
3. Reduces funding for travel to provide a total of \$547,376 (\$104,024)
4. Increases funding for information technology data processing to provide a total of \$351,744 \$95,789
5. Reduces funding for rentals/leases of buildings or land to provide a total of \$152,659 (\$65,425)
6. Increases operating expenses for the Financial Literacy Program \$40,000
7. Reduces funding for operating fees and services to provide a total of \$75,071 (\$29,459)
8. Reduces funding for other operating expenses as part of reprioritization of special funds (\$21,831)
9. Reduces funding for professional services to provide a total of \$45,000 (\$19,139)
10. Adds funding for Microsoft Office 365 license expenses \$3,305

GOVERNOR'S RECOMMENDATION FOR THE DEPT. OF FINANCIAL INSTITUTIONS AS SUBMITTED BY THE OFFICE OF MANAGEMENT AND BUDGET

SECTION 1. APPROPRIATION. The funds provided in this section, or so much of the funds as may be necessary, are appropriated from special funds derived from other income, to the department of financial institutions for the purpose of defraying the expenses of the department of financial institutions, for the biennium beginning July 1, 2021 and ending June 30, 2023 as follows:

	<u>Base Level</u>	<u>Adjustments or Enhancements</u>	<u>Appropriation</u>
Salaries and Wages	\$7,022,654	\$453,220	\$7,475,874
Operating Expenses	1,641,913	29,496	1,671,409
Contingency	<u>20,000</u>	<u>0</u>	<u>20,000</u>
Total Special Funds	\$8,684,567	\$482,716	\$9,167,283
Full-time Equivalent Positions	31.00	0.00	31.00

SECTION 2. ONE-TIME FUNDING. The following amounts reflect the one-time funding items approved by the sixty-sixth legislative assembly for the 2019-21 biennium:

<u>One-Time Funding Description</u>	<u>2019-21</u>	<u>2021-23</u>
IT Project	\$451,305	\$ 0
Total Other Funds	\$451,305	\$ 0

SECTION 3. LINE ITEM TRANSFERS. Notwithstanding section 54-16-04, the department of financial institutions may transfer between line items within section 1 of this Act during the biennium beginning July 1, 2021 and ending June 30, 2023. The department of financial institutions shall notify the office of management and budget and the legislative council of any transfer made pursuant to this section.

2021 HOUSE STANDING COMMITTEE MINUTES

Appropriations - Government Operations Division Brynhild Haugland Room, State Capitol

SB2008
3/11/2021

A BILL for an Act to provide an appropriation for defraying the expenses of the department of financial institutions.

09:05 **Chairman Vigesaa** brought the committee to order. Members present: Chairman Vigesaa, Representative Kempenich, Representative Howe, Representative Bellew, Representative Meier. Members absent: Vice Chairman Brandenburg, Representative Mock.

Discussion Topics:

- State chartered banks
- State chartered credit unions
- Accomplishments and challenges

09:06 **Lise Kruse, Commissioner, Department of Financial Institutions.** Testimony #8629.

09:55 **Rick Clayburgh, President and CEO, ND Bankers Association** testified in support of the bill.

10:00 **Barry Haugen, President, Independent Community Banks of ND** testified in support of the bill.

10:03 **Kayla Pulvermacher, Dakota Credit Union Association** testified in support of the bill.

10:04 **Chairman Vigesaa** adjourned the meeting.

Sheri Lewis, Committee Clerk

DATE: March 11, 2021

TO: House Appropriations Committee

FROM: Lise Kruse, Commissioner

SUBJECT: Testimony in Support of SB 2008

Chairman Vigesaa and members of the Appropriations Committee, thank you for the opportunity to provide testimony regarding the Department of Financial Institutions Appropriation request for the 2021-2023 biennium, SB 2008.

1. DEPARTMENT SUPERVISORY AUTHORITY

The Department of Financial Institutions supervises state-chartered banks, credit unions, trust companies, and other financial corporations which includes collection agencies, money brokers, deferred presentment service providers (payday lenders), money transmitters, mortgage loan originators and debt settlement service providers. The Department also has examination responsibilities for the Bank of North

Dakota. North Dakota Century Code chapters 6, 13, and 51 are associated with the Department.

The Department is a special fund, self-supporting agency, receiving no general fund dollars. The Department's budget consists of three cost centers: (1) banks and trust companies, (2) credit unions, and (3) consumer licensees. Banks, trust companies, and credit unions pay annual assessments that cover all direct examination costs and allocated overhead for the respective cost centers. The State Banking Board and State Credit Union Board are given the authority to set the assessment formula to cover the examination and allocated overhead costs for the respective industry. In addition, trust companies pay examination fees for their safety and soundness examinations; by statute the commissioner sets the examination fee at an amount sufficient to recover costs. Consumer licensees pay fees for processing and supervisory responsibilities related to the consumer cost center: investigation fees upon initial licensing, annual license fees, and examination fees when an examination is performed. Again, the examination fee is set by the commissioner at an amount sufficient to recover all costs.

2. DEPARTMENT PURPOSE

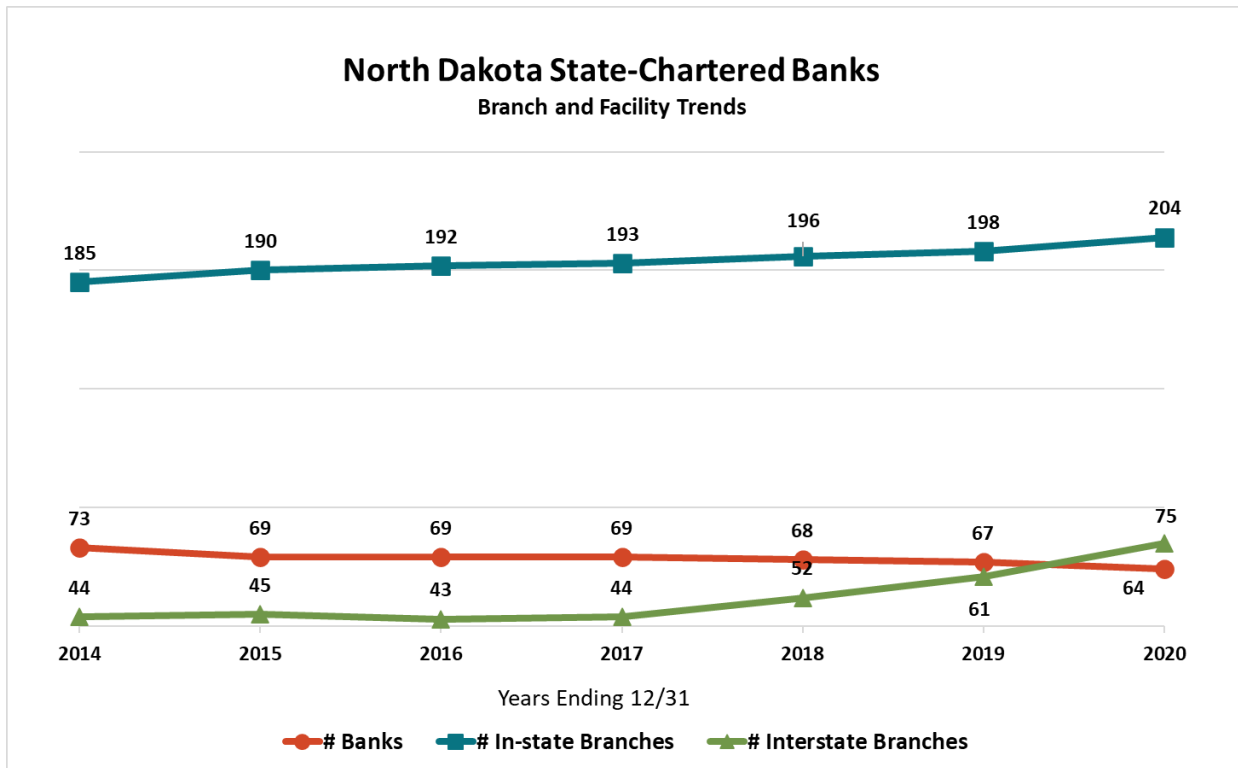
The Department directly serves our banks, credit unions and non-depository financial institutions. Indirectly, every citizen of North Dakota is impacted as they can be confident in the financial services to which they have access. The Department's purpose is to ensure

the safety and soundness of the institutions we regulate, which then results in financial services being available to the North Dakota citizen.

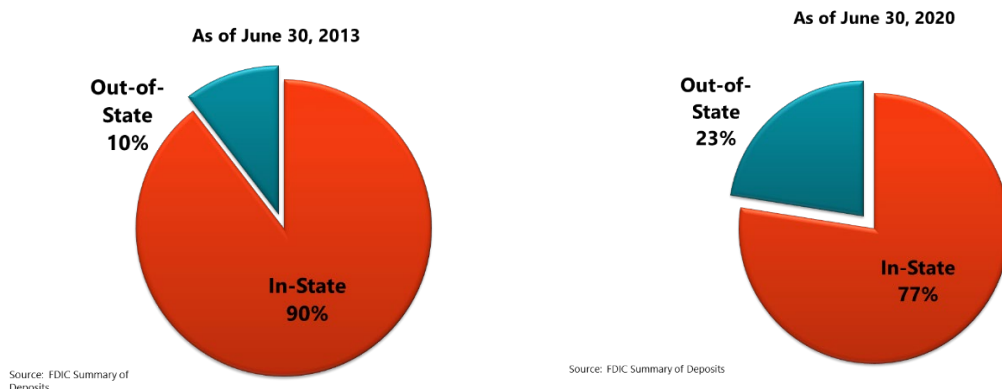
A community bank and credit union are central to economic development. Since our institutions are closely connected to their local markets, they are directly affected when the economy weakens, and throughout North Dakota, the agricultural economy has a large impact. Similarly, any economic pressures resulting from the pandemic may result in an increasing number of bank and credit union customers experiencing difficulties repaying their loans, and the institution ends up with troubled loans or loan losses. When an institution has a large volume of problem assets, and is then categorized as a troubled institution, our Department must exert more resources to ensure the institution is restored to a healthy condition. Key to our mission is to identify and find ways to remediate problem institutions. Our objective is to ensure institutions are financially strong and in compliance with applicable laws and regulations. Strong institutions can take targeted risks that can help their communities.

State-Chartered Banks

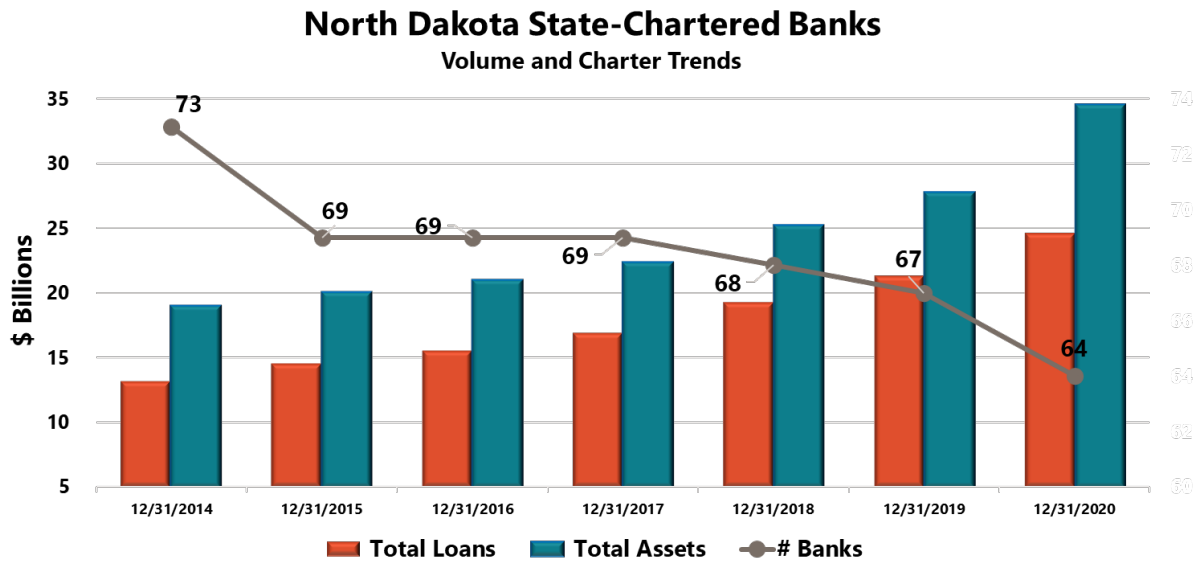
Currently, there are 63 state-chartered banks, plus the Bank of North Dakota, down from the 64 shown in the graph below due to a merger since year-end. The number of banks continue to decline by a few each year due to merger and consolidation activity. While the total number of banks has declined and is expected to further decline, total branches and total assets continue to grow.



Our banks are expanding outside of North Dakota borders. This pie chart shows the banks' deposit percentage that comes from outside of North Dakota.



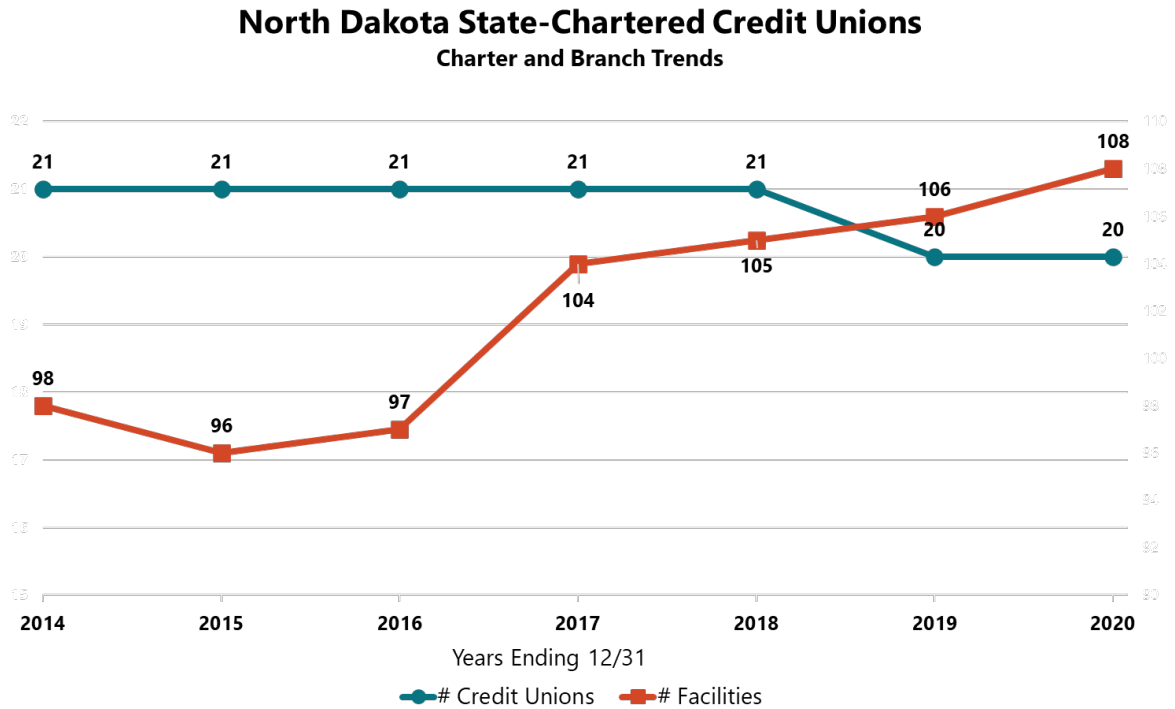
Our banks have merged with out of state banks and have elected to keep the North Dakota charter. We expect the June 2021 numbers to be closer to 30%.



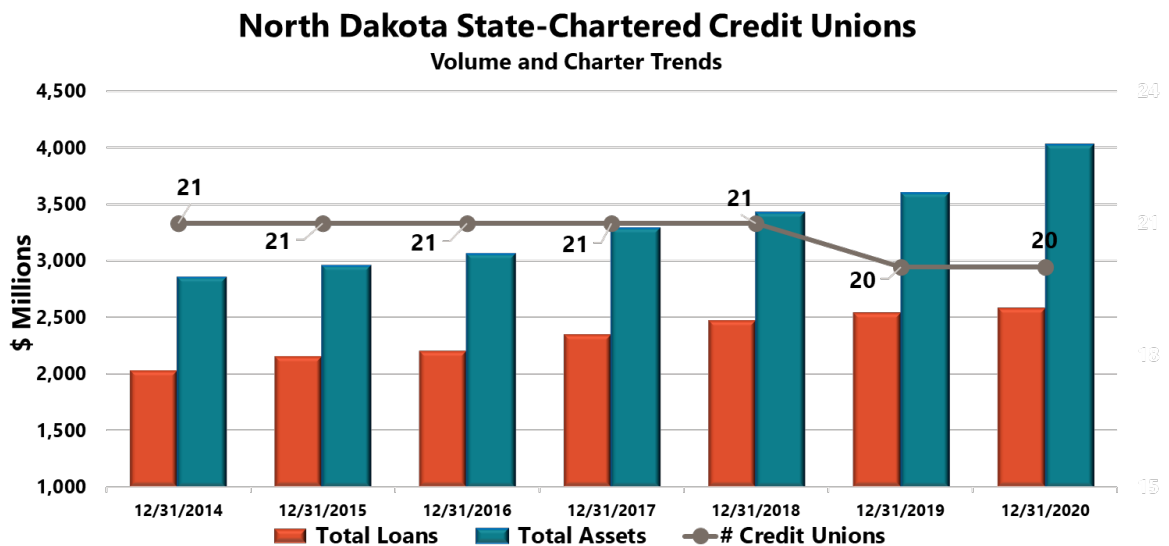
Assets increased 32% from \$25 billion on December 31, 2018, to \$35 billion on December 31, 2020. The continued asset growth increases the Department's responsibilities and time needed to conduct examinations. A majority of examination time is spent on loan review, and total loan volume grew 32% from \$19 billion on December 31, 2018, to \$25 billion on December 31, 2020. Commercial loans are becoming more complex, which requires experienced examiner review. Cybersecurity is a significant concern and therefore more time is dedicated to information technology review during our safety and soundness examinations.

State-Chartered Credit Unions

Currently, there are 20 state-chartered credit unions. As with banks, credit union branches are increasing.



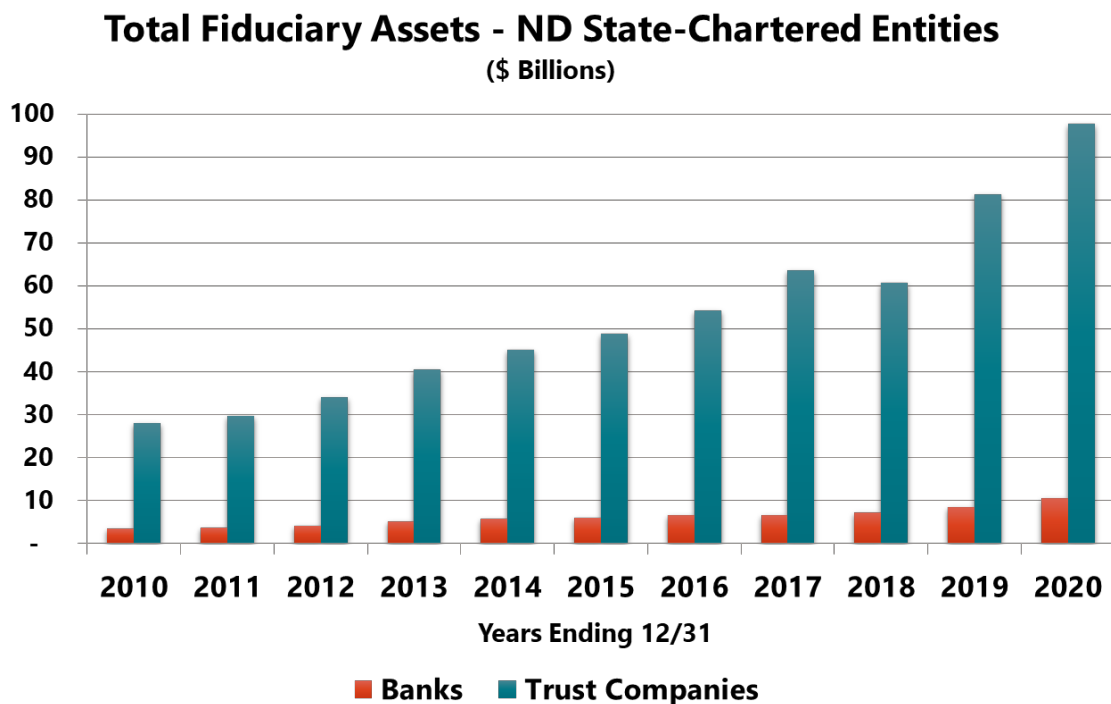
Credit unions also continue to show asset growth, with total assets increasing 18% from \$3.4 billion as of December 31, 2018, to \$4 billion as of December 31, 2020.



Again, asset growth translates into increased loan volume from \$2.5 billion on December 31, 2018, to \$2.6 billion as of December 31, 2020 (4%).

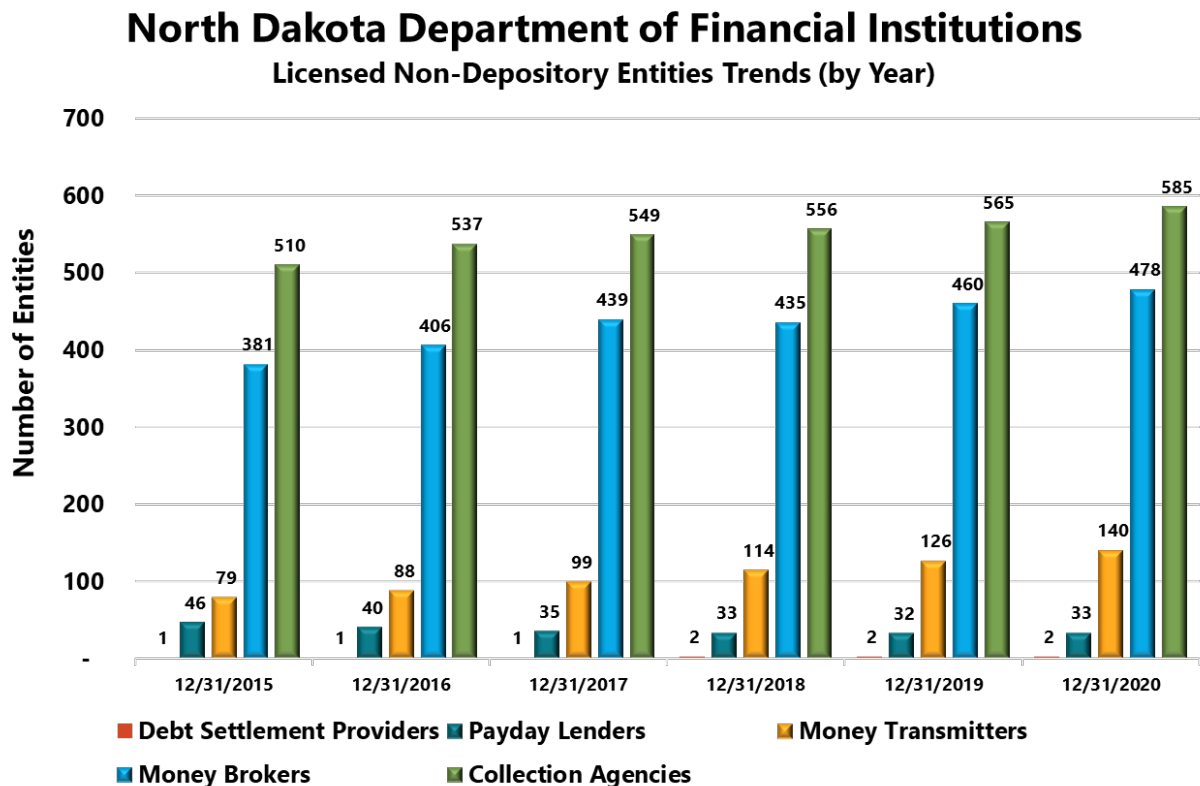
State-Chartered Trust Companies and Bank Trust Departments

There are four state-chartered independent trust companies for which the Department has oversight responsibility; we also have 11 banks which exercise trust powers. The independent trust company examinations are conducted by bank examiners who have acquired specialized trust examination training. The total combined fiduciary assets as of December 31, 2020, of the four independent trust companies total \$98 billion, which compares to \$61 billion as of December 31, 2018; this represents a 61% increase. The banks with trust powers had combined fiduciary assets of \$10.6 billion as of December 31, 2020, compared to \$7.1 billion two years earlier, a 49% increase.



Consumer Licenses

As of January 4, 2021, the consumer division has active licenses totaling a combined 7,061 entities (compared to 4,733 two years ago) including collection agencies, money brokers, mortgage loan originators, deferred presentment service providers (payday lenders), money transmitters, and debt-settlement service providers. The breakdown of the licenses is as follows:



Not included in the graph above are the 5,823 licensed mortgage loan originators, for which we are responsible to track pre-licensing and continuing education requirements.

Attachment 1 is our organizational chart, which shows the structure of our Department. The Department has 31 FTEs and is fully staffed. As you can see from the chart, the Department has 2 chief examiners, 17 bank examiners, 4 credit union examiners, 4 non-depository examiners, and 5 office staff to supervise and examine our regulated entities. The Department has 3 offices; in Bismarck, Grand Forks and Fargo.

3. FINANCIAL AUDIT FINDINGS

There were no audit findings in the most recent audit of our Department.

4. ACCOMPLISHMENTS AND CHALLENGES

Accomplishments

In order to help with the availability of financial services to North Dakota citizens, the Department and the Governor partnered with the banking and credit union associations and applied for a temporary waiver from appraisal credential requirements from the Appraisal Subcommittee in Washington D.C. The waiver is intended to help address the ongoing shortage of licensed appraisers in North Dakota, which has led to significant delays in obtaining appraisals for real estate transactions – especially in rural markets. A temporary waiver was granted in August 2019, the first one granted in nearly 30 years, and it was extended for another year in 2020. This waiver provides relief for North Dakota citizens by giving another option for real estate transactions, it has influenced national policy, and opened necessary dialogue to seek lasting solutions.

The Department received re-accreditation in 2020. The Department's banking division has maintained accreditation through the Conference of State Bank Supervisors (CSBS) since 1992, the credit union division through the National Association of State Credit Union Supervisors (NASCUS) since 2000 and the consumer division through the CSBS/AARMR (American Association of Residential Mortgage Regulators) Mortgage Accreditation Program since 2015. Accreditation signifies that our Department meets or exceeds comprehensive organizational and performance standards. It assures the public of the competency of the agency charged with supervising the safety and soundness of the financial institutions entrusted with the savings and personal finances of North Dakota citizens. It assures the industries that their regulator is effective and efficient with highly trained professionals. It also provides you, our legislators, with an independent validation of the quality and faithfulness to our mission.

The Department continues its involvement on a national basis to ensure North Dakota's voice is heard. I was elected to serve on the CSBS Executive Board in March 2020, and Corey Krebs, the Department's assistant commissioner, serves on the Legislative & Regulatory Affairs Committee and he is the Chair of the Accreditation Committee for NASCUS. In addition, I also serve on the FDIC Regulatory Advisory Board. This involvement ensures that North Dakota interests are represented on the national stage.

The Department has maintained bank and credit union examination frequency within the requirements set by statute and federal regulations. Examinations have continued throughout the pandemic and have been conducted remotely to ensure the safety of our institutions' employees and Department staff.

Challenges

One of the greatest challenges is to make sure the Department is fully staffed with skilled employees. With increased complexities in the financial industry and since our examiners have to be competent in every aspect of banking, it takes 3 to 5 years for an examiner to be fully proficient. Retention has been an issue with about 40% of employees joining our Department within the last two years. Most employees who leave go to the private industry (banks or credit unions) when they have been with our Department around 3 years, just when they are starting to learn the job. The skills Department staff acquire are highly valued by the very same industries we regulate, and these industries often pay a premium to lure away our examiners. The result is turnover and an inexperienced staff.

As we are entering a phase of economic challenges caused by the pandemic, financial institutions will be affected, which will cause a higher demand on our Department. We must identify and address problems quickly with enhanced monitoring and conduct proactive outreach to address problems as early as possible. When an institution deteriorates, our examination efforts must increase to help aid the institution back to health. This requires increased coordination

with our federal counterparts. Typically, for our banks, we alternate examinations every 18 months (every 12 months for larger institutions). When an institution's condition declines, our examination frequency increases with in-person visitations every 6 months and annual comprehensive examinations conducted jointly with our federal counterparts. We also require quarterly progress reports to ensure the institution is addressing weaknesses. In a normal year, on the bank side, we conduct between 25 to 30 examinations. In the last crisis, we conducted 35 to 40 examinations a year, plus semi-annual visitations. The goal is to restore the institution to a safe and sound condition since a healthy institution is better equipped and has more flexibility to serve customers.

Goals

We plan to expand our financial literacy program. Currently, our program is limited to a website and we speak at schools and other venues when invited. We believe the Department should be more intentional in reaching our citizens, especially with the increased fraud we are seeing, which often targets the elderly. Elder financial exploitation is exploding and with an aging population in North Dakota, it is very concerning. The Senate Special Committee on Aging found that older Americans lose approximately \$3 billion each year to financial scams and abuse; however, others estimates say \$36 billion a year. It is estimated that 1 in 5 are victims with an average loss of \$120,000 a person. More education and information can hopefully help our elderly citizens protect themselves. In addition, we have under-banked and non-banked populations that we can reach – where

financial education can help break the cycle of poverty when individuals learn basic financial best practices. The immigrant and refugee populations often come from countries where there is an unstable or non-existent banking system. More targeted outreach can help these individuals succeed within our financial system. Also, our Department has experience and knowledge about new financial products in the marketplace. Our goal would be to educate citizens on how to stay safe, and also combat money laundering through education. Our Department is here to protect citizens from financial exploitation and help our citizens safely navigate the many financial products available in the marketplace. We recognize that other entities and our financial institutions are doing great work in this area; we are not looking to duplicate efforts, rather fill holes where there is a need; partner with other entities; and provide credibility to educational efforts since, as a government agency, we are not selling anything. The Governor's budget recommendations include allocation to establish a line item in our operating budget for financial literacy.

Last legislative session we were granted an additional FTE to cover money transmitter/fintech oversight. We have started our examinations and are looking to enhance this area further. This requires extensive collaboration with other states due to many of these companies operating in many different states. To ensure North Dakota citizens are protected, it is important that our Department participates in these examinations. Although the examinations are paid for by the examined entity, it does not offset our examination expense – the expense is still falling under our overall allocated budget

appropriations. The Governor's budget recommendations include an allocation to ensure that we have the funds to conduct examinations.

As discussed during the last legislative session, we have engaged in automation projects with the goal of making us more efficient. We will continue to automate processes as opportunities become available, to deliver quality services conveniently and in an economical manner.

5. BUDGET REQUEST/RECOMMENDATION

Line Item	Base Level	<i>Proposed budget request</i>	Governor's Recommendation	Increase (Decrease) from Base Level
Salaries	\$7,022,654	\$7,396,463	\$7,475,874	\$453,220
Operating	\$1,641,913	\$1,668,104	\$1,671,409	\$29,496
Contingency	\$20,000	\$20,000	\$20,000	\$0
Total	\$8,684,567	\$9,084,567	\$9,167,283	\$482,716
FTE	31.00	31.00	31.00	0.00

**The above amounts exclude the 2019 one-time funding of \$451,305*

The Governor's budget guideline was for us to reallocate 5% of our budget, which totals \$434,228. We reallocated \$195,709 within our operating budget and \$208,155 within our salary line item. The lower impact areas that were reduced were primarily travel, rent, operating fees and services, and professional fees. The higher impact areas where these funds were re-allocated to include IT data processing and professional development. The IT costs allow us to be more efficient,

therefore we are able to spend time on tasks that make more of a difference to the citizens and industries we regulate. Due to efficiencies, we have been able to regulate expanding industries with less than half the resources used by some comparable federal agencies. With increased use of technology and electronic documents available from our financial institutions, we are able to reduce our travel costs and re-invest in professional development costs to provide our examiners additional training. Enhanced training ensures that we are up to date with current issues and can address problems quickly. Also, training is more costly for more seasoned examiners and specialty areas such as cyber security. With the increase in cyber security breaches and fraud, having educated examiners is important.

The Department has for many years planned to move its Bismarck office, which is why the rent allocation is reduced. With increased efficiencies we also reduced operating fees and services and lowered our professional fees.

The reallocation within the salary line item is within our administrative function. There are two administrative positions that currently spend much time on tasks such as copying, scanning, etc. The intent is to eliminate as many of these tasks as possible to redirect their time to high impact activities. One of our administrative employees will be moving into a "project manager" type role, overseeing the financial literacy program and other projects as they arise.

As you can see from the above table and Attachment 2 (Change Package Summary). The overall reallocation was \$608,037, which

included our 5% \$434,228 recommended reallocation and a base payroll change of \$173,809 for administrative position changes, scheduled promotions in the next biennium, and salary shortfall as described below. The net effect to our budget was \$0. The Governor's recommendations include the following:

1) Salary shortfall of \$50,000

One tool long employed by the Department to promote retention, reduce the loss of human capital investments, and to ensure compliance with industry accreditation standards is staff promotion tiers which are tied to the individual staff persons' performance and ability. If we are successful in retaining staff, we will have more staff reaching our higher performance tiers. If we achieve short term success with our strategic goal of improving staff retention, our salary budget line item will not be enough to continue with this tiered program as more staff reach the higher level of expertise. Our proposed budget request asked for \$200,000 to fund this difference, the recommendation presented here reflects an increase of \$50,000. The budget shortfall would effectively eliminate our ability to offer the promotion tiers based on performance and ability, which would reduce staff incentives for high levels of achievement, reduce our ability to retain our most talented staff members, and force us to operate outside of industry standards which may jeopardize accreditation and federal recognition of our work product.

2) Money transmitter examinations of \$160,000

The Department licenses 140 money transmitters operating in North Dakota, transmitting more than \$10 billion each year. Last year, we were granted another FTE to cover this area; however, although the examination costs are covered by the companies, we did not get corresponding authority to spend the money to conduct examinations. Most of these companies are out of state, and although we try to do examinations remotely, there are many times we need to be at the company in person. If we conduct 10 examinations a year, the biennium spending cost is \$160,000.

3) Financial literacy program of \$40,000

The establishment of a financial literacy program was covered above, focusing on educating citizens about basic financial principles and protecting citizens from fraud and financial abuse.

4) Office 365 increase of \$3,305.

The Department utilizes Office 365, and this is the increased fee for our Department.

5) Compensation increase of \$229,411.

This is the Governor's annual compensation adjustment, which is funding for salary increases that average 2% each year of the biennium.

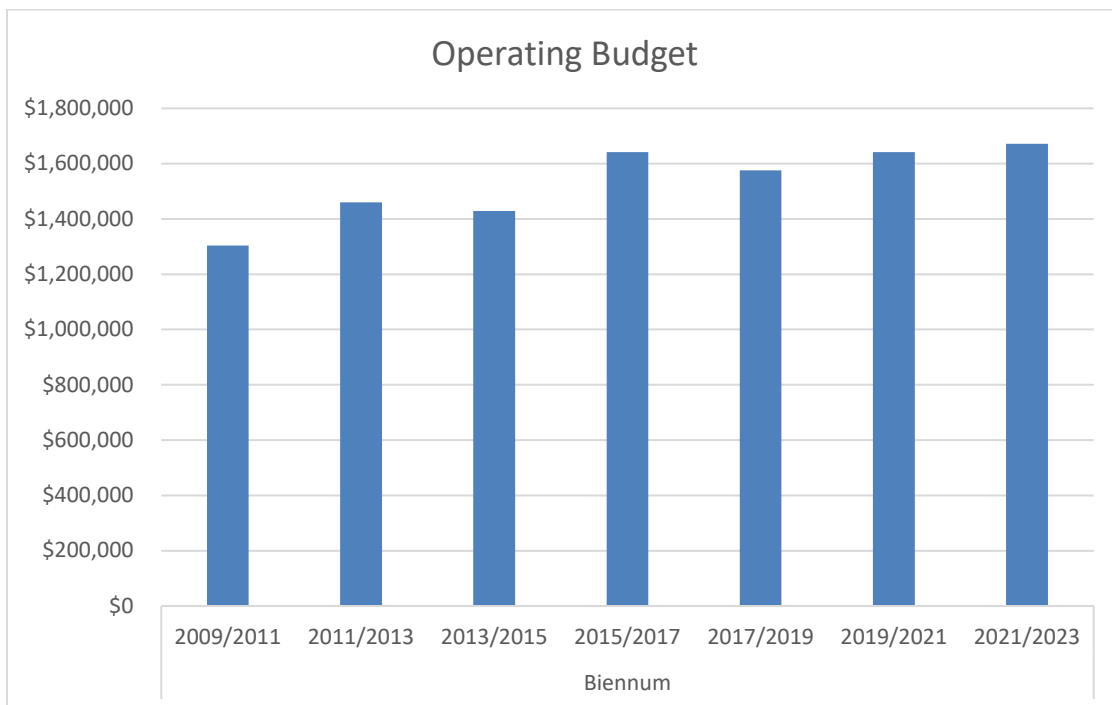
6. FUNDING AND BUDGET CHANGES

The largest component of the Department's budget is salaries at 81% of the current total budget, which in the proposed budget is increasing slightly to 82%. Our largest operating expenses are as follows:

- i. Travel-39.7% of operating/proposed 26.4%
- ii. Data Processing-15.3% of operating/proposed 23.7%
- iii. Rental/Lease-Bldg-13.3% of operating/proposed 10.4%
- iv. Professional Development-14.2% of operating/proposed 24.7%

**Base budget % is excluding the one-time funding for IT.*

The Department's operating budget has stayed relatively flat the last 10 years as shown in this graph:



This illustrates how the Department has strived for efficiencies, doing more with less, while regulating more entities than ever before, with more assets and complex financial products under our supervision. In

this time period, the North Dakota financial industry experienced growth and economic stability. The Department is expecting pressure on our industries, and our work must keep up to ensure depositor money stay safe and protected. In challenging times, the Department does not only experience increased examination costs, but also increased legal costs. The Department should not be put in a position of weak supervision due to limited authority to spend.

The Department has high travel expenses since examiners must travel to the institutions to conduct examinations. With the increasing use of technology, we are able to complete more offsite work; however, an onsite presence in the community institution will always be an important part of our safety and soundness examinations. For banks and credit unions, the travel increases if there is economic/industry deterioration, and therefore, reduction to travel is dependent on the economy and the condition of the institutions we supervise. If the economy deteriorates, and if any of our institutions struggle as a result, our examination frequency increases, and travel costs will also increase. Due to the pandemic, examinations have been completed remotely. After the pandemic, the expectation is to continue with more remote work; however, both the industry and the examiners recognize the importance of face-to-face interactions when discussing challenging topics.

Travel is also affected by training out of state. The work of an examiner is specialized, and significant training is necessary the first five years of an examiner's employment. Although we use online training tools,

much of the training for examiners is done in a classroom setting where simulations are utilized, making reductions to travel and professional development challenging. Training is conducted along with our federal counterparts, which keeps our examiners up to date on the most recent laws and regulations. Also, providing this specific training to examiners is crucial to remain competent and consistent with our federal counterparts, which also benefits our institutions. During the pandemic, training has been conducted virtually, which is expected to continue; however, as examiners become more seasoned, simulations are more valuable and face to face interaction is an important element to build a network of resources throughout the country. It is our priority to continue to hire well-qualified employees and invest significant time and financial resources into their training and development to ensure the entire workforce has the necessary experience and qualifications to effectively perform their duties. Also, regulatory, accounting, and legal changes require constant training, especially in areas such as anti-money laundering enforcement and information technology issues such as cybersecurity. With the enhanced risk posed by cyber and fraud, we are reallocating our travel funds to cover enhanced training.

7. ONE-TIME FUNDING FOR CURRENT BIENNIUM

Last legislative session the Department received one-time funding to replace our antiquated records management system and create a portal for our institution on our website. This project is still underway. A consumer complaint form was completed first, to make sure citizens can file complaints with the Department using a secure method. Forms have recently been rolled out to streamline the communication and

application process for our industries, and the records management piece is scheduled to be completed by June 30, 2021. To date, we have spent \$243,856 of the authorized amount. The Department has also invested additional funds from our operating appropriation in IT to ensure the Department's systems and processes are as efficient as possible.

8. ONE-TIME FUNDING REQUESTED

No one-time funding requested.

9. AGENCY COLLECTIONS

The Department is a special funds agency. Assessments are set by the State Credit Union Board and the State Banking Board for their respective areas. The assessments are set based on what the expected expenses are, which do not exceed our appropriated amount. For 2020/2021, the industries received discounts based on the reduced spending due to limited travel. The non-bank fees are set in statute and fluctuate depending on the number of companies we license.

10. OTHER REQUEST

Section 3 of the Governor's recommendation would allow the Department to transfer between line items during the biennium, with a report to OMB. This allowance will allow us to be responsive to changing circumstances as well as giving us the ability to operate in the most efficient and effective manner. If the economy deteriorates and travel costs increase related to examinations, it will be difficult to

meet our mandates unless we can transfer from salaries if able. Although we have the ability to go to the Emergency Commission, the concern is that matters we handle are often strictly confidential under law. Outlining a specific request, for example for legal costs related to a bank closure, is difficult when such information must be confidential to prevent a bank run and protect the North Dakota citizen and community. It should be noted that this transfer authority has previously been authorized for the legislative and judicial branches and without any limitation. It should also be noted that the Department's budget and expenses are reviewed by the State Credit Union Board and State Banking Board at every meeting. No other state agency has such oversight by groups of financial institution CEOs, whom are also the ones paying our expenses.

11. OTHER BILLS

The Department is not aware of any other bills considered by the Legislative Assembly with a budgetary impact. The Department did introduce three agency bills: SB 2101, SB 2102, and SB 2103. None of these bills include fiscal notes.

12. GOVERNOR BUDGET GUIDELINES

The budget impact from the Governor's 5% reallocation budget guidelines were discussed in detail above.

13. CHANGES AGENCY IS REQUESTING TO THE EXECUTIVE RECOMMENDATION

None

14. OPTIONAL ADJUSTMENT REQUESTS

Not applicable

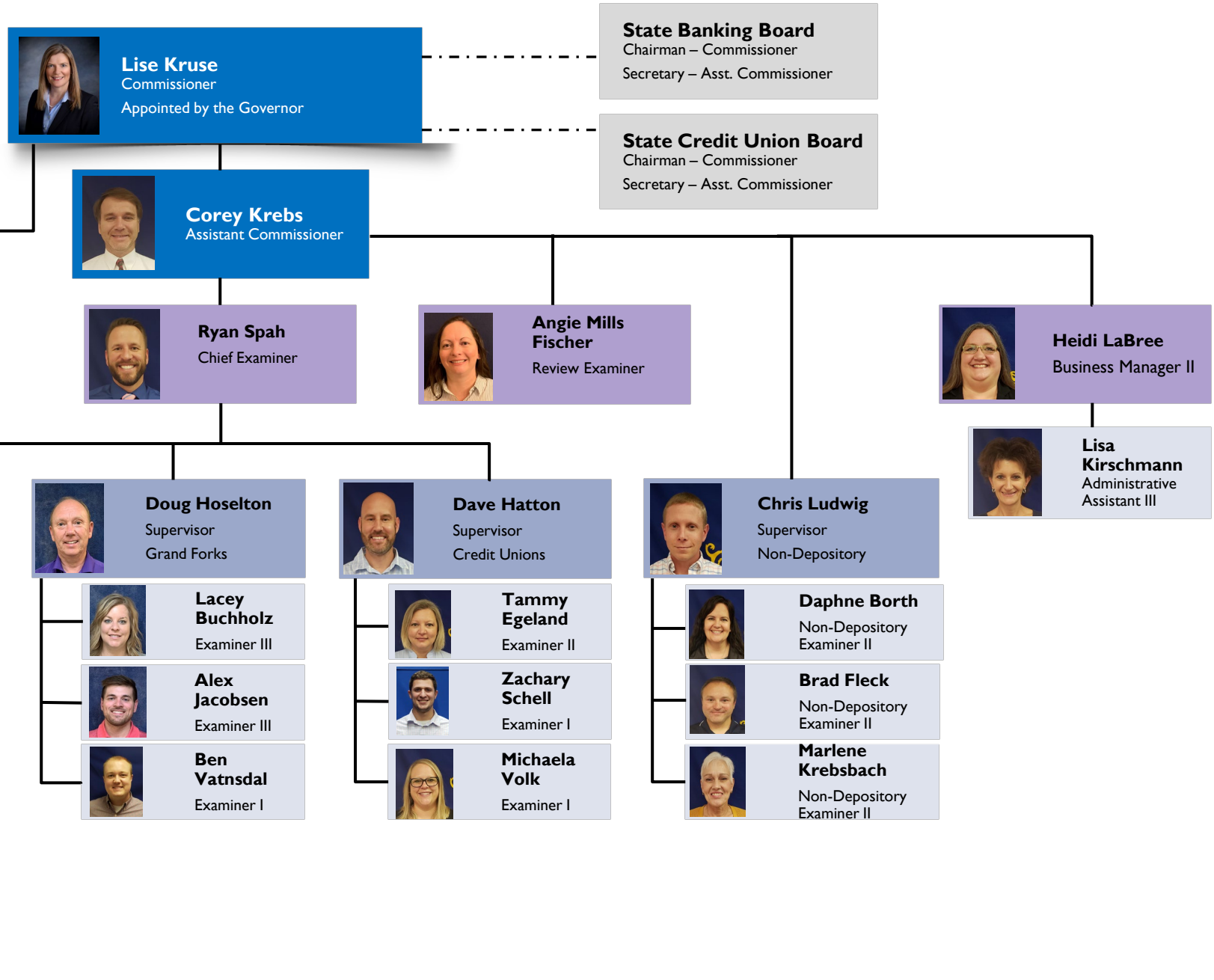
15. FEDERAL FUNDING RELATING TO COVID-19

Not Applicable

16. ADDITIONAL INFORMATION

The importance of the state supervisory role in the financial regulatory environment is recognized by our federal counterparts. Attachment 3 is a letter from the Director of the Division of Supervision and Regulation at the Board of Governors of the Federal Reserve System, which illustrates the importance of the states' role in the supervision and regulation of state-chartered banks.

Mr. Chairman and members of the Committee, I thank you for your time and I welcome any questions you may have.



CHANGE PACKAGE SUMMARY

00413 Department of Financial Institutions

Biennium:2021-2023

Description	Priority	FTE	General Fund	Federal Funds	Special Funds	Total Funds
<u>Base Budget Changes</u>						
Ongoing Budget Changes						
A-A 200 Reallocation Reduction		(1.00)	0	0	(608,037)	(608,037)
A-A 300 Reallocation Increase		1.00	0	0	434,228	434,228
R-A 1 Salary Shortfall		0.00	0	0	50,000	50,000
R-A 2 Money Transmitter Exams		0.00	0	0	160,000	160,000
R-A 3 Financial Literacy Program		0.00	0	0	40,000	40,000
R-A 100 Office 365		0.00	0	0	3,305	3,305
Base Payroll Change		0.00	0	0	173,809	173,809
Compensation Changes		0.00	0	0	229,411	229,411
Total Ongoing Budget Changes		0.00	0	0	482,716	482,716
Total Base Budget Changes		0.00	0	0	482,716	482,716



BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
WASHINGTON, D. C. 20551

DIVISION OF
SUPERVISION AND REGULATION

September 30, 2020

Mr. John Ryan
President & CEO
Conference of State Bank Supervisors
1129 20th St., N.W.
9th Floor
Washington, DC 20036

Dear John,

The COVID-19 pandemic has caused significant hardship across the United States and around the world, including continued severe disruptions to our economy. As Chair Powell has said, a full recovery is likely to come only when people are confident that it is safe to reengage in a broad range of activities, and the path forward will depend on keeping the virus under control and on policy actions taken at all levels of government.

Continued resilience of our financial system remains key to mitigating the hardships of the current situation and to enabling a strong recovery. Our role as bank regulators and supervisors helps to ensure that banks can continue providing credit and services to their customers and communities in a prudent and fair manner while meeting the challenges they face. Under our nation's dual banking system, the ability of the states to continue to play an important role in the supervision and regulation of state-chartered banks is a critical element for ensuring effective and coordinated supervision.

In this challenging time, it is vitally important that state banking agencies have sufficient resources and expertise to meet their responsibilities within the U.S. bank regulatory framework. We recognize that in the current environment, many state governments are facing significant budget pressures. We encourage the CSBS to continue to work with state banking commissioners to ensure sufficient resources going forward. As demonstrated most recently during the 2007-2009 financial crisis and its aftermath, significant resources are required at both the state and federal levels to

maintain stable banking conditions and ensure that banks are appropriately addressing their risks.

The Federal Reserve values its longstanding partnership with state banking agencies in supervising state member banks. We continue to appreciate state banking agencies' collaboration during these challenging times to ensure that our banking system remains safe, sound, and efficient.

Sincerely,

A handwritten signature in blue ink, appearing to read "Michael Gibson", is centered below the word "Sincerely,".

Michael S. Gibson
Director
Division of Supervision and Regulation

2021 HOUSE STANDING COMMITTEE MINUTES

Appropriations - Government Operations Division

Brynhild Haugland Room, State Capitol

SB2008
3/22/2021

A BILL for an Act to provide an appropriation for defraying the expenses of the department of financial institutions.

10:48 **Chairman Vigesaa** brought the committee to order. Members present: Chairman Vigesaa, Vice Chairman Brandenburg, Representative Kempenich, Representative Howe, Representative Bellew, Representative Meier, Representative Mock.

Discussion Topics:

- Base level budget changes

10:50 **Representative Meier** went through the green sheet.

11:07 **Chairman Vigesaa** adjourned the meeting.

Sheri Lewis, Committee Clerk

2021 HOUSE STANDING COMMITTEE MINUTES

Appropriations - Government Operations Division Brynhild Haugland Room, State Capitol

SB2008
3/25/2021

A BILL for an Act to provide an appropriation for defraying the expenses of the department of financial institutions.

3:34 **Chairman Vigesaa** called the meeting to order. Members present: Chairman Vigesaa, Vice Chairman Brandenburg, Representative Kempenich, Representative Howe, Representative Meier, Representative Mock. Members absent: Representative Bellew.

Discussion Topics:

- Amendments
- Line item transfers

3:34 **Representative Meier** explained the bill.

3:43 **Representative Meier** made a motion to adopt the amendment 21.0290.02001 #10861

3:43 **Representative Howe** seconded the motion.

3:43 Voice vote.

3:43 Motion carried.

3:44 **Representative Meier** made a motion for a "Do Pass as Amended".

3:44 **Representative Howe** seconded the motion.

3:44 Roll call vote 6 yeas 0 Nays 1 Absent

3:44 Motion carried.

<i>Representatives</i>	Yes	No
<i>Chairman Vigesaa</i>	X	
<i>Vice Chairman Brandenburg</i>	A	
<i>Representative Kempenich</i>	X	
<i>Representative Howe</i>	X	
<i>Representative Meier</i>	X	
<i>Representative Bellew</i>	X	
<i>Representative Mock</i>	X	

3:45 Chairman Vigesaa closed the meeting.

Sheri Lewis, Committee Clerk

PROPOSED AMENDMENTS TO ENGROSSED SENATE BILL NO. 2008

Page 1, line 2, remove "; and to provide for a transfer"

Page 1, replace line 11 with:

"Salaries and wages \$7,022,655 \$392,443 \$7,415,098"

Page 1, replace line 14 with:

"Total special funds \$8,684,567 \$421,940 \$9,106,507"

Page 1, remove lines 21 through 23

Page 2, remove lines 1 and 2

Renumber accordingly

STATEMENT OF PURPOSE OF AMENDMENT:

Senate Bill No. 2008 - Department of Financial Institutions - House Action

	Base Budget	Senate Version	House Changes	House Version
Salaries and wages	\$7,022,655	\$7,436,406	(\$21,308)	\$7,415,098
Operating expenses	1,641,912	1,671,409		1,671,409
Contingency	20,000	20,000		20,000
Total all funds	\$8,684,567	\$9,127,815	(\$21,308)	\$9,106,507
Less estimated income	8,684,567	9,127,815	(21,308)	9,106,507
General fund	\$0	\$0	\$0	\$0
FTE	31.00	31.00	0.00	31.00

Department 413 - Department of Financial Institutions - Detail of House Changes

	Adds Funding for Salary Increases ¹	Total House Changes
Salaries and wages	(\$21,308)	(\$21,308)
Operating expenses		
Contingency		
Total all funds	(\$21,308)	(\$21,308)
Less estimated income	(21,308)	(21,308)
General fund	\$0	\$0
FTE	0.00	0.00

¹ Funding is adjusted to provide salary increases of 1.5 percent on July 1, 2021, with a minimum monthly increase of \$100, and 2 percent on July 1, 2022. The Senate provided salary adjustments of 2 percent on July 1, 2021, with a minimum monthly increase of \$80 and a maximum monthly increase of \$300, and 2 percent on July 1, 2022.

This amendment also removes a section added by the Senate authorizing the Department of Financial Institutions to transfer appropriation authority between line items without Emergency Commission approval.

21.0290.02001
Title.

Prepared by the Legislative Council staff for
the House Appropriations - Government
Operations Division Committee
March 25, 2021

Fiscal No. 1

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2021 HOUSE STANDING COMMITTEE MINUTES

Appropriations Committee Brynhild Haugland Room, State Capitol

SB 2008
3/30/2021

BILL for an Act to provide an appropriation for defraying the expenses of the department of financial institutions; and to provide for a transfer

3:34 Chairman Delzer- Opened the meeting for SB 2008

Attendance	P/A
Representative Jeff Delzer	P
Representative Keith Kempenich	P
Representative Bert Anderson	P
Representative Larry Bellew	P
Representative Tracy Boe	A
Representative Mike Brandenburg	P
Representative Michael Howe	P
Representative Gary Kreidt	P
Representative Bob Martinson	P
Representative Lisa Meier	P
Representative Alisa Mitskog	P
Representative Corey Mock	P
Representative David Monson	P
Representative Mike Nathe	P
Representative Jon O. Nelson	P
Representative Mark Sanford	P
Representative Mike Schatz	P
Representative Jim Schmidt	P
Representative Randy A. Schobinger	P
Representative Michelle Strinden	P
Representative Don Vigesaa	P

Discussion Topics:

- Budget and Amendments

Representative Meier Introduces the budget and amendment 21.0290.02001

3:39 Representative Meier Makes a motion to adopt amendment 21.0290.02001

Representative Brandenburg Second

Further discussion

3:40 Voice Vote- Motion Carries

3:42 Representative Meier Makes a motion for a Do Pass as Amended

Representative Brandenburg Seconds the motion

Further discussion

3:43 Roll Call Vote was Taken;

Representatives	Vote
Representative Jeff Delzer	Y
Representative Keith Kempenich	Y
Representative Bert Anderson	Y
Representative Larry Bellew	Y
Representative Tracy Boe	A
Representative Mike Brandenburg	Y
Representative Michael Howe	Y
Representative Gary Kreidt	Y
Representative Bob Martinson	Y
Representative Lisa Meier	Y
Representative Alisa Mitskog	Y
Representative Corey Mock	Y
Representative David Monson	Y
Representative Mike Nathe	Y
Representative Jon O. Nelson	Y
Representative Mark Sanford	Y
Representative Mike Schatz	Y
Representative Jim Schmidt	Y
Representative Randy A. Schobinger	Y
Representative Michelle Strinden	Y
Representative Don Vigesaa	Y

Motion Carries 20-0-1 Representative Meier will carry

Additional written testimony: No Additional Testimony

3:45 Chairman Delzer- Closes the meeting for SB 2008

Risa Berube,

House Appropriations Committee Clerk

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This amendment also removes a section added by the Senate authorizing the Department of Financial Institutions to transfer appropriation authority between line items without Emergency Commission approval.

REPORT OF STANDING COMMITTEE

SB 2008, as engrossed: Appropriations Committee (Rep. Delzer, Chairman) recommends **AMENDMENTS AS FOLLOWS** and when so amended, recommends **DO PASS** (20 YEAS, 0 NAYS, 1 ABSENT AND NOT VOTING). Engrossed SB 2008 was placed on the Sixth order on the calendar.

Page 1, line 2, remove "; and to provide for a transfer"

Page 1, replace line 11 with:

"Salaries and wages \$7,022,655 \$392,443 \$7,415,098"

Page 1, replace line 14 with:

"Total special funds \$8,684,567 \$421,940 \$9,106,507"

Page 1, remove lines 21 through 23

Page 2, remove lines 1 and 2

Renumber accordingly

STATEMENT OF PURPOSE OF AMENDMENT:

Senate Bill No. 2008 - Department of Financial Institutions - House Action

	Base Budget	Senate Version	House Changes	House Version
Salaries and wages	\$7,022,655	\$7,436,406	(\$21,308)	\$7,415,098
Operating expenses	1,641,912	1,671,409		1,671,409
Contingency	20,000	20,000		20,000
Total all funds	\$8,684,567	\$9,127,815	(\$21,308)	\$9,106,507
Less estimated income	8,684,567	9,127,815	(21,308)	9,106,507
General fund	\$0	\$0	\$0	\$0
FTE	31.00	31.00	0.00	31.00

Department 413 - Department of Financial Institutions - Detail of House Changes

	Adds Funding for Salary Increases ¹	Total House Changes
Salaries and wages	(\$21,308)	(\$21,308)
Operating expenses		
Contingency		
Total all funds	(\$21,308)	(\$21,308)
Less estimated income	(21,308)	(21,308)
General fund	\$0	\$0
FTE	0.00	0.00

¹ Funding is adjusted to provide salary increases of 1.5 percent on July 1, 2021, with a minimum monthly increase of \$100, and 2 percent on July 1, 2022. The Senate provided salary adjustments of 2 percent on July 1, 2021, with a minimum monthly increase of \$80 and a maximum monthly increase of \$300, and 2 percent on July 1, 2022.

This amendment also removes a section added by the Senate authorizing the Department of Financial Institutions to transfer appropriation authority between line items without Emergency Commission approval.

2021 CONFERENCE COMMITTEE

SB 2008

2021 SENATE STANDING COMMITTEE MINUTES

Appropriations Committee Roughrider Room, State Capitol

SB 2008
4/13/2021
Senator Appropriations Conference Committee

A BILL for an Act to provide an appropriation for defraying the expenses of the department of financial institutions.

Vice-Chair Kresbach called the meeting to order at 9:31 AM.

Senators present: **Krebsbach, Rust, Mathern**
Representatives Present: **Meier, Bellew, Brandenburg**

Discussion Topics

- House amendments to SB 2008
- Line item transfer in Section 3

Rep. Meier explained the House changes to SB 2008.

The committees will recess and meet again at a later date.

Vice-Chair Kresbach closed the meeting at 9:41 AM.

Rose Laning, Committee Clerk

2021 SENATE STANDING COMMITTEE MINUTES

Appropriations Committee Roughrider Room, State Capitol

SB 2008
4/20/2021

Senator Appropriations Conference Committee

A BILL for an Act to provide an appropriation for defraying the expenses of the department of financial institutions.

Senator Krebsbach called the meeting to order at 10:34 a.m.

Senators present: **Krebsbach, Rust, Mathern**

Representatives Present: **Meier, Bellew, Brandenburg**

Discussion Topics

- Finalizing Budget

Representative Bellew moved the House recede from House amendments and amend; LC 21.0290.02002.

Representative Brandenburg seconded the motion.

Senator Krebsbach – Y
Senator Rust – Y
Senator Mathern – Y

Representative Meier – Y
Representative Bellew - Y
Representative Brandenburg – Y

Roll Call Vote – 6-0-0

Motion Passed

Senator Krebsbach closed the meeting at 10:40 a.m.

Skyler Strand, Committee Clerk

8/1/2022
4/22

PROPOSED AMENDMENTS TO ENGROSSED SENATE BILL NO. 2008

That the House recede from its amendments as printed on pages 1153 and 1154 of the Senate Journal and pages 1370 and 1371 of the House Journal and that Engrossed Senate Bill No. 2008 be amended as follows:

Page 1, line 2, after institutions insert a semicolon

Page 1, line 2, replace "for a transfer" with "an exemption"

Page 1, replace line 11 with:

"Salaries and wages \$7,022,655 \$392,443 \$7,415,098"

Page 1, replace line 14 with:

"Total special funds \$8,684,567 \$421,940 \$9,106,507"

Page 2, line 1, after the first "institutions" insert "during the biennium beginning July 1, 2021, and ending June 30, 2023"

Renumber accordingly

STATEMENT OF PURPOSE OF AMENDMENT:

Senate Bill No. 2008 - Department of Financial Institutions - Conference Committee Action

	Base Budget	Senate Version	Conference Committee Changes	Conference Committee Version	House Version	Comparison to House
Salaries and wages	\$7,022,655	\$7,436,406	(\$21,308)	\$7,415,098	\$7,415,098	
Operating expenses	1,641,912	1,671,409		1,671,409	1,671,409	
Contingency	20,000	20,000		20,000	20,000	
Total all funds	\$8,684,567	\$9,127,815	(\$21,308)	\$9,106,507	\$9,106,507	\$0
Less estimated income	8,684,567	9,127,815	(21,308)	9,106,507	9,106,507	0
General fund	\$0	\$0	\$0	\$0	\$0	\$0
FTE	31.00	31.00	0.00	31.00	31.00	0.00

Department 413 - Department of Financial Institutions - Detail of Conference Committee Changes

	Adds Funding for Salary Increases ¹	Total Conference Committee Changes
Salaries and wages	(\$21,308)	(\$21,308)
Operating expenses		
Contingency		
Total all funds	(\$21,308)	(\$21,308)
Less estimated income	(21,308)	(21,308)
General fund	\$0	\$0
FTE	0.00	0.00

¹ Funding is adjusted to provide salary increases of 1.5 percent on July 1, 2021, with a minimum monthly increase of \$100, and 2 percent on July 1, 2022, the same as the House. The Senate provided salary adjustments of 2 percent on July 1, 2021, with a minimum monthly increase of \$80 and a maximum monthly increase of \$300, and 2 percent on July 1, 2022.

This amendment also authorizes the Department of Financial Institutions to transfer appropriation authority between line items without Emergency Commission approval for the 2021-23 biennium. The Senate included the line item transfer authority without specifying the biennium, but the House removed the line item transfer authority.

**2021 SENATE CONFERENCE COMMITTEE
ROLL CALL VOTES**

BILL/RESOLUTION NO. SB 2008 as (re) engrossed

Senate Appropriations Committee

Action Taken ☐ **SENATE accede to House Amendments**
☐ **SENATE accede to House Amendments and further amend**
☐ **HOUSE recede from House amendments**
☒ **HOUSE recede from House amendments and amend as follows**

☐ **Unable to agree**, recommends that the committee be discharged and a new committee be appointed

Motion Made by: Rep. Bellew Seconded by: Rep. Brandenburg

Senators				Yes	No		Representatives				Yes	No
Krebsbach				X			Meier				X	
Rust				X			Bellew				X	
Mathern				X			Brandenburg				X	
Total Senate Vote				3	0		Total Rep. Vote				3	0

Vote Count Yes: 6 No: 0 Absent: 0

Senate Carrier Krebsbach House Carrier Meier

LC Number 21.0290 . 02002 of amendment

LC Number 21.0290 . 04000 of engrossment

Emergency clause added or deleted

Statement of purpose of amendment

Insert LC: 21.0290.02002
Senate Carrier: Krebsbach
House Carrier: Meier

REPORT OF CONFERENCE COMMITTEE

SB 2008, as engrossed: Your conference committee (Sens. Krebsbach, Rust, Mathern and Reps. Meier, Bellew, Brandenburg) recommends that the **HOUSE RECEDE** from the House amendments as printed on SJ pages 1153-1154, adopt amendments as follows, and place SB 2008 on the Seventh order:

That the House recede from its amendments as printed on pages 1153 and 1154 of the Senate Journal and pages 1370 and 1371 of the House Journal and that Engrossed Senate Bill No. 2008 be amended as follows:

Page 1, line 2, after institutions insert a semicolon

Page 1, line 2, replace "for a transfer" with "an exemption"

Page 1, replace line 11 with:

"Salaries and wages	\$7,022,655	\$392,443	\$7,415,098"
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Page 1, replace line 14 with:

"Total special funds	\$8,684,567	\$421,940	\$9,106,507"
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Page 2, line 1, after the first "institutions" insert "during the biennium beginning July 1, 2021, and ending June 30, 2023"

ReNUMBER accordingly

STATEMENT OF PURPOSE OF AMENDMENT:

Senate Bill No. 2008 - Department of Financial Institutions - Conference Committee Action

	Base Budget	Senate Version	Conference Committee Changes	Conference Committee Version	House Version	Comparison to House
Salaries and wages	\$7,022,655	\$7,436,406	(\$21,308)	\$7,415,098	\$7,415,098	
Operating expenses	1,641,912	1,671,409		1,671,409	1,671,409	
Contingency	20,000	20,000		20,000	20,000	
Total all funds	\$8,684,567	\$9,127,815	(\$21,308)	\$9,106,507	\$9,106,507	\$0
Less estimated income	8,684,567	9,127,815	(21,308)	9,106,507	9,106,507	0
General fund	\$0	\$0	\$0	\$0	\$0	\$0
FTE	31.00	31.00	0.00	31.00	31.00	0.00

Department 413 - Department of Financial Institutions - Detail of Conference Committee Changes

	Adds Funding for Salary Increases ¹	Total Conference Committee Changes
Salaries and wages	(\$21,308)	(\$21,308)
Operating expenses		
Contingency		
Total all funds	(\$21,308)	(\$21,308)
Less estimated income	(21,308)	(21,308)
General fund	\$0	\$0
FTE	0.00	0.00

¹ Funding is adjusted to provide salary increases of 1.5 percent on July 1, 2021, with a minimum monthly increase of \$100, and 2 percent on July 1, 2022, the same as the House. The Senate provided salary adjustments of 2 percent on July 1, 2021, with a minimum monthly increase of \$80 and a maximum monthly increase of \$300, and 2 percent on July 1,

Insert LC: 21.0290.02002
Senate Carrier: Krebsbach
House Carrier: Meier

2022.

This amendment also authorizes the Department of Financial Institutions to transfer appropriation authority between line items without Emergency Commission approval for the 2021-23 biennium. The Senate included the line item transfer authority without specifying the biennium, but the House removed the line item transfer authority.
Engrossed SB 2008 was placed on the Seventh order of business on the calendar.