

2023 SENATE APPROPRIATIONS

SB 2011

Department 414 - Securities Department
Senate Bill No. 2011

Executive Budget Comparison to Base Level

	General Fund	Other Funds	Total
2023-25 Executive Budget	\$0	\$3,324,894	\$3,324,894
2023-25 Base Level	0	2,808,984	2,808,984
Increase (Decrease)	\$0	\$515,910	\$515,910

Selected Budget Changes Recommended in the Executive Budget

	General Fund	Other Funds	Total
1. Adds funding for state employee salary and benefit increases, of which \$152,770 is for salary increases and \$36,008 is for health insurance increases		\$188,778	\$188,778
2. Adds funding for information technology rate increases		\$1,326	\$1,326
3. Adds funding for blockchain analytics software licenses		\$150,000	\$150,000
4. Adds funding for increased audit costs		\$10,000	\$10,000
5. Adds one-time funding for enhancements to the case management system and securities filing portal		\$150,000	\$150,000

A summary of the executive budget changes to the agency's base level appropriations is attached as an appendix.

A copy of the draft appropriations bill containing the executive budget recommendations is attached as an appendix.

Continuing Appropriations

Investor education and technology fund - North Dakota Century Code Section 10-04-03 - This fund receives funding from tuition, grants, donations, and certain civil penalties assessed by the Securities Commissioner. The money in the fund can be used for public education services and for the technology needs of the Securities Department.

Investor restitution fund - Section 10-04-03 - This fund is used to deposit civil penalties collected from enforcement action to be distributed to aggrieved investors.

Deficiency Appropriations

There are no deficiency appropriations for this agency.

Significant Audit Findings

There are no major audit findings for this agency.

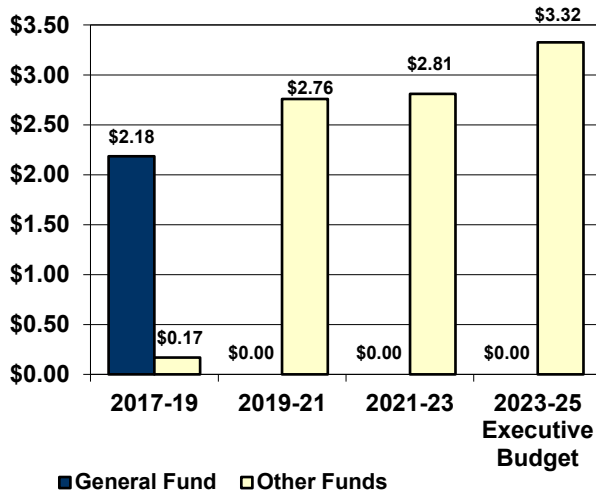
Major Related Legislation

At this time, no major related legislation has been introduced affecting this agency.

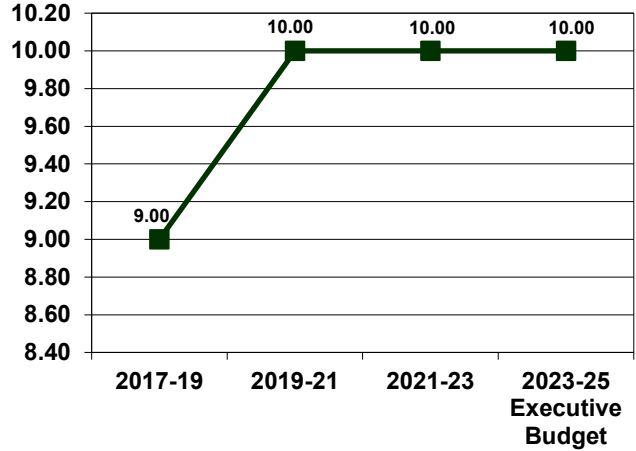
Historical Appropriations Information

Agency Appropriations and FTE Positions

Agency Funding (Millions)



FTE Positions



Ongoing Agency Appropriations¹

	2015-17	2017-19	2019-21	2021-23	2023-25 Executive Budget
Ongoing appropriations	\$2,237,326	\$2,184,714	\$2,757,119	\$2,808,984	\$3,174,894
Increase (decrease) from previous biennium	N/A	(\$52,612)	\$572,405	\$51,865	\$365,910
Percentage increase (decrease) from previous biennium	N/A	(2.4%)	26.2%	1.9%	13.0%
Cumulative percentage increase (decrease) from 2015-17 biennium	N/A	(2.4%)	23.2%	25.6%	41.9%

¹The agency changed from receiving its appropriations primarily from the general fund to entirely from other funds beginning in the 2019-21 biennium.

Major Increases (Decreases) in Ongoing Agency Appropriations

2017-19 Biennium

- Restored a portion of funding from the general fund for operating expenses that was removed as a result of the August 2016 general fund budget reductions \$46,545

2019-21 Biennium

- Added from the general fund for 1 FTE financial technology research and investigation position (\$209,294) and related operating expenses (\$23,000) \$232,294
- Added funding from other funds for rent and for the statewide cost allocation plan \$64,000

2021-23 Biennium

- Added funding for Microsoft Office 365 licensing expenses \$1,542

2023-25 Biennium (Executive Budget Recommendation)

- Adds funding for information technology rate increases \$1,326
- Adds funding for blockchain analytics software licenses \$150,000
- Adds funding for increased audit costs \$10,000

One-Time Agency Appropriations

	2015-17	2017-19	2019-21	2021-23	2023-25 Executive Budget
One-time other funds appropriations	\$0	\$0	\$0	\$0	\$150,000

Major One-Time Agency Appropriations

2017-19 Biennium

1. No one-time funding items \$0

2019-21 Biennium

1. No one-time funding items \$0

2021-23 Biennium

1. No one-time funding items \$0

2023-25 Biennium (Executive Budget Recommendation)

1. Adds **one-time funding** for enhancements to the case management system and securities filing portal \$150,000

Securities Department - Budget No. 414
Senate Bill No. 2011
Base Level Funding Changes

	Executive Budget Recommendation			
	FTE Positions	General Fund	Other Funds	Total
2023-25 Biennium Base Level	10.00	\$0	\$2,808,984	\$2,808,984
2023-25 Ongoing Funding Changes				
Base payroll changes			\$15,806	\$15,806
Salary increase			152,770	152,770
Health insurance increase			36,008	36,008
Information technology rate increase			1,326	1,326
Cryptocurrency enforcement - blockchain licenses			150,000	150,000
Increased audit costs			10,000	10,000
Total ongoing funding changes	0.00	\$0	\$365,910	\$365,910
One-time funding items				
Case management and filing portal enhancements			\$150,000	\$150,000
Total one-time funding changes	0.00	\$0	\$150,000	\$150,000
Total Changes to Base Level Funding	0.00	\$0	\$515,910	\$515,910
2023-25 Total Funding	10.00	\$0	\$3,324,894	\$3,324,894
<i>Federal funds included in other funds</i>			\$0	
<i>Total ongoing changes as a percentage of base level</i>	0.0%		13.0%	13.0%
<i>Total changes as a percentage of base level</i>	0.0%		18.4%	18.4%

Other Sections in Securities Department - Budget No. 414

Executive Budget Recommendation

There are no other sections recommended to be added in the executive budget.

SENATE BILL NO. 2011
(Governor's Recommendation)

Introduced by

Appropriations Committee

(At the request of the Governor)

A bill for an act to provide an appropriation for defraying the expenses of the securities department.

BE IT ENACTED BY THE LEGISLATIVE ASSEMBLY OF NORTH DAKOTA:

SECTION 1. APPROPRIATION. The funds provided in this section, or so much of the funds as may be necessary, are appropriated out of any moneys in the securities department special fund in the state treasury, not otherwise appropriated, and from special funds derived from other income, to the securities department of the purpose of defraying the expenses of that agency, for the biennium beginning July 1, 2023 and ending June 30, 2025, as follows:

	<u>Base Level</u>	<u>Adjustments or Enhancements</u>	<u>Appropriation</u>
Salaries and Wages	\$2,213,881	\$204,583	\$2,418,464
Operating Expenses	<u>595,103</u>	<u>311,327</u>	<u>906,430</u>
Total All Funds	\$2,808,984	\$515,910	\$3,324,894
Less Estimated Income	<u>2,808,984</u>	<u>515,910</u>	<u>3,324,894</u>
Total General Fund	\$ 0	\$ 0	\$ 0
Full-time Equivalent Positions	10.00	0.00	10.00

SECTION 2. ONE-TIME FUNDING. The following amounts reflect the one-time funding items approved by the sixty-seventh legislative assembly for the 2021-23 biennium and the 2023-25 one-time funding items included in the appropriation of section 1 of this Act:

<u>One-Time Funding Description</u>	<u>2021-23</u>	<u>2023-25</u>
Technology investments	<u>\$ 0</u>	<u>\$150,000</u>
Total General Fund	\$0	\$0

2023 SENATE STANDING COMMITTEE MINUTES

Appropriations Committee Roughrider Room, State Capitol

SB 2011
1/4/2023

A BILL for an Act to provide an appropriation for defraying the expenses of the securities department.
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1:00 PM Chairman Bekkedahl opened the hearing on SB 2011.

Members present : Senators Bekkedahl, Burckhard, Davison, Dever, Dwyer, Erbele, Kreun, Meyer, Roers, Schaible, Sorvaag, Vedaa, Wanzek, Rust, Mathern; Members absent: Senator Krebsbach

Discussion Topics:

- Budget overview/introduction
- Budget changes/increases requested
- Department Revenues and sources
- Moving to fully electronic systems
- Fraud investigations
- Crypto Currency exchange
- Workforce needs and retirement turnover

1:01 PM Karen Tyler, North Dakota Securities Dept Introduced the Bill and testified in favor of – Testimony #12285, #12286, #12287

Chairman Bekkedahl assigned the Bill to Government Operations Subcommittee

1:39 PM Chairman Bekkedahl adjourned the hearing.

Kathleen Hall, Committee Clerk

2023 SENATE STANDING COMMITTEE MINUTES

Appropriations - Government Operations Division Red River Room, State Capitol

SB 2011
1/24/2023

A bill for an act to provide an appropriation for defraying the expenses of the securities department.
--

8:38 AM Chairman Wanzek called the meeting to order.

Senators Wanzek, Roers, Dwyer, and Vedaa are present.

Discussion Topics:

- Budget enhancements
- Block-chain and crypto currency analytics
- IT enhancements
- Distribution of equity package
- Agency revenue sources
- Exam and investigation programs
- Other bills' effects
- Enforcement tool

8:38 AM Karen Tyler, ND Securities Commissioner, testified in favor, testimony from full Appropriations on January 3, 2023. #12285, 12286, 12287

8:57 AM Recess

9:44 AM Senator Dwyer reconvened the meeting.

9:44 AM Karen Tyler, Securities Commissioner, continued testimony verbally.

Additional Testimony:

Adam Mathiak, Senior Fiscal Analyst, Legislative Council in neutral #21246.

9:57 Chairman Wanzek closed the meeting.

Carol Thompson, Committee Clerk

2023 SENATE STANDING COMMITTEE MINUTES

Appropriations - Government Operations Division Red River Room, State Capitol

SB 2011
1/26/2023

A bill for an act to provide an appropriation for defraying the expenses of the Securities Department.
--

11:04 AM Chairman Wanzek called the meeting to order.

Senators Wanzek, Erbele, Roers, Dwyer, and Vedaa are present.

Discussion Topics:

- Salaries and payroll changes
- Crypto currency/blockchain forensic analytics
- One-time funds
- Bitcoin mining infrastructure
- Regulation tools
- SB 2325

11:04 AM Karen Tyler, ND Securities Commissioner, testified in support of SB 2011. (No written testimony)

11:39 AM Chairman Wanzek closed the meeting.

Carol Thompson, Committee Clerk

2023 SENATE STANDING COMMITTEE MINUTES

Appropriations - Government Operations Division Red River Room, State Capitol

SB 2011
1/31/2023

A bill for an act to provide an appropriation for defraying the expenses of the securities department.
--

9:59 AM Chairman Wanzek called the meeting to order.

Senators Wanzek and Senators Erbele, Roers, Dwyer, and Vedaa are present.

Discussion Topics:

- IT costs
- Crypto-currency – investigative analytics
- Program enhancements
- Staffing needs
- Attorney
- Equity 6/4 to 4/4

10:00 AM Karen Tyler, ND Securities Commissioner, testified. Testimony #26385

10:17 AM Chairman Wanzek directed Sheila Sandness, LC Senior Fiscal Analyst, to draft an amendment that reflects the 4/4 increases

10:19 Chairman Wanzek closed the meeting.

Carol Thompson, Committee Clerk

2023 SENATE STANDING COMMITTEE MINUTES

Appropriations - Government Operations Division Red River Room, State Capitol

SB 2011
2/1/2023

A bill for an act to provide an appropriation for defraying the expenses of the Securities Department.
--

3:43 PM Chairman Wanzek called the meeting to order.

Chairman Wanzek and Senators Erbele, Roers, Dwyer, and Vedaa were present.

Discussion Topics:

- Salaries
- Blockchain analytics
- Vulnerable seniors action

3:44 PM Adam Mathiak, LC Senior Fiscal Analyst, reviewed the long-sheet and proposed Amendment. LC 23.0265.01001 #19097, 19099

Senator Roers moved to adopt amendment. LC.23.0265.01001

Senator Vedaa seconded the motion.

Senators	Vote
Senator Terry M. Wanzek	Y
Senator Michael Dwyer	Y
Senator Robert Erbele	Y
Senator Jim P. Roers	Y
Senator Shawn Vedaa	Y

The motion passed 5-0-0.

Senator Roers moved DO PASS as amended.

Senator Vedaa seconded the motion.

Senators	Vote
Senator Terry M. Wanzek	Y
Senator Michael Dwyer	Y
Senator Robert Erbele	Y
Senator Jim P. Roers	Y
Senator Shawn Vedaa	Y

The motion passed 5-0-0.

Senator Vedaa will carry this bill.

3:55 PM Chairman Wanzek closed the meeting.

Carol Thompson, Committee Clerk

2023 SENATE STANDING COMMITTEE MINUTES

Appropriations Committee Roughrider Room, State Capitol

SB 2011
2/2/2023

A bill for an act to provide an appropriation for defraying the expenses of the Securities Department.

10:24 AM Chairman Bekkedahl called the meeting to order.

Senators Bekkedahl, Burkhard, Davison, Dever, Dwyer, Erbele, Krebsbach, Kreun, Mathern, Meyer, Roers, Schaible, Sorvaag, Wanzek, Vedaa, and Rust

Discussion Topics:

- Special funds
- Salary adjustments
- Insurance adjustments
- Crypto-currency
- One-time funds

10:25 AM Senator Vedaa introduced the amended bill, SB 2011.

10:31 AM Senator Roers moved to adopt amendment LC 23.0265.01001
Senator Vedaa seconded the motion.

Senators	Vote
Senator Brad Bekkedahl	Y
Senator Karen K. Krebsbach	Y
Senator Randy A. Burckhard	Y
Senator Kyle Davison	Y
Senator Dick Dever	Y
Senator Michael Dwyer	Y
Senator Robert Erbele	Y
Senator Curt Kreun	Y
Senator Tim Mathern	Y
Senator Scott Meyer	Y
Senator Jim P. Roers	Y
Senator David S. Rust	Y
Senator Donald Schaible	Y
Senator Ronald Sorvaag	Y
Senator Shawn Vedaa	Y
Senator Terry M. Wanzek	Y

Motion passed 16-0-0

10:31 AM Senator Roers moved a DO PASS AS AMENDED.
Senator Vedaa seconded the motion.

Senators	Vote
Senator Brad Bekkedahl	Y
Senator Karen K. Krebsbach	Y
Senator Randy A. Burckhard	Y
Senator Kyle Davison	Y
Senator Dick Dever	Y
Senator Michael Dwyer	Y
Senator Robert Erbele	Y
Senator Curt Kreun	Y
Senator Tim Mathern	Y
Senator Scott Meyer	Y
Senator Jim P. Roers	Y
Senator David S. Rust	Y
Senator Donald Schaible	Y
Senator Ronald Sorvaag	Y
Senator Shawn Vedaa	Y
Senator Terry M. Wanzek	Y

Motion passed 16-0-0

Senator Vedaa will carry the bill.

10:34 AM Senator Bekkedahl closed the hearing.

Carol Thompson, Committee Clerk

DR
2-2-23
172

PROPOSED AMENDMENTS TO SENATE BILL NO. 2011

Page 1, replace lines 8 through 13 with:

"		<u>Adjustments or</u>	
	<u>Base Level</u>	<u>Enhancements</u>	<u>Appropriation</u>
Salaries and wages	\$2,213,881	\$167,055	\$2,380,936
Operating expenses	595,103	311,327	906,430
Total special funds	\$2,808,984	\$478,382	\$3,287,366
Full-time equivalent positions	10.00	0.00	10.00

SECTION 2. ONE-TIME FUNDING - EFFECT ON BASE BUDGET - REPORT TO SIXTY-NINTH LEGISLATIVE ASSEMBLY. The following amounts reflect the one-time funding items approved by the sixty-seventh legislative assembly for the 2021-23 biennium and the 2023-25 biennium one-time funding items included in the appropriation of this Act:

	<u>2021-23</u>	<u>2023-25</u>
<u>One-Time Funding Description</u>		
Technology enhancements	\$0	\$150,000
Total special funds	\$0	\$150,000

The 2023-25 biennium one-time funding amounts are not part of the entity's base budget for the 2025-27 biennium. The securities department shall report to the appropriations committees of the sixty-ninth legislative assembly on the use of this one-time funding for the biennium beginning July 1, 2023, and ending June 30, 2025."

Renumber accordingly

STATEMENT OF PURPOSE OF AMENDMENT:

Senate Bill No. 2011 - Securities Department - Senate Action

	<u>Base Budget</u>	<u>Senate Changes</u>	<u>Senate Version</u>
Salaries and wages	\$2,213,881	\$167,055	\$2,380,936
Operating expenses	595,103	311,327	906,430
Total all funds	\$2,808,984	\$478,382	\$3,287,366
Less estimated income	2,808,984	478,382	3,287,366
General fund	\$0	\$0	\$0
FTE	10.00	0.00	10.00

Department 414 - Securities Department - Detail of Senate Changes

	<u>Adds Funding for Base Payroll and Budget Changes¹</u>	<u>Adds Funding for Salary and Benefit Increases²</u>	<u>Adds Funding for Information Technology Costs³</u>	<u>Adds Funding for Blockchain Analytics Software⁴</u>	<u>Adds Funding for Audit Costs⁵</u>	<u>Adds One-Time Funding for Technology Enhancements⁶</u>
Salaries and wages	\$15,805	\$151,250				
Operating expenses	1		\$1,326	\$150,000	\$10,000	\$150,000
Total all funds	\$15,806	\$151,250	\$1,326	\$150,000	\$10,000	\$150,000
Less estimated income	15,806	151,250	1,326	150,000	10,000	150,000
General fund	\$0	\$0	\$0	\$0	\$0	\$0
FTE	0.00	0.00	0.00	0.00	0.00	0.00

	Total Senate Changes
Salaries and wages	\$167,055
Operating expenses	311,327
<hr/>	
Total all funds	\$478,382
Less estimated income	478,382
General fund	\$0
<hr/>	
FTE	0.00

DR
 2-2-2023
 2/2

¹ Funding is adjusted for base payroll and budget changes.

² The following funding is added for 2023-25 biennium salary adjustments of 4 percent on July 1, 2023, and 4 percent on July 1, 2024, and increases in health insurance premiums from \$1,429 to \$1,648 per month:

	<u>Other Funds</u>
Salary increase	\$114,414
Health insurance increase	<u>36,836</u>
Total	\$151,250

³ Funding is added for information technology rate increases.

⁴ Funding is added for blockchain analytics software licenses.

⁵ Funding is added for agency audit expenses.

⁶ One-time funding is added for enhancements to the case management system and securities filing portal.

REPORT OF STANDING COMMITTEE

SB 2011: Appropriations Committee (Sen. Bekkedahl, Chairman) recommends **AMENDMENTS AS FOLLOWS** and when so amended, recommends **DO PASS** (16 YEAS, 0 NAYS, 0 ABSENT AND NOT VOTING). SB 2011 was placed on the Sixth order on the calendar. This bill affects workforce development.

Page 1, replace lines 8 through 13 with:

	<u>Base Level</u>	<u>Adjustments or Enhancements</u>	<u>Appropriation</u>
Salaries and wages	\$2,213,881	\$167,055	\$2,380,936
Operating expenses	<u>595,103</u>	<u>311,327</u>	<u>906,430</u>
Total special funds	\$2,808,984	\$478,382	\$3,287,366
Full-time equivalent positions	10.00	0.00	10.00

SECTION 2. ONE-TIME FUNDING - EFFECT ON BASE BUDGET - REPORT TO SIXTY-NINTH LEGISLATIVE ASSEMBLY. The following amounts reflect the one-time funding items approved by the sixty-seventh legislative assembly for the 2021-23 biennium and the 2023-25 biennium one-time funding items included in the appropriation of this Act:

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Renumber accordingly

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Less estimated income	<u>2,808,984</u>	<u>478,382</u>	<u>3,287,366</u>
General fund	\$0	\$0	\$0
FTE	10.00	0.00	10.00

Department 414 - Securities Department - Detail of Senate Changes

	<u>Adds Funding for Base Payroll and Budget Changes¹</u>	<u>Adds Funding for Salary and Benefit Increases²</u>	<u>Adds Funding for Information Technology Costs³</u>	<u>Adds Funding for Blockchain Analytics Software⁴</u>	<u>Adds Funding for Audit Costs⁵</u>	<u>Adds One-Time Funding for Technology Enhancements⁶</u>
Salaries and wages	\$15,805	\$151,250				
Operating expenses	<u>1</u>		<u>\$1,326</u>	<u>\$150,000</u>	<u>\$10,000</u>	<u>\$150,000</u>
Total all funds	\$15,806	\$151,250	\$1,326	\$150,000	\$10,000	\$150,000
Less estimated income	<u>15,806</u>	<u>151,250</u>	<u>1,326</u>	<u>150,000</u>	<u>10,000</u>	<u>150,000</u>
General fund	\$0	\$0	\$0	\$0	\$0	\$0
FTE	0.00	0.00	0.00	0.00	0.00	0.00

Salaries and wages
 Operating expenses

 Total all funds
 Less estimated income
 General fund

 FTE

Total Senate Changes	
	\$167,055
	311,327
	\$478,382
	478,382
	\$0
	0.00

¹ Funding is adjusted for base payroll and budget changes.

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2023 HOUSE APPROPRIATIONS

SB 2011

Department 414 - Securities Department
Senate Bill No. 2011

First Chamber Comparison to Base Level

	General Fund	Other Funds	Total
2023-25 First Chamber Version	\$0	\$3,287,366	\$3,287,366
2023-25 Base Level	0	2,808,984	2,808,984
Increase (Decrease)	\$0	\$478,382	\$478,382

First Chamber Changes

A summary of the first chamber's changes to the agency's base level appropriations and the executive budget is attached as an appendix.

Continuing Appropriations

Investor education and technology fund - North Dakota Century Code Section 10-04-03 - This fund receives funding from tuition, grants, donations, and certain civil penalties assessed by the Securities Commissioner. The money in the fund can be used for public education services and for the technology needs of the Securities Department.

Investor restitution fund - Section 10-04-03 - This fund is used to deposit civil penalties collected from enforcement action to be distributed to aggrieved investors.

Deficiency Appropriations

There are no deficiency appropriations for this agency.

Significant Audit Findings

There are no major audit findings for this agency.

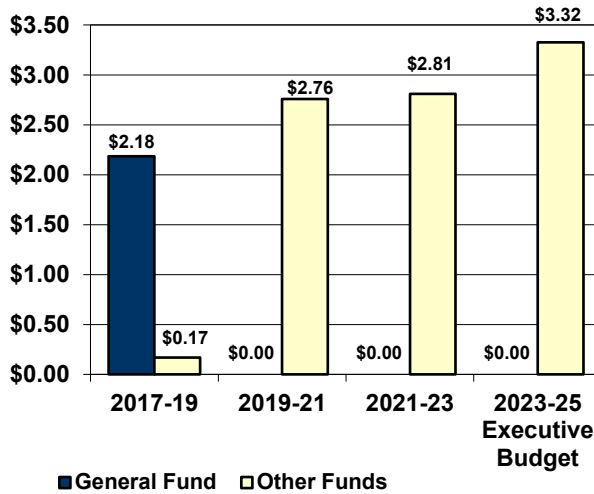
Major Related Legislation

Senate Bill No. 2325 - Vulnerable adult restitution fund - Creates a vulnerable adult restitution fund and authorizes up to \$1 million of Securities Department revenues to be deposited in the fund each biennium.

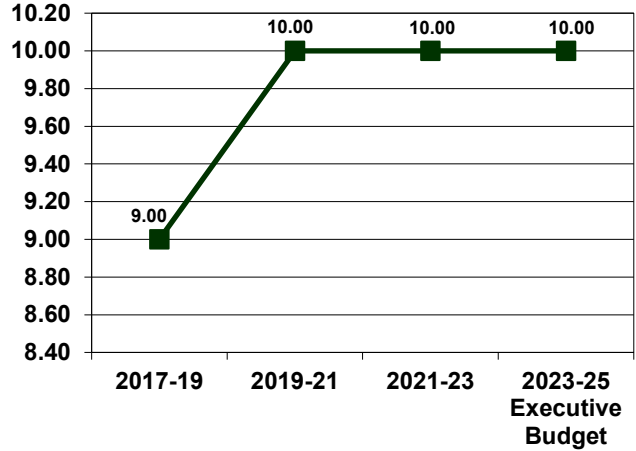
Historical Appropriations Information

Agency Appropriations and FTE Positions

Agency Funding (Millions)



FTE Positions



Ongoing Agency Appropriations¹

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¹The agency changed from receiving its appropriations primarily from the general fund to entirely from other funds beginning in the 2019-21 biennium.

Major Increases (Decreases) in Ongoing Agency Appropriations

2017-19 Biennium

Restored a portion of funding from the general fund for operating expenses that was removed as a result of the August 2016 general fund budget reductions \$46,545

2019-21 Biennium

1. Added from the general fund for 1 FTE financial technology research and investigation position (\$209,294) and related operating expenses (\$23,000) \$232,294
2. Added funding from other funds for rent and for the statewide cost allocation plan \$64,000

2021-23 Biennium

Added funding for Microsoft Office 365 licensing expenses \$1,542

2023-25 Biennium (Executive Budget Recommendation)

1. Adds funding for information technology rate increases \$1,326
2. Adds funding for blockchain analytics software licenses \$150,000
3. Adds funding for increased audit costs \$10,000

One-Time Agency Appropriations

	2015-17	2017-19	2019-21	2021-23	2023-25 Executive Budget
One-time other funds appropriations	\$0	\$0	\$0	\$0	\$150,000

Major One-Time Agency Appropriations

2017-19 Biennium

None \$0

2019-21 Biennium

None \$0

2021-23 Biennium

None \$0

2023-25 Biennium (Executive Budget Recommendation)

Adds **one-time funding** for enhancements to the case management system and securities filing portal \$150,000

Securities Department - Budget No. 414
Senate Bill No. 2011
Base Level Funding Changes

	Executive Budget Recommendation				Senate Version			
	FTE Positions	General Fund	Other Funds	Total	FTE Positions	General Fund	Other Funds	Total
2023-25 Biennium Base Level	10.00	\$0	\$2,808,984	\$2,808,984	10.00	\$0	\$2,808,984	\$2,808,984
2023-25 Ongoing Funding Changes								
Base payroll changes			\$15,806	\$15,806			\$15,806	\$15,806
Salary increase			152,770	152,770			114,414	114,414
Health insurance increase			36,008	36,008			36,836	36,836
Information technology rate increase			1,326	1,326			1,326	1,326
Cryptocurrency enforcement - blockchain licenses			150,000	150,000			150,000	150,000
Increased audit costs			10,000	10,000			10,000	10,000
Total ongoing funding changes	0.00	\$0	\$365,910	\$365,910	0.00	\$0	\$328,382	\$328,382
One-Time Funding Items								
Case management and filing portal enhancements			\$150,000	\$150,000			\$150,000	\$150,000
Total one-time funding changes	0.00	\$0	\$150,000	\$150,000	0.00	\$0	\$150,000	\$150,000
Total Changes to Base Level Funding	0.00	\$0	\$515,910	\$515,910	0.00	\$0	\$478,382	\$478,382
2023-25 Total Funding	10.00	\$0	\$3,324,894	\$3,324,894	10.00	\$0	\$3,287,366	\$3,287,366
<i>Federal funds included in other funds</i>			\$0				\$0	
<i>Total ongoing changes as a percentage of base level</i>	<i>0.0%</i>		<i>13.0%</i>	<i>13.0%</i>	<i>0.0%</i>		<i>11.7%</i>	<i>11.7%</i>
<i>Total changes as a percentage of base level</i>	<i>0.0%</i>		<i>18.4%</i>	<i>18.4%</i>	<i>0.0%</i>		<i>17.0%</i>	<i>17.0%</i>

Other Sections in Securities Department - Budget No. 414

Executive Budget Recommendation	Senate Version
There are no other sections recommended to be added in the executive budget.	No other sections.

2023 HOUSE STANDING COMMITTEE MINUTES

Appropriations - Government Operations Division Brynhild Haugland Room, State Capitol

SB 2011
3/15/2023

A BILL for an Act to provide an appropriation for defraying the expenses of the securities department.
--

Chairman Monson opened the meeting at 10:31 AM

Members present: Chairman Monson, Vice Chair Brandenburg, Rep. Bellew, Rep. Kempenich, Rep. Meier, Rep. Pyle, Rep. Mock

Discussion Topics:

- Franchise investment law
- Capitol security
- Audit Costs
- IT expenditures
- Broker Firms
- Investment Advisor Firms
- Crypto Currencies
- Bitcoin

Karen Tyler, State Securities Commissioner: #25186, #25185, #25187, #25188

Legislative Council: #25248

Chairman Monson closed the hearing at 12:09 PM

Leah Kuball, Committee Clerk

2023 HOUSE STANDING COMMITTEE MINUTES

Appropriations - Government Operations Division Brynhild Haugland Room, State Capitol

SB 2011
3/21/2023

A BILL for an Act to provide an appropriation for defraying the expenses of the securities department.
--

Chairman Monson opened the meeting at 10:47 AM

Members present: Chairman Monson, Vice Chair Brandenburg, Rep. Bellew, Rep. Kempenich, Rep. Meier, Rep. Pyle, Rep. Mock

Discussion Topics:

- Restitution funds
- Crypto currency
- Budget 414

Karen Tyler, North Dakota Securities Commissioner, answers questions for the committee and goes over budget 414 (#26098)

Larry Martin, OMB Fiscal Analyst for OMB, answers questions for the committee,

Chairman Monson closed the hearing at 11:12 AM

Leah Kuball, Committee Clerk

2023 HOUSE STANDING COMMITTEE MINUTES

Appropriations - Government Operations Division Brynild Haugland Room, State Capitol

SB 2011
3/27/2023

A BILL for an Act to provide an appropriation for defraying the expenses of the securities department.
--

Chairman Monson opened the meeting at 4:43 PM

Members present: Chairman Monson, Vice Chair Brandenburg, Rep. Bellew, Rep. Meier, Rep. Pyle, Rep. Mock

Members absent: Rep. Kempenich

Discussion Topics:

- Committee work
- Budget 414
- Amendment 23.0265.02001

Adam Mathiak, Legislative Council, answers questions for the committee. (23.0265.02001) (#26774) Budget 414 (#26098)

Representative Mock moves to adopt amendment (23.0265.02001) to SB 2011

Representative Pyle seconds motion

Roll call vote:

Representatives	Vote
Representative David Monson	Y
Representative Mike Brandenburg	Y
Representative Larry Bellew	Y
Representative Keith Kempenich	AB
Representative Lisa Meier	Y
Representative Corey Mock	Y
Representative Brandy Pyle	Y

Motion carries: 6-0-1

Representative Mock Moves a DO PASS as amended.

Representative Meier seconds motion

Roll Call vote:

Representatives	Vote
Representative David Monson	Y
Representative Mike Brandenburg	Y
Representative Larry Bellew	Y
Representative Keith Kempenich	AB
Representative Lisa Meier	Y
Representative Corey Mock	Y
Representative Brandy Pyle	Y

Motion carries: 6-0-1

Bill carrier: Representative Mock

Chairman Monson closed the hearing at 4:51 PM

Leah Kuball, Committee Clerk

2023 HOUSE STANDING COMMITTEE MINUTES

Appropriations Committee Brynhild Haugland Room, State Capitol

SB 2011
4/6/2023

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

5:00 PM Chairman Vigesaa Called the meeting to order and roll call was taken-

Members present; Chairman Vigesaa, Representative Kempenich, Representative B. Anderson, Representative Bellew, Representative Brandenburg, Representative Hanson, Representative Kreidt, Representative Martinson, Representative Mitskog, Representative Meier, Representative Mock, Representative Nathe, Representative J. Nelson, Representative O'Brien, Representative Pyle, Representative Richter, Representative Sanford, Representative Schatz, Representative Schobinger, Representative Strinden, Representative G. Stemen and Representative Swiontek.

Members not present: Representative Monson

Discussion Topics:

- Amendment
- Committee Action

Representative Mock Gives the statement of purpose and explains the amendment 23.0265.02001 (Testimony # 27368).

Representative Mock Moves to adopt the amendment 23.0265.02001

Representative Schobinger seconds the motion

Committee discussion- Roll call vote;

Representatives	Vote
Representative Don Vigesaa	Y
Representative Keith Kempenich	Y
Representative Bert Anderson	Y
Representative Larry Bellew	N
Representative Mike Brandenburg	Y
Representative Karla Rose Hanson	Y
Representative Gary Kreidt	Y
Representative Bob Martinson	Y
Representative Lisa Meier	Y
Representative Alisa Mitskog	Y
Representative Corey Mock	Y
Representative David Monson	AB
Representative Mike Nathe	Y
Representative Jon O. Nelson	Y

Representative Emily O'Brien	Y
Representative Brandy Pyle	Y
Representative David Richter	Y
Representative Mark Sanford	Y
Representative Mike Schatz	Y
Representative Randy A. Schobinger	Y
Representative Greg Stemen	Y
Representative Michelle Strinden	Y
Representative Steve Swiontek	Y

Motion Carries 21-1-1

Representative Mock moves a do pass as amended

Representative Brandenburg seconds the motion

Roll call vote:

Representatives	Vote
Representative Don Vigesaa	Y
Representative Keith Kempenich	Y
Representative Bert Anderson	Y
Representative Larry Bellew	Y
Representative Mike Brandenburg	Y
Representative Karla Rose Hanson	Y
Representative Gary Kreidt	Y
Representative Bob Martinson	Y
Representative Lisa Meier	Y
Representative Alisa Mitskog	Y
Representative Corey Mock	Y
Representative David Monson	AB
Representative Mike Nathe	Y
Representative Jon O. Nelson	Y
Representative Emily O'Brien	Y
Representative Brandy Pyle	Y
Representative David Richter	Y
Representative Mark Sanford	Y
Representative Mike Schatz	Y
Representative Randy A. Schobinger	Y
Representative Greg Stemen	Y
Representative Michelle Strinden	Y
Representative Steve Swiontek	Y

Motion carries 22-0-1 Representative Mock will carry the bill.

5:05 PM Chairman Vigesaa Closed the meeting for SB 2011

Risa Berube, Committee Clerk

AG
4-6-21
(1-1)

PROPOSED AMENDMENTS TO ENGROSSED SENATE BILL NO. 2011

Page 1, line 2, after "department" insert "; and to provide a report"

Page 1, replace lines 10 through 12 with:

"Salaries and wages	\$2,213,881	\$138,421	\$2,352,302
Operating expenses	<u>595,103</u>	<u>311,327</u>	<u>906,430</u>
Total special funds	\$2,808,984	\$449,748	\$3,258,732"

ReNUMBER accordingly

STATEMENT OF PURPOSE OF AMENDMENT:

Senate Bill No. 2011 - Securities Department - House Action

	Base Budget	Senate Version	House Changes	House Version
Salaries and wages	\$2,213,881	\$2,380,936	(\$28,634)	\$2,352,302
Operating expenses	<u>595,103</u>	<u>906,430</u>		<u>906,430</u>
Total all funds	\$2,808,984	\$3,287,366	(\$28,634)	\$3,258,732
Less estimated income	<u>2,808,984</u>	<u>3,287,366</u>	<u>(28,634)</u>	<u>3,258,732</u>
General fund	\$0	\$0	\$0	\$0
FTE	10.00	10.00	0.00	10.00

Department 414 - Securities Department - Detail of House Changes

	Adjusts Funding for Salary and Benefit Increases ¹	Removes Salary Funding for Funding Pool ²	Total House Changes
Salaries and wages	\$37,528	(\$66,162)	(\$28,634)
Operating expenses			
Total all funds	\$37,528	(\$66,162)	(\$28,634)
Less estimated income	<u>37,528</u>	<u>(66,162)</u>	<u>(28,634)</u>
General fund	\$0	\$0	\$0
FTE	0.00	0.00	0.00

¹ Salaries and wages funding is adjusted to provide for 2023-25 biennium salary increases of 6 percent on July 1, 2023, and 4 percent on July 1, 2024, and for adjustments to health insurance premium rates as follows:

	Other Funds
Salary increase	\$38,356
Health insurance adjustment	(828)
Total	\$37,528

The Senate provided salary adjustments of 4 percent on July 1, 2023, and July 1, 2024.

² Funding of \$66,162 from other funds for estimated savings from vacant FTE positions is removed. This amount is available to the agency if needed by submitting a request to the Office of Management and Budget for a transfer from the new and vacant FTE funding pool.

REPORT OF STANDING COMMITTEE

SB 2011, as engrossed: Appropriations Committee (Rep. Vigesaa, Chairman) recommends **AMENDMENTS AS FOLLOWS** and when so amended, recommends **DO PASS** (22 YEAS, 0 NAYS, 1 ABSENT AND NOT VOTING). Engrossed SB 2011 was placed on the Sixth order on the calendar.

Page 1, line 2, after "department" insert "; and to provide a report"

Page 1, replace lines 10 through 12 with:

"Salaries and wages	\$2,213,881	\$138,421	\$2,352,302
Operating expenses	<u>595,103</u>	<u>311,327</u>	<u>906,430</u>
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ReNUMBER accordingly

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General fund	\$0	\$0	\$0	\$0
FTE	10.00	10.00	0.00	10.00

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General fund	\$0	\$0	\$0
FTE	0.00	0.00	0.00

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	Other Funds
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TESTIMONY

SB 2011

Senate Bill 2011**Testimony of North Dakota Securities Commissioner Karen Tyler****Before the Senate Appropriations Committee****January 4, 2023**

Mr. Chairman and Members of the Committee, good afternoon. I am Karen Tyler, the State Securities Commissioner. It is a pleasure to share some time with you today to discuss the budget appropriation for the North Dakota Securities Department, and to answer any questions you may have regarding the Department's budget request.

STATUTORY RESPONSIBILITIES

The Securities Department is a regulatory agency that serves the citizens of North Dakota through the administration and enforcement of the North Dakota Securities Act (10-04), the North Dakota Commodities Act (51-23), the Franchise Investment Law (51-19) and Pre-Need Funeral Services Law (43-10.1).

REGULATORY POLICY OBJECTIVES AND FUNCTIONS

The primary regulatory policy objectives of the Securities Department are investor protection and the support of legitimate capital formation. We execute on those objectives through our work in following areas:

- 1) We regulate the capital formation and franchise registration process.
- 2) We register, and regulate the conduct of, securities industry firms and professionals who want to do business in the state.
- 3) We perform conduct focused examinations of broker-dealer and investment adviser firms and professionals.
- 4) We investigate investment fraud and take enforcement actions as necessary and appropriate, and we also make criminal referrals and support criminal cases. The majority of our resources are dedicated to this enforcement function.
- 5) We produce and deliver investor education and financial literacy programs.

The North Dakota Securities Department is a small agency, with 10 full time employees. No additional FTEs are requested in our 23-25 budget. The Department's organizational chart is included in your copies of this testimony.

BUDGET REQUEST

The Securities Department is a revenue generating, special fund agency. The Department's total budget request for the 2023-25 biennium is \$3,324,894. This breaks down as \$2,418,464 for the Salaries and Wages line item, and \$906,430 for the Operating line item.

The changes requested from the Base Level budget are as follows:

1. the enhancements set forth in the Governor's executive budget for salary and benefit adjustments which total \$204,583
2. in the operating line, funding to cover increased IT and audit costs, estimated at \$25,000 for the biennium – over the last 2 budget cycles we have had IT related cost increases that we were informed of after the submission of our budget, and we have also been informed that the cost of our audit this biennium will be an estimated \$8,500.

3. also in the operating line, an increase to fund the expense of blockchain and cryptocurrency related investigations analytics, estimated at \$135,000 for the biennium.

The Department seeks funding to purchase licenses for blockchain analytics software from a private sector data analytics company, or contract with private sector analytics service providers. This will improve the Department's ability to conduct Digital Asset and Decentralized Finance related investigations, and enable the tracking of cryptocurrency transactions between digital wallets and intermediaries, improving the likelihood of asset seizure and return of funds to harmed investors.

4. and one time funding in the operating line of \$150,000 for the enhancement of two technology systems related to investigation and examination case management, and our securities filing portal. The enhancements will provide an interface between the two data management systems, expand the functionality of the filing portal, and allow for secure and efficient electronic submission of investor complaints, which will improve the citizen user experience. Measurable outcomes of this investment include an increase in number of examinations conducted by the Department, a reduction in exam turnaround time, improvement of

enforcement case outcomes, improved speed of case analysis and resolution, and improved speed of securities filing processing and approvals.

DEPARTMENT REVENUE

The Securities Department is a revenue generating agency for the state, taking in over \$22.3 million dollars in revenue last biennium, and we are on-track to exceed \$23 million in the current biennium. Over the last several budget cycles, the Department has spent approximately 10 to 12 cents per revenue dollar generated. Attached to my testimony is an infographic that includes a 20 year look back for total revenues, total expenditures, and net total deposited to the general fund. The net number is over \$170 million.

Because our budget is funded by the revenue we generate, I'd like to take a minute to review our revenue sources, notable changes, and our projections for the upcoming biennium.

REVENUE SOURCES

The majority of the Department's revenue is generated in two categories - from securities registrations and filings, and from the registration of investment

industry firms and professionals. A small percentage of our revenue is derived from franchise registrations, and we may also generate revenue from civil penalties assessed by the Commissioner. Approximately 98% of the Department's revenue comes from out of state.

Securities Filings

Examples of types of securities registrations and filings that generate revenue for the Department would be Mutual Fund notice filings, Unit Investment Trust notice filings, Non-traded Real Estate Investment Trust registrations, and small business capital formation filings to either register securities or qualify for an exemption from registration.

A 3 year look-back for filings from North Dakota businesses seeking to raise capital through a securities offering shows 71 companies filing to raise approx. \$1.455 billion dollars, with businesses representing diverse industry sectors of Health, Hospitality, Energy, Technology, Agriculture, Real Estate, and Finance.

Industry Registration

Investment industry registrations include broker-dealer and investment adviser firms, and their registered professionals – defined in the Securities Act as securities agents and investment adviser representatives.

For the number of investment industry firms and professionals doing business in the state of North Dakota, an industry registration snapshot as of the end of December shows:

1,179	Broker-Dealers
114,396	Broker-Dealer Agents
873	Investment Advisers
1,681	Investment Adviser Reps

Industry firms and professionals must make an initial registration filing and then renew each year. The annual renewal of these industry registrations takes place at the end of December. For the 2023 renewal cycle, a new record total of 118,129 registration renewals were completed in an entirely automated process, through our registration system called the Central Registration Depository (CRD), and a payment of just over \$7.2 million was collected for the 2023. This renewal process occurs at no cost to the state.

CRD is both a registration system and a comprehensive data depository, holding important information about all the investment firms and professionals operating in the investment industry in the US. The data in the CRD is used by regulators and the industry, but it is also available to the public to assist them in evaluating the background of a firm or professional under consideration for providing services.

2023-2025 Revenue Projections

Looking ahead, given the strong increase in industry registration growth this biennium, we are increasing our revenue projections for the upcoming biennium to \$23 million. Most of this growth is occurring in the Broker-Dealer Agent category of registrants, with a 2022 growth rate of 15% year-over-year.

MISC ITEMS

There are no other sections included in our budget bill and the Department did not have any one-time funding items in the current biennium.

There were no financial audit findings in the Department's last audit, for which the audit period was July 1, 2018 - June 30, 2020.

At this time I am not aware of any other bills being considered by the Legislative Assembly that would have an impact specific to the Securities Department budget.

The Department does not receive any federal funding and there was no fiscal recovery funding appropriated to the Department during the 2021 special session.

FOCUS INITIATIVES

Launch of Electronic Securities Filings

Last session I provided an update on the Department's progress in migrating to a fully electronic securities filing system. This work began on a small scale during the 2017-2019 biennium, accelerated significantly as a result of the pandemic and the enhancements to the Electronic Filing Depository, and the transition took a major step forward to completion with the launch of our new Securities Filing Portal in November of 2021.

Many of our securities filing types now move through a technology system called the Electronic Filing Depository (EFD). The system is very close to operating at full capacity, with only one more filing type to be migrated, and it is anticipated that 95% of our securities filings, numbering approximately 25,000/year, will

ultimately be made through the system. Franchise filings are also made through the EFD.

All fees associated with these filings, which make up approximately one-third of the Departments annual/biennial revenue, are also collected through this system, and it creates significant efficiencies for both issuers of securities and for the department. Our national organization (NASAA) funds the development and support of the EFD, and it is utilized at no cost to the state.

In 2021 the Department developed and launched our Securities Filing Portal to facilitate the electronic filing of all remaining securities filing types, many of which are utilized by North Dakota businesses relying on certain registration exemptions in order to raise capital from investors.

As a result of the development of these electronic filing systems, the Department does not receive any paper filings, and all fee payments are made electronically.

Fintech Focus

Financial Technology innovations, and the benefits and risks created by these innovations, remain a primary focus for the Department. These financial products and services present new regulatory challenges, and they include but are not limited to robo-advisors, app-based stock trading platforms, crowdfunding

platforms for capital formation by start-up companies, cryptocurrency and digital or crypto asset derivative products, digital asset intermediaries, crypto interest accounts, and securities token offerings which are a new approach to raising capital.

Enforcement

Related to our focus on fintech, the Department has seen and anticipates continued growth in Social Media driven investment fraud as well as fraud related to cryptocurrency. Social media platforms and dating websites and applications are proving exceptionally fertile ground for financial criminals to exploit victims and steal money. Two areas of continued heightened concern:

- 1) Social platforms are commonly used to perpetrate investment fraud related to certain stocks and digital financial instruments such as securities tokens and cryptocurrency. The frauds may be pushed through discussion communities and apps like reddit, quora, medium and telegram, and the fake businesses will also have a more mainstream social presence like facebook and twitter. Financial criminals can easily establish highly convincing fake profiles, connect to potential victims through common interests, and extract personal information after establishing a relationship

– this is leading to an increase in “romance scams”, and of particular concern is that as seniors become more comfortable with these social sites, apps and services, they also become more easily targeted.

- 2) Financial criminals can also easily and convincingly establish fake companies, websites and cryptocurrency trading platforms on the internet. Social media hooks are used to push victims to the trading platforms. A typical fraud formula is to give the victim a period of trading success and get them to add money to their account and trade more. Eventually when a victim tries to withdraw funds, they are told they have to pay taxes and fees with new money before they can access their gains. The victim then adds more money to their account and continues unsuccessfully to attempt to withdraw funds. Eventually the account is drained by the financial criminals.

Examination System/Industry Outreach

Supported by our new case management system, in early 2021 the Department launched a new approach to managing examinations of investment industry firms and professionals, with an enhanced focus on state registered investment adviser

firms. In August of 2022 we also published a comprehensive regulatory guidebook for state registered IAs as a resource for their compliance programs and professionals to help facilitate understanding of and compliance with state securities laws and rules.

It was through this new examinations program that the Department uncovered what is the largest and most complex enforcement matter we have dealt with in the last 20 years, and it is stark reminder to all of us dedicated to the mission of investor protection, just how important our regulatory programs are in a capital market system that, while creating opportunity for wealth creation, also comes with the tradeoff of risks that are carried almost exclusively by the investor.

This case involves over 140 victims, and thus far, approximately \$50 million in potential damages for the harmed investors. Several orders have been issued and the investigation is ongoing.

Focus on Seniors

In the 2017 Legislative Session, the legislature passed a law to strengthen protections for seniors and vulnerable adults who may be targeted for financial exploitation. Section 10-04-08.5 of the Securities Act requires brokerage firms and investment adviser firms to report to the Securities Department and Adult

Protective Services if they believe a client is being financially exploited, and provides the firms the ability, with indemnity, to withhold distribution of funds. The Department will continue its outreach and education initiatives to improve industry awareness regarding the law and their obligations under it.

Workforce Transitions

After years of low turnover, our Department has entered a retirement cycle, and we continue to work through key retirement transitions. In the last 6 years, we have had 115 years of experience retire, and this year we will see the retirement of our exceptionally talented, highly experienced attorney who has been practicing law for 42 years, 16 of which will have been with the Department upon his retirement.

To effectively manage the transition in this very esoteric area of law, we have held open 2 FTE positions and utilized temporary team members in order to create capacity in our salaries budget and hire our new attorney as early as possible.

This approach has been necessary to best facilitate the transfer of institutional knowledge and we are capturing as much benefit as possible from having our new attorney train with our outgoing team member. While not ideal from an overall

staffing standpoint, the attorney transition is going very well, and overall as we have managed through these retirements over the last 6 years, the Department has been very successful in hiring outstanding new team members as we execute on our succession planning and workforce transitions.

NORTH DAKOTA SECURITIES DEPARTMENT

WHO WE ARE

10
Team Members

WHAT WE DO

We **protect** investors and **support** legitimate capital formation.

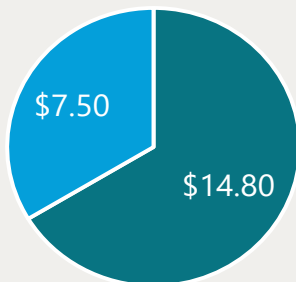
WHY WE DO IT

In a **securities transaction**, it is the **investor** that carries the **risk**. Investor **confidence** in the **integrity of our capital markets** drives economic **growth** and financial **security**.

WHAT WE EARN

\$22.3 million

- Industry Registration
- Securities & Franchise Filings

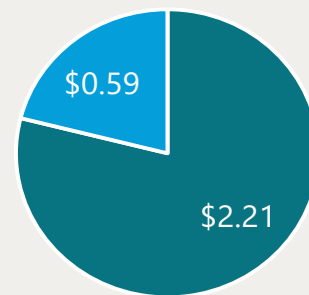


2019-2021

WHAT WE SPEND

\$2.8 million

- Salaries
- Operating



2021-2023

WHO WE SERVE

Investors

who seek to build wealth and financial security by investing in our capital markets.



Business Owners

who seek to raise capital from investors by issuing securities.



Industry

firms and professionals who want to do business with North Dakota investors.



Teachers & Students

who support and benefit from financial capability programs.



Seniors

who are target #1 and need to learn about financial fraud and exploitation.

65+

NORTH DAKOTA SECURITIES DEPARTMENT

HOW WE SERVE



Industry Registration

Investment firms and professionals that want to do business in the state must be approved and registered by the Department.



Examinations

Routine and for-cause examinations of the books and records of investment firms uncover deficiencies and act as a deterrent against misconduct.



Investigations & Enforcement

The Department investigates investment fraud and misconduct and takes enforcement actions as necessary. Criminal referrals are made when appropriate.



Capital Formation Regulation

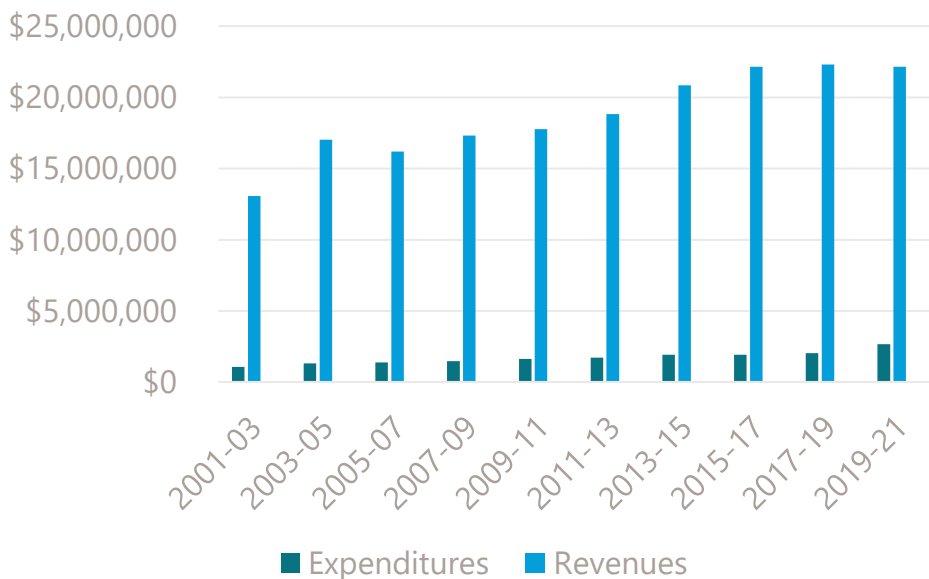
Businesses issuing securities in exchange for investment capital must appropriately register the offering with the Department or qualify for an exemption.



Investor Education & Outreach

Programs and content offered by the Department help our citizens build financial knowledge and capability, and also help them recognize and avoid investment fraud.

REVENUE IMPACT



20 Year Totals

\$187,669,496 Earned

\$17,122,852 Spent

\$170,546,644 GF Net

2021-2023 B-T-D BY THE NUMBERS

Conducted
251
Examinations
and
Investigations

Processed
157,435
Industry
Registrations

Reached
8,101
Students with
Financial
Literacy
Programs

Recovered
\$5.4
Million
For Investors

ORGANIZATIONAL CHART



ORGANIZATIONAL CHART

Commissioner

NN.D.C.C. §10-04 Securities Act

Legal

Finance and
Administration

Registration
Examination
Investigation

Investor
Education &
Outreach

Commodities

N.D.C.C. §51-23

Franchise

N.D.C.C. §51-19

Pre-need
Funeral Services

N.D.C.C. §43-10.1

Securities Department - Budget No. 414
Senate Bill No. 2011
Base Level Funding Changes

	Executive Budget Recommendation				Senate Version				Senate Changes to Executive Budget Increase (Decrease) - Executive Budget			
	FTE Positions	General Fund	Other Funds	Total	FTE Positions	General Fund	Other Funds	Total	FTE Positions	General Fund	Other Funds	Total
2023-25 Biennium Base Level	10.00	\$0	\$2,808,984	\$2,808,984	10.00	\$0	\$2,808,984	\$2,808,984	0.00	\$0	\$0	\$0
2023-25 Ongoing Funding Changes												
Base payroll changes			\$15,806	\$15,806			\$15,806	\$15,806				\$0
Salary increase			152,770	152,770			114,414	114,414			(38,356)	(38,356)
Health insurance increase			36,008	36,008			36,836	36,836			828	828
Information technology rate increase			1,326	1,326			1,326	1,326				0
Cryptocurrency enforcement - blockchain licenses			150,000	150,000			150,000	150,000				0
Increased audit costs			10,000	10,000			10,000	10,000				0
Total ongoing funding changes	0.00	\$0	\$365,910	\$365,910	0.00	\$0	\$328,382	\$328,382	0.00	\$0	(\$37,528)	(\$37,528)
One-Time Funding Items												
Case management and filing portal enhancements			\$150,000	\$150,000			\$150,000	\$150,000				\$0
Total one-time funding changes	0.00	\$0	\$150,000	\$150,000	0.00	\$0	\$150,000	\$150,000	0.00	\$0	\$0	\$0
Total Changes to Base Level Funding	0.00	\$0	\$515,910	\$515,910	0.00	\$0	\$478,382	\$478,382	0.00	\$0	(\$37,528)	(\$37,528)
2023-25 Total Funding	10.00	\$0	\$3,324,894	\$3,324,894	10.00	\$0	\$3,287,366	\$3,287,366	0.00	\$0	(\$37,528)	(\$37,528)
<i>Federal funds included in other funds</i>			\$0				\$0				\$0	
<i>Total ongoing changes as a percentage of base level</i>	0.0%		13.0%	13.0%	0.0%		11.7%	11.7%				
<i>Total changes as a percentage of base level</i>	0.0%		18.4%	18.4%	0.0%		17.0%	17.0%				

Other Sections in Securities Department - Budget No. 414

Executive Budget Recommendation	Senate Version
There are no other sections recommended to be added in the executive budget.	No other sections.

23.0265.01001
Title.

Prepared by the Legislative Council staff for
the Senate Appropriations - Government
Operations Division Committee
February 1, 2023

Fiscal No. 1

PROPOSED AMENDMENTS TO SENATE BILL NO. 2011

Page 1, replace lines 8 through 13 with:

"

	<u>Base Level</u>	<u>Adjustments or Enhancements</u>	<u>Appropriation</u>
Salaries and wages	\$2,213,881	\$167,055	\$2,380,936
Operating expenses	595,103	311,327	906,430
Total special funds	\$2,808,984	\$478,382	\$3,287,366
Full-time equivalent positions	10.00	0.00	10.00

SECTION 2. ONE-TIME FUNDING - EFFECT ON BASE BUDGET - REPORT TO SIXTY-NINTH LEGISLATIVE ASSEMBLY. The following amounts reflect the one-time funding items approved by the sixty-seventh legislative assembly for the 2021-23 biennium and the 2023-25 biennium one-time funding items included in the appropriation of this Act:

<u>One-Time Funding Description</u>	<u>2021-23</u>	<u>2023-25</u>
Technology enhancements	\$0	\$150,000
Total special funds	\$0	\$150,000

The 2023-25 biennium one-time funding amounts are not part of the entity's base budget for the 2025-27 biennium. The securities department shall report to the appropriations committees of the sixty-ninth legislative assembly on the use of this one-time funding for the biennium beginning July 1, 2023, and ending June 30, 2025."

ReNUMBER accordingly

STATEMENT OF PURPOSE OF AMENDMENT:

Senate Bill No. 2011 - Securities Department - Senate Action

	<u>Base Budget</u>	<u>Senate Changes</u>	<u>Senate Version</u>
Salaries and wages	\$2,213,881	\$167,055	\$2,380,936
Operating expenses	595,103	311,327	906,430
Total all funds	\$2,808,984	\$478,382	\$3,287,366
Less estimated income	2,808,984	478,382	3,287,366
General fund	\$0	\$0	\$0
FTE	10.00	0.00	10.00

Department 414 - Securities Department - Detail of Senate Changes

	<u>Adds Funding for Base Payroll and Budget Changes¹</u>	<u>Adds Funding for Salary and Benefit Increases²</u>	<u>Adds Funding for Information Technology Costs³</u>	<u>Adds Funding for Blockchain Analytics Software⁴</u>	<u>Adds Funding for Audit Costs⁵</u>	<u>Adds One-Time Funding for Technology Enhancements⁶</u>
Salaries and wages	\$15,805	\$151,250				
Operating expenses	1		\$1,326	\$150,000	\$10,000	\$150,000
Total all funds	\$15,806	\$151,250	\$1,326	\$150,000	\$10,000	\$150,000
Less estimated income	15,806	151,250	1,326	150,000	10,000	150,000
General fund	\$0	\$0	\$0	\$0	\$0	\$0
FTE	0.00	0.00	0.00	0.00	0.00	0.00

	Total Senate Changes
Salaries and wages	\$167,055
Operating expenses	311,327
Total all funds	\$478,382
Less estimated income	478,382
General fund	\$0
FTE	0.00

¹ Funding is adjusted for base payroll and budget changes.

² The following funding is added for 2023-25 biennium salary adjustments of 4 percent on July 1, 2023, and 4 percent on July 1, 2024, and increases in health insurance premiums from \$1,429 to \$1,648 per month:

	<u>Other Funds</u>
Salary increase	\$114,414
Health insurance increase	<u>36,836</u>
Total	\$151,250

³ Funding is added for information technology rate increases.

⁴ Funding is added for blockchain analytics software licenses.

⁵ Funding is added for agency audit expenses.

⁶ One-time funding is added for enhancements to the case management system and securities filing portal.

Prepared for the Senate Appropriations Committee

**Department 414 - Securities Department
Senate Bill No. 2011**

Executive Budget Comparison to Base Level

	General Fund	Other Funds	Total
2023-25 Executive Budget	\$0	\$3,324,894	\$3,324,894
2023-25 Base Level	0	2,808,984	2,808,984
Increase (Decrease)	\$0	\$515,910	\$515,910

Selected Budget Changes Recommended in the Executive Budget

	General Fund	Other Funds	Total
1. Adds funding for state employee salary and benefit increases, of which \$152,770 is for salary increases and \$36,008 is for health insurance increases		\$188,778	\$188,778
2. Adds funding for information technology rate increases		\$1,326	\$1,326
3. Adds funding for blockchain analytics software licenses		\$150,000	\$150,000
4. Adds funding for increased audit costs		\$10,000	\$10,000
5. Adds one-time funding for enhancements to the case management system and securities filing portal		\$150,000	\$150,000

A summary of the executive budget changes to the agency's base level appropriations is attached as an appendix.

A copy of the draft appropriations bill containing the executive budget recommendations is attached as an appendix.

Continuing Appropriations

Investor education and technology fund - North Dakota Century Code Section 10-04-03 - This fund receives funding from tuition, grants, donations, and certain civil penalties assessed by the Securities Commissioner. The money in the fund can be used for public education services and for the technology needs of the Securities Department.

Investor restitution fund - Section 10-04-03 - This fund is used to deposit civil penalties collected from enforcement action to be distributed to aggrieved investors.

Deficiency Appropriations

There are no deficiency appropriations for this agency.

Significant Audit Findings

There are no major audit findings for this agency.

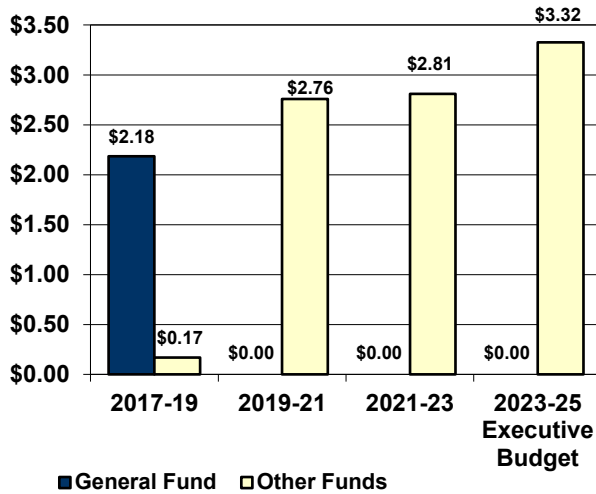
Major Related Legislation

At this time, no major related legislation has been introduced affecting this agency.

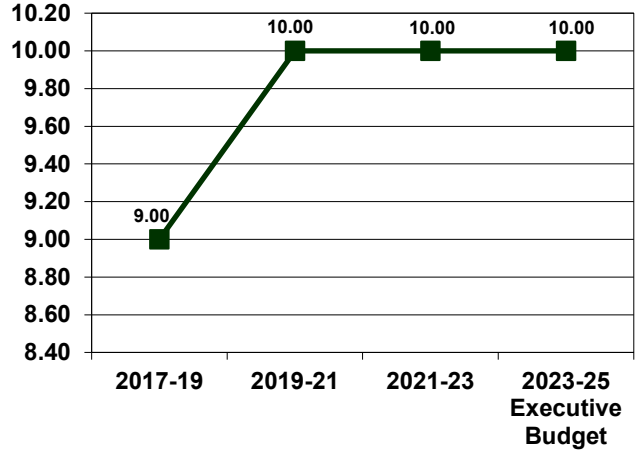
Historical Appropriations Information

Agency Appropriations and FTE Positions

Agency Funding (Millions)



FTE Positions



Ongoing Agency Appropriations¹

	2015-17	2017-19	2019-21	2021-23	2023-25 Executive Budget
Ongoing appropriations	\$2,237,326	\$2,184,714	\$2,757,119	\$2,808,984	\$3,174,894
Increase (decrease) from previous biennium	N/A	(\$52,612)	\$572,405	\$51,865	\$365,910
Percentage increase (decrease) from previous biennium	N/A	(2.4%)	26.2%	1.9%	13.0%
Cumulative percentage increase (decrease) from 2015-17 biennium	N/A	(2.4%)	23.2%	25.6%	41.9%

¹The agency changed from receiving its appropriations primarily from the general fund to entirely from other funds beginning in the 2019-21 biennium.

Major Increases (Decreases) in Ongoing Agency Appropriations

2017-19 Biennium

- Restored a portion of funding from the general fund for operating expenses that was removed as a result of the August 2016 general fund budget reductions \$46,545

2019-21 Biennium

- Added from the general fund for 1 FTE financial technology research and investigation position (\$209,294) and related operating expenses (\$23,000) \$232,294
- Added funding from other funds for rent and for the statewide cost allocation plan \$64,000

2021-23 Biennium

- Added funding for Microsoft Office 365 licensing expenses \$1,542

2023-25 Biennium (Executive Budget Recommendation)

- Adds funding for information technology rate increases \$1,326
- Adds funding for blockchain analytics software licenses \$150,000
- Adds funding for increased audit costs \$10,000

One-Time Agency Appropriations

	2015-17	2017-19	2019-21	2021-23	2023-25 Executive Budget
One-time other funds appropriations	\$0	\$0	\$0	\$0	\$150,000

Major One-Time Agency Appropriations

2017-19 Biennium

1. No one-time funding items \$0

2019-21 Biennium

1. No one-time funding items \$0

2021-23 Biennium

1. No one-time funding items \$0

2023-25 Biennium (Executive Budget Recommendation)

1. Adds **one-time funding** for enhancements to the case management system and securities filing portal \$150,000

Securities Department - Budget No. 414
Senate Bill No. 2011
Base Level Funding Changes

	Executive Budget Recommendation			
	FTE Positions	General Fund	Other Funds	Total
2023-25 Biennium Base Level	10.00	\$0	\$2,808,984	\$2,808,984
2023-25 Ongoing Funding Changes				
Base payroll changes			\$15,806	\$15,806
Salary increase			152,770	152,770
Health insurance increase			36,008	36,008
Information technology rate increase			1,326	1,326
Cryptocurrency enforcement - blockchain licenses			150,000	150,000
Increased audit costs			10,000	10,000
Total ongoing funding changes	0.00	\$0	\$365,910	\$365,910
One-time funding items				
Case management and filing portal enhancements			\$150,000	\$150,000
Total one-time funding changes	0.00	\$0	\$150,000	\$150,000
Total Changes to Base Level Funding	0.00	\$0	\$515,910	\$515,910
2023-25 Total Funding	10.00	\$0	\$3,324,894	\$3,324,894
<i>Federal funds included in other funds</i>			\$0	
<i>Total ongoing changes as a percentage of base level</i>	<i>0.0%</i>		<i>13.0%</i>	<i>13.0%</i>
<i>Total changes as a percentage of base level</i>	<i>0.0%</i>		<i>18.4%</i>	<i>18.4%</i>

Other Sections in Securities Department - Budget No. 414

Executive Budget Recommendation

There are no other sections recommended to be added in the executive budget.

SENATE BILL NO. 2011
(Governor's Recommendation)

Introduced by

Appropriations Committee

(At the request of the Governor)

A bill for an act to provide an appropriation for defraying the expenses of the securities department.

BE IT ENACTED BY THE LEGISLATIVE ASSEMBLY OF NORTH DAKOTA:

SECTION 1. APPROPRIATION. The funds provided in this section, or so much of the funds as may be necessary, are appropriated out of any moneys in the securities department special fund in the state treasury, not otherwise appropriated, and from special funds derived from other income, to the securities department of the purpose of defraying the expenses of that agency, for the biennium beginning July 1, 2023 and ending June 30, 2025, as follows:

	<u>Base Level</u>	<u>Adjustments or Enhancements</u>	<u>Appropriation</u>
Salaries and Wages	\$2,213,881	\$204,583	\$2,418,464
Operating Expenses	<u>595,103</u>	<u>311,327</u>	<u>906,430</u>
Total All Funds	\$2,808,984	\$515,910	\$3,324,894
Less Estimated Income	<u>2,808,984</u>	<u>515,910</u>	<u>3,324,894</u>
Total General Fund	\$ 0	\$ 0	\$ 0
Full-time Equivalent Positions	10.00	0.00	10.00

SECTION 2. ONE-TIME FUNDING. The following amounts reflect the one-time funding items approved by the sixty-seventh legislative assembly for the 2021-23 biennium and the 2023-25 one-time funding items included in the appropriation of section 1 of this Act:

<u>One-Time Funding Description</u>	<u>2021-23</u>	<u>2023-25</u>
Technology investments	<u>\$ 0</u>	<u>\$150,000</u>
Total General Fund	\$0	\$0

Senate Bill 2011**Testimony of North Dakota Securities Commissioner Karen Tyler****Before the House Appropriations Government Operations Committee****March 15, 2023**

Mr. Chairman and Members of the Committee, good morning. I am Karen Tyler, the State Securities Commissioner. It is a pleasure to share some time with you today to discuss the budget appropriation for the North Dakota Securities Department, and to answer any questions you may have regarding the Department's budget request.

STATUTORY RESPONSIBILITIES (Slide 2)

The Securities Department is a regulatory agency that serves the citizens of North Dakota through the administration and enforcement of the North Dakota Securities Act (10-04), the North Dakota Commodities Act (51-23), the Franchise Investment Law (51-19) and Pre-Need Funeral Services Law (43-10.1).

REGULATORY POLICY OBJECTIVES AND FUNCTIONS (Slide 3)

The primary regulatory policy objectives of the Securities Department are investor protection and the support of legitimate capital formation. We execute on those objectives through our work in following areas:

- 1) We regulate the capital formation and franchise registration process.
- 2) We register, and regulate the conduct of, securities industry firms and professionals who want to do business in the state.
- 3) We perform conduct focused examinations of broker-dealer and investment adviser firms and professionals.
- 4) We investigate investment fraud and take enforcement actions as necessary and appropriate, and we also make criminal referrals and support criminal cases. The majority of our resources are dedicated to this enforcement function.
- 5) We produce and deliver investor education and financial literacy programs.

The North Dakota Securities Department is a small agency, with 10 full time employees. No additional FTEs are requested in our 23-25 budget. The Department's organizational chart is included in your copies of this testimony.

BUDGET REQUEST (Slide 4)

The Securities Department is a revenue generating, special fund agency. Current biennium revenues are on track to exceed \$23 million. The Department's total budget request for the 2023-25 biennium is \$3,324,894. This breaks down as \$2,418,464 for the Salaries and Wages line item, and \$906,430 for the Operating line item.

(Slide 5)

The changes requested from the Base Level budget are as follows:

1. the enhancements set forth in the Governor's executive budget for salary and benefit adjustments which total \$204,583
2. in the operating line, funding to cover increased IT and audit costs, estimated at \$25,000 for the biennium – over the last 2 budget cycles we have had IT related cost increases that we were informed of after the submission of our budget, and we have also been informed that the cost of our audit this biennium will be an estimated \$8,500.

3. also in the operating line, an increase to fund the expense of blockchain and cryptocurrency related investigations analytics, estimated at \$135,000 for the biennium.

The Department seeks funding to purchase licenses for blockchain analytics software from a private sector data analytics company, or contract with private sector analytics service providers. This will improve the Department's ability to conduct Digital Asset and Decentralized Finance related investigations, and enable the tracking of cryptocurrency transactions between digital wallets and intermediaries, improving the likelihood of asset seizure and return of funds to harmed investors.

4. and one time funding in the operating line of \$150,000 for the enhancement of two technology systems related to investigation and examination case management, and our securities filing portal. The enhancements will provide an interface between the two data management systems, expand the functionality of the filing portal, and allow for secure and efficient electronic submission of investor complaints, which will improve the citizen user experience. Measurable outcomes of this investment include an increase in number of examinations conducted by the Department, a reduction in exam turnaround time, improvement of

enforcement case outcomes, improved speed of case analysis and resolution, and improved speed of securities filing processing and approvals.

DEPARTMENT REVENUE (Slide 6)

The Securities Department is a revenue generating agency for the state, taking in over \$22.3 million dollars in revenue last biennium, and we are on-track to exceed \$23 million in the current biennium. Over the last several budget cycles, the Department has spent approximately 10 to 12 cents per revenue dollar generated. Attached to my testimony is an infographic that includes a 20 year look back for total revenues, total expenditures, and net total deposited to the general fund. The net number is over \$170 million.

Because our budget is funded by the revenue we generate, I'd like to take a minute to review our revenue sources, notable changes, and our projections for the upcoming biennium.

REVENUE SOURCES (Slide 7)

The majority of the Department's revenue is generated in two categories - from securities registrations and filings, and from the registration of investment industry firms and professionals. A small percentage of our revenue is derived

from franchise registrations, and we may also generate revenue from civil penalties assessed by the Commissioner. Approximately 98% of the Department's revenue comes from out of state.

Securities Filings

Examples of types of securities registrations and filings that generate revenue for the Department would be Mutual Fund notice filings, Unit Investment Trust notice filings, Non-traded Real Estate Investment Trust registrations, and small business capital formation filings to either register securities or qualify for an exemption from registration.

A 3 year look-back for filings from North Dakota businesses seeking to raise capital through a securities offering shows 71 companies filing to raise approx. \$1.455 billion dollars, with business representing diverse industry sectors of Health, Hospitality, Energy, Technology, Agriculture, Real Estate, and Finance.

Industry Registration

Investment industry registrations include broker-dealer and investment adviser firms, and their registered professionals – defined in the Securities Act as securities agents and investment adviser representatives.

For the number of investment industry firms and professionals doing business in the state of North Dakota, an industry registration snapshot as of the end of December shows:

(Slide 8)

1,179 Broker-Dealers

114,396 Broker-Dealer Agents – 15% y/y growth

873 Investment Advisers

1,681 Investment Adviser Reps

Industry firms and professionals must make an initial registration filing and then renew each year they want to continue operating in the state. The annual renewal of these industry registrations takes place at the end of December. For the 2023 renewal cycle, a new record total of 118,129 registration renewals were completed in an entirely automated process, through our registration system called the Central Registration Depository (CRD), and a payment of just over \$7.2 million was collected for the 2023 registration period. This renewal process occurs at no cost to the state.

CRD is both a registration system and a comprehensive data depository, holding important information about all the investment firms and professionals operating in the investment industry in the US. The data in the CRD is used by regulators and the industry, but it is also available to the public to assist them in evaluating the background of a firm or professional under consideration for providing services.

2023-2025 Revenue Projections

Looking ahead, given the strong increase in industry registration growth this biennium, we are increasing our revenue projections for the upcoming biennium to \$23 million. Most of this growth is occurring in the Broker-Dealer Agent category of registrants, with a 2022 growth rate of 15% year-over-year.

MISC ITEMS (Slide 9)

There are no other sections included in our budget bill and the Department did not have any one-time funding items in the current biennium.

There were no financial audit findings in the Department's last audit, for which the audit period was July 1, 2018 - June 30, 2020.

In regard to other legislation affecting the Department's budget, SB 2325 would create a restitution assistance fund that would utilize up to \$1 million of

department revenue to provide limited restitution payments to victims of investment fraud under certain circumstances. This would be an on-going appropriation that would be topped off at \$1 million each biennium.

The Department does not receive any federal funding and there was no fiscal recovery funding appropriated to the Department during the 2021 special session.

FOCUS INITIATIVES (Slide 10)

Launch of Electronic Securities Filings

Last session I provided an update on the Department's progress in migrating to a fully electronic securities filing system. This work began on a small scale during the 2017-2019 biennium, accelerated significantly as a result of the pandemic and the enhancements to the Electronic Filing Depository, and the transition took a major step forward to completion with the launch of our new Securities Filing Portal in November of 2021.

Many of our securities filing types now move through a technology system called the Electronic Filing Depository (EFD). The system is very close to operating at full capacity, with only one more filing type to be migrated which is expected to be complete by the end of the year. We anticipate that 95% of our securities filings,

numbering approximately 25,000/year, will ultimately be made through the system. Franchise filings are also made through the EFD.

All fees associated with these filings, which make up approximately one-third of the Departments annual/biennial revenue, are also collected through this system, and it creates significant efficiencies for both issuers of securities and for the department. Our national organization (NASAA) funds the development and support of the EFD, and it is utilized at no cost to the state.

In 2021 the Department developed and launched our Securities Filing Portal to facilitate the electronic filing of all remaining securities filing types, many of which are utilized by North Dakota businesses relying on certain registration exemptions in order to raise capital from investors.

As a result of the development of these electronic filing systems, the Department no longer receives any paper securities filings, and all fee payments are made electronically.

Enforcement Cases (Slide 11)

Sale of Unregistered Promissory Notes

Fee-For-Funding Scams

Precious Metals Frauds

Cryptocurrency Frauds and Bankruptcy related cases

Private Placement Frauds

Ponzi Schemes

Social Media-Influenced Fraud

Romance Scams

Fintech Focus

Financial Technology innovations, and the benefits and risks created by these innovations, remain a primary focus for the Department. These financial products and services present new regulatory challenges, and they include but are not limited to robo-advisors, app-based stock trading platforms, crowdfunding platforms for capital formation by start-up companies, cryptocurrency and digital or crypto asset derivative products, digital asset intermediaries, crypto interest accounts, and securities token offerings which are a new approach to raising capital.

Related to our focus on fintech, the Department has seen and anticipates continued growth in Social Media driven investment fraud as well as fraud related

to cryptocurrency. Social media platforms and dating websites and applications are proving exceptionally fertile ground for financial criminals to exploit victims and steal money. Two areas of continued heightened concern:

- 1) Social platforms are commonly used to perpetrate investment fraud related to certain stocks and digital financial instruments such as securities tokens and cryptocurrency. The frauds may be pushed through discussion communities and apps like reddit, quora, medium and telegram, and the fake businesses will also have a more mainstream social presence like facebook and twitter. Financial criminals can easily establish highly convincing fake profiles, connect to potential victims through common interests, and extract personal information after establishing a relationship – this is leading to an increase in “romance scams”, and of particular concern is that as seniors become more comfortable with these social sites, apps and services, they also become more easily targeted.
- 2) Financial criminals can also easily and convincingly establish fake companies, websites and cryptocurrency trading platforms on the internet. Social media hooks are used to push victims to the trading platforms. A typical fraud formula is to give the victim a period of trading success and get them to add money to their account and trade more. Eventually when

a victim tries to withdraw funds, they are told they have to pay taxes and fees with new money before they can access their gains. The victim then adds more money to their account and continues unsuccessfully to attempt to withdraw funds. Eventually the account is drained by the financial criminals.

Examination System/Industry Outreach (Slide 12)

Supported by our new case management system which was completed in April of 2021, the Department launched a new approach to managing examinations of investment industry firms and professionals, with an enhanced focus on state registered investment adviser firms. In August of 2022 we also published a comprehensive regulatory guidebook for state registered IAs as a resource for their compliance programs and professionals to help facilitate understanding of and compliance with state securities laws and rules.

It was through this new examinations program that the Department uncovered what is the largest and most complex enforcement matter we have dealt with in the last 20 years, involving over 140 victims and approximately \$50 million in potential damages. Several orders have been issued, more will be forthcoming and the investigation continues.

Focus on Seniors (Slide 13)

In the 2017 Legislative Session, the legislature passed a law to strengthen protections for seniors and vulnerable adults who may be targeted for financial exploitation. Section 10-04-08.5 of the Securities Act requires brokerage firms and investment adviser firms to report to the Securities Department and Adult Protective Services if they believe a client is being financially exploited, and provides the firms the ability, with indemnity, to withhold distribution of funds. This legislative session, SB 2325 builds on the effort to create more safeguards for seniors and vulnerable adults through the creation of a restitution assistance fund.

Workforce Transitions

After years of low turnover, our Department has entered a retirement cycle, and we continue to work through key retirement transitions. In the last 6 years, we have had 115 years of experience retire, and this year we will see the retirement of our exceptionally talented, highly experienced attorney who has been practicing law for 42 years, 16 of which will have been with the Department upon his retirement. Overall as we have managed through these retirements over the last 6 years, the Department has been very successful in hiring outstanding new

team members as we execute on our succession planning and workforce transitions.

Infographic for Department (Slide 14)

Budget Overview

North Dakota Securities Department

Karen Tyler
Securities Commissioner
Wednesday, March 15, 2023

NORTH
Dakota
Be Legendary.

STATUTORY AUTHORITY

- Securities Act N.D.C.C. 10-04
- Commodities Act N.D.C.C. 51-23
- Franchise Investment Law N.D.C.C. 51-19
- Pre-Need Funeral Services Law N.D.C.C. 43-10.1

REGULATORY POLICY OBJECTIVES AND FUNCTIONS

Investor Protection and Legitimate Capital Formation

- Regulation of Capital Formation
- Registration of Industry Firms and Professionals
- Examinations of Industry Firms and Professionals
- Investigation of Investment Fraud and Misconduct
- Delivery of Investor Education and Finlit Programs

DEPARTMENT REVENUE AND BUDGET

21-23 Revenue Estimate: **\$23 million**

21-23 Budget: **\$2.8 million**

23-25 Revenue Estimate: **\$23 million**

23-25 Budget Request: **\$3.3 million**

BUDGET REQUEST DETAIL

- **\$204,583** Executive budget changes for salary and benefits
- **\$25,000** Increased IT and audit costs
- **\$135,000** Blockchain and crypto investigation analytics
- **\$150,000** One-time tech systems enhancements

HISTORICAL REVENUE AND EXPENDITURES

20 Year Totals

- **\$187,669,496** Earned
- **\$17,122,852** Spent
- **\$170,546,644** Net to General Fund

REVENUE SOURCES

- Fees for registration of securities and filings for exemptions from registration
- Fees for registration of investment industry firms and professionals

REGISTRATION DATA (12/31/2022)

- 1,179 Broker-Dealer Firms
- 114,396 Broker-Dealer Agents
- 873 Investment Adviser Firms
- 1,681 Investment Adviser Representatives

OTHER REQUESTED INFORMATION

- No one-time funding in current budget
- No audit findings in last audit
- No federal funding source for the Dept.
- No ARPA funding appropriated in special session
- Other legislation impacting budget – SB 2325

ELECTRONIC SECURITIES FILING SYSTEMS

All securities filings supported through 2 electronic filing systems.
No paper filings, no paper payments.
Approximately 25,000 filings/year.

1. Electronic Filing Depository (EFD)
 - Form D – Accredited Investor
 - Non-traded REITs
 - Franchise filings
 - Mutual Funds/Unit Investment Trust
2. Securities Filing Portal – all other filing types

INVESTIGATIONS / ENFORCEMENT ACTIONS

- Sale of Unregistered Promissory Notes
- Fee-For-Funding Fraud
- Precious Metals Fraud
- Crypto Cases – Unregistered Securities, Bankruptcies, Fraud
- Private Placement Fraud
- Ponzi Schemes
- Social Media-Influenced Fraud

FOCUS ON STATE REGISTERED INVESTMENT ADVISERS

- Modernized Examination Program
- Comprehensive Regulatory Guidebook
- Compliance Bulletins

FOCUS ON SENIORS

- **N.D.C.C. 10-04-08.5** Financial Exploitation of Seniors and Vulnerable Adults
- **SB 2325** Restitution Assistance Fund for Senior Victims of Investment Fraud

NORTH DAKOTA SECURITIES DEPARTMENT

WHO WE ARE

10
Team Members

WHAT WE DO

We **protect** investors and **support** legitimate capital formation.

WHY WE DO IT

In a **securities transaction**, it is the **investor** that carries the risk. Investor **confidence** in the **integrity of our capital markets** drives economic **growth** and financial **security**.

WHAT WE EARN

\$22.3
million

- Industry Registration
- Securities & Franchise Filings



2019-2021

WHAT WE SPEND

\$2.8
million

- Salaries
- Operating



2021-2023

WHO WE SERVE

Investors

who seek to build wealth and financial security by investing in our capital markets.



Business Owners

who seek to raise capital from investors by issuing securities.



Industry

firms and professionals who want to do business with North Dakota investors.



Teachers & Students

who support and benefit from financial capability programs.



Seniors

who are target #1 and need to learn about financial fraud and exploitation.

65+

NORTH DAKOTA SECURITIES DEPARTMENT

HOW WE SERVE



Industry Registration

Investment firms and professionals that want to do business in the state must be approved and registered by the Department.



Examinations

Routine and for-cause examinations of the books and records of investment firms uncover deficiencies and act as a deterrent against misconduct.



Investigations & Enforcement

The Department investigates investment fraud and misconduct and takes enforcement actions as necessary. Criminal referrals are made when appropriate.



Capital Formation Regulation

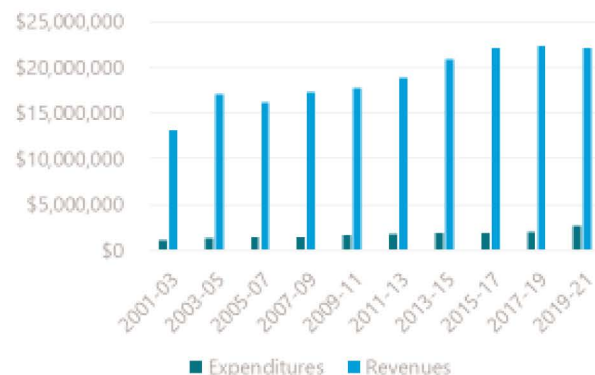
Businesses issuing securities in exchange for investment capital must appropriately register the offering with the Department or qualify for an exemption.



Investor Education & Outreach

Programs and content offered by the Department help our citizens build financial knowledge and capability, and also help them recognize and avoid investment fraud.

REVENUE IMPACT



20 Year Totals

\$187,669,496 Earned

\$17,122,852 Spent

\$170,546,644 GF Net

2021-2023 B-T-D BY THE NUMBERS

Conducted
251
Examinations
and
Investigations

Processed
157,435
Industry
Registrations

Reached
8,101
Students with
Financial
Literacy
Programs

Recovered
\$5.4
Million
For Investors

Budget Overview

North Dakota Securities Department

Karen Tyler

Securities Commissioner

Wednesday, March 15, 2023

NORTH
Dakota

Be Legendary.

NORTH DAKOTA SECURITIES DEPARTMENT

WHO WE ARE

10
Team Members

WHAT WE DO

We **protect** investors and **support** legitimate capital formation.

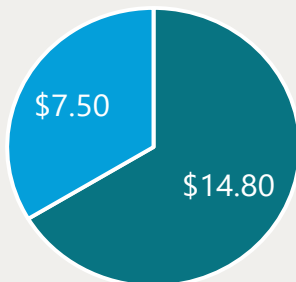
WHY WE DO IT

In a **securities transaction**, it is the **investor** that carries the **risk**. Investor **confidence** in the **integrity of our capital markets** drives economic **growth** and financial **security**.

WHAT WE EARN

\$22.3 million

- Industry Registration
- Securities & Franchise Filings

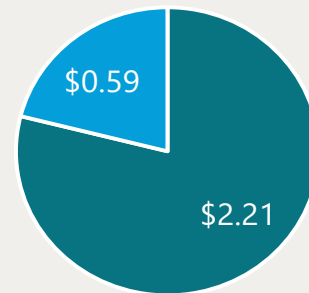


2019-2021

WHAT WE SPEND

\$2.8 million

- Salaries
- Operating



2021-2023

WHO WE SERVE

Investors

who seek to build wealth and financial security by investing in our capital markets.



Business Owners

who seek to raise capital from investors by issuing securities.



Industry

firms and professionals who want to do business with North Dakota investors.



Teachers & Students

who support and benefit from financial capability programs.



Seniors

who are target #1 and need to learn about financial fraud and exploitation.



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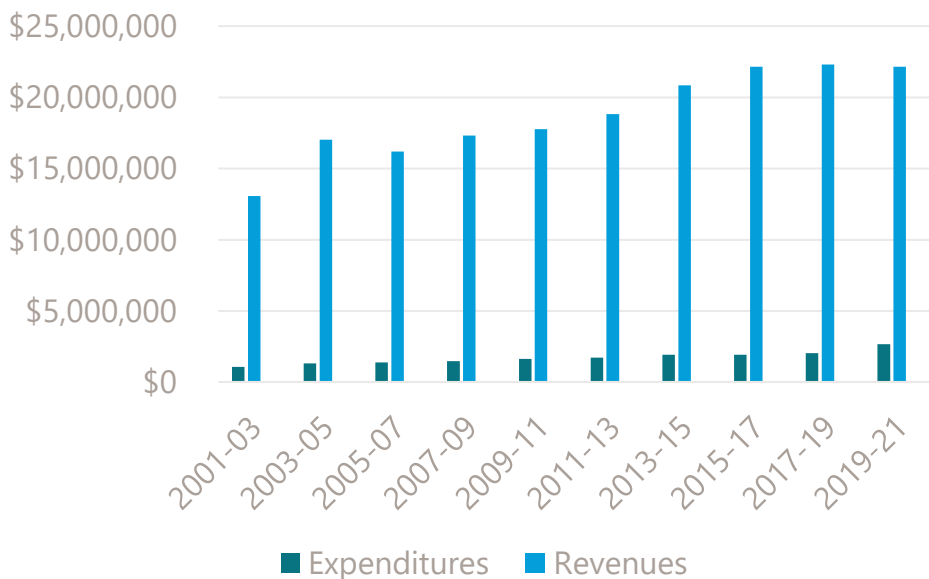
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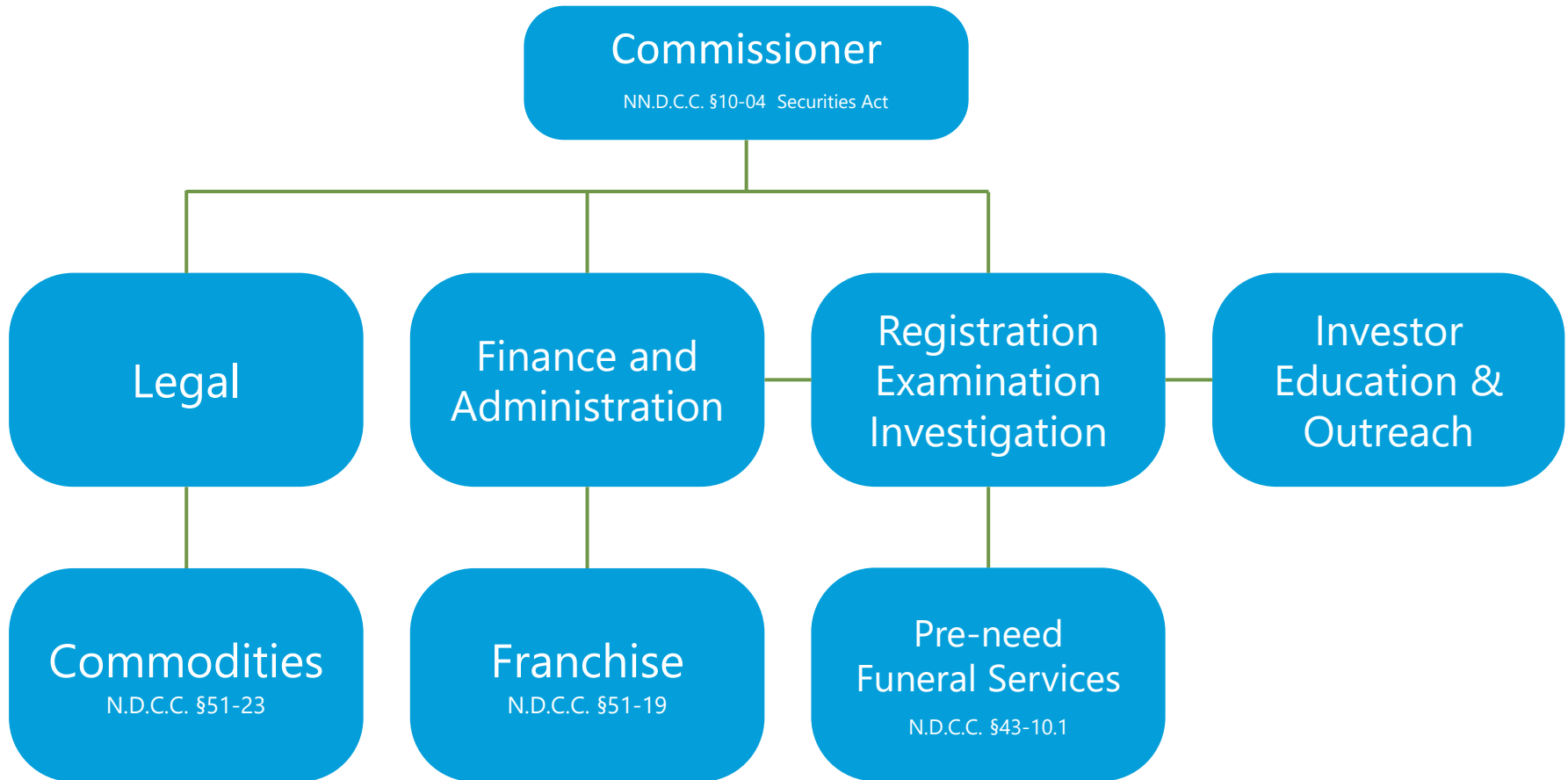
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Million
For Investors

ORGANIZATIONAL CHART



ORGANIZATIONAL CHART



Prepared for the House Appropriations Committee

**Department 414 - Securities Department
Senate Bill No. 2011**

First Chamber Comparison to Base Level

	General Fund	Other Funds	Total
2023-25 First Chamber Version	\$0	\$3,287,366	\$3,287,366
2023-25 Base Level	0	2,808,984	2,808,984
Increase (Decrease)	\$0	\$478,382	\$478,382

First Chamber Changes

A summary of the first chamber's changes to the agency's base level appropriations and the executive budget is attached as an appendix.

Continuing Appropriations

Investor education and technology fund - North Dakota Century Code Section 10-04-03 - This fund receives funding from tuition, grants, donations, and certain civil penalties assessed by the Securities Commissioner. The money in the fund can be used for public education services and for the technology needs of the Securities Department.

Investor restitution fund - Section 10-04-03 - This fund is used to deposit civil penalties collected from enforcement action to be distributed to aggrieved investors.

Deficiency Appropriations

There are no deficiency appropriations for this agency.

Significant Audit Findings

There are no major audit findings for this agency.

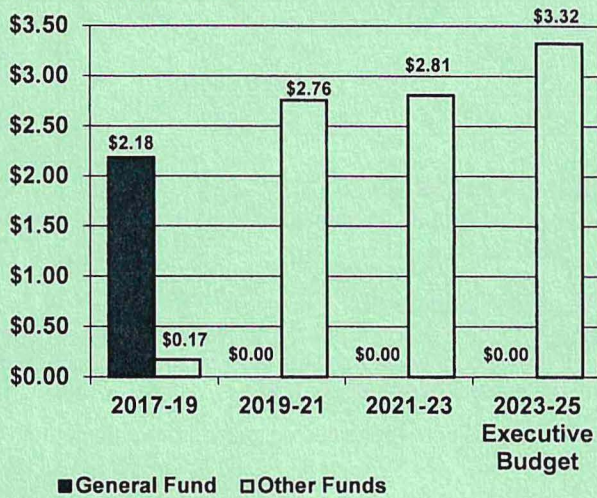
Major Related Legislation

Senate Bill No. 2325 - Vulnerable adult restitution fund - Creates a vulnerable adult restitution fund and authorizes up to \$1 million of Securities Department revenues to be deposited in the fund each biennium.

Historical Appropriations Information

Agency Appropriations and FTE Positions

Agency Funding (Millions)



FTE Positions



Ongoing Agency Appropriations¹

	2015-17	2017-19	2019-21	2021-23	2023-25 Executive Budget
Ongoing appropriations	\$2,237,326	\$2,184,714	\$2,757,119	\$2,808,984	\$3,174,894
Increase (decrease) from previous biennium	N/A	(\$52,612)	\$572,405	\$51,865	\$365,910
Percentage increase (decrease) from previous biennium	N/A	(2.4%)	26.2%	1.9%	13.0%
Cumulative percentage increase (decrease) from 2015-17 biennium	N/A	(2.4%)	23.2%	25.6%	41.9%

¹The agency changed from receiving its appropriations primarily from the general fund to entirely from other funds beginning in the 2019-21 biennium.

Major Increases (Decreases) in Ongoing Agency Appropriations

2017-19 Biennium

Restored a portion of funding from the general fund for operating expenses that was removed as a result of the August 2016 general fund budget reductions \$46,545

2019-21 Biennium

1. Added from the general fund for 1 FTE financial technology research and investigation position (\$209,294) and related operating expenses (\$23,000) \$232,294
2. Added funding from other funds for rent and for the statewide cost allocation plan \$64,000

2021-23 Biennium

Added funding for Microsoft Office 365 licensing expenses \$1,542

2023-25 Biennium (Executive Budget Recommendation)

1. Adds funding for information technology rate increases \$1,326
2. Adds funding for blockchain analytics software licenses \$150,000
3. Adds funding for increased audit costs \$10,000

One-Time Agency Appropriations

	2015-17	2017-19	2019-21	2021-23	2023-25 Executive Budget
One-time other funds appropriations	\$0	\$0	\$0	\$0	\$150,000

Major One-Time Agency Appropriations

2017-19 Biennium

None \$0

2019-21 Biennium

None \$0

2021-23 Biennium

None \$0

2023-25 Biennium (Executive Budget Recommendation)

Adds **one-time funding** for enhancements to the case management system and securities filing portal \$150,000

Securities Department - Budget No. 414
Senate Bill No. 2011
Base Level Funding Changes

	Executive Budget Recommendation				Senate Version			
	FTE Positions	General Fund	Other Funds	Total	FTE Positions	General Fund	Other Funds	Total
2023-25 Biennium Base Level	10.00	\$0	\$2,808,984	\$2,808,984	10.00	\$0	\$2,808,984	\$2,808,984
2023-25 Ongoing Funding Changes								
Base payroll changes			\$15,806	\$15,806			\$15,806	\$15,806
Salary increase			152,770	152,770			114,414	114,414
Health insurance increase			36,008	36,008			36,836	36,836
Information technology rate increase			1,326	1,326			1,326	1,326
Cryptocurrency enforcement - blockchain licenses			150,000	150,000			150,000	150,000
Increased audit costs			10,000	10,000			10,000	10,000
Total ongoing funding changes	0.00	\$0	\$365,910	\$365,910	0.00	\$0	\$328,382	\$328,382
One-Time Funding Items								
Case management and filing portal enhancements			\$150,000	\$150,000			\$150,000	\$150,000
Total one-time funding changes	0.00	\$0	\$150,000	\$150,000	0.00	\$0	\$150,000	\$150,000
Total Changes to Base Level Funding	0.00	\$0	\$515,910	\$515,910	0.00	\$0	\$478,382	\$478,382
2023-25 Total Funding	10.00	\$0	\$3,324,894	\$3,324,894	10.00	\$0	\$3,287,366	\$3,287,366
<i>Federal funds included in other funds</i>			\$0				\$0	
<i>Total ongoing changes as a percentage of base level</i>	<i>0.0%</i>		<i>13.0%</i>	<i>13.0%</i>	<i>0.0%</i>		<i>11.7%</i>	<i>11.7%</i>
<i>Total changes as a percentage of base level</i>	<i>0.0%</i>		<i>18.4%</i>	<i>18.4%</i>	<i>0.0%</i>		<i>17.0%</i>	<i>17.0%</i>

Other Sections in Securities Department - Budget No. 414

	Executive Budget Recommendation	Senate Version
	There are no other sections recommended to be added in the executive budget.	No other sections.

Securities Department - Budget No. 414
Senate Bill No. 2011
Base Level Funding Changes

	Executive Budget Recommendation				Senate Version				Senate Changes to Executive Budget Increase (Decrease) - Executive Budget			
	FTE Positions	General Fund	Other Funds	Total	FTE Positions	General Fund	Other Funds	Total	FTE Positions	General Fund	Other Funds	Total
2023-25 Biennium Base Level	10.00	\$0	\$2,808,984	\$2,808,984	10.00	\$0	\$2,808,984	\$2,808,984	0.00	\$0	\$0	\$0
2023-25 Ongoing Funding Changes												
Base payroll changes			\$15,806	\$15,806			\$15,806	\$15,806				\$0
Salary increase			152,770	152,770			114,414	114,414			(38,356)	(38,356)
Health insurance increase			36,008	36,008			36,836	36,836			828	828
Information technology rate increase			1,326	1,326			1,326	1,326				0
Cryptocurrency enforcement - blockchain licenses			150,000	150,000			150,000	150,000				0
Increased audit costs			10,000	10,000			10,000	10,000				0
Total ongoing funding changes	0.00	\$0	\$365,910	\$365,910	0.00	\$0	\$328,382	\$328,382	0.00	\$0	(\$37,528)	(\$37,528)
One-Time Funding Items												
Case management and filing portal enhancements			\$150,000	\$150,000			\$150,000	\$150,000				\$0
Total one-time funding changes	0.00	\$0	\$150,000	\$150,000	0.00	\$0	\$150,000	\$150,000	0.00	\$0	\$0	\$0
Total Changes to Base Level Funding	0.00	\$0	\$515,910	\$515,910	0.00	\$0	\$478,382	\$478,382	0.00	\$0	(\$37,528)	(\$37,528)
2023-25 Total Funding	10.00	\$0	\$3,324,894	\$3,324,894	10.00	\$0	\$3,287,366	\$3,287,366	0.00	\$0	(\$37,528)	(\$37,528)
<i>Federal funds included in other funds</i>			\$0				\$0				\$0	
<i>Total ongoing changes as a percentage of base level</i>	0.0%		13.0%	13.0%	0.0%		11.7%	11.7%				
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Other Sections in Securities Department - Budget No. 414

Executive Budget Recommendation
 There are no other sections recommended to be added in the executive budget.

Senate Version
 No other sections.

23.0265.02001
Title.

Prepared by the Legislative Council staff for
the House Appropriations - Government
Operations Division Committee
March 27, 2023

Fiscal No. 1

PROPOSED AMENDMENTS TO ENGROSSED SENATE BILL NO. 2011

Page 1, replace lines 10 through 12 with:

"Salaries and wages	\$2,213,881	\$138,421	\$2,352,302
Operating expenses	<u>595,103</u>	<u>311,327</u>	<u>906,430</u>
Total special funds	\$2,808,984	\$449,748	\$3,258,732"

ReNUMBER accordingly

STATEMENT OF PURPOSE OF AMENDMENT:

Senate Bill No. 2011 - Securities Department - House Action

	Base Budget	Senate Version	House Changes	House Version
Salaries and wages	\$2,213,881	\$2,380,936	(\$28,634)	\$2,352,302
Operating expenses	<u>595,103</u>	<u>906,430</u>		<u>906,430</u>
Total all funds	\$2,808,984	\$3,287,366	(\$28,634)	\$3,258,732
Less estimated income	<u>2,808,984</u>	<u>3,287,366</u>	<u>(28,634)</u>	<u>3,258,732</u>
General fund	\$0	\$0	\$0	\$0
FTE	10.00	10.00	0.00	10.00

Department 414 - Securities Department - Detail of House Changes

	Adjusts Funding for Salary and Benefit Increases ¹	Removes Salary Funding for Pool ²	Total House Changes
Salaries and wages	\$37,528	(\$66,162)	(\$28,634)
Operating expenses			
Total all funds	\$37,528	(\$66,162)	(\$28,634)
Less estimated income	<u>37,528</u>	<u>(66,162)</u>	<u>(28,634)</u>
General fund	\$0	\$0	\$0
FTE	0.00	0.00	0.00

¹ Salaries and wages funding is adjusted to provide for 2023-25 biennium salary increases of 6 percent on July 1, 2023, and 4 percent on July 1, 2024, and for adjustments to health insurance premium rates as follows:

	Other Funds
Salary increase	\$38,356
Health insurance adjustment	(828)
Total	\$37,528

The Senate provided salary adjustments of 4 percent on July 1, 2023, and July 1, 2024.

² Funding of \$66,162 from other funds for estimated savings from vacant FTE positions is removed. This amount is available to the agency if needed by submitting a request to the Office of Management and Budget for a transfer from the new and vacant FTE funding pool.

23.0265.02001
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FTE	0.00	0.00	0.00

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