



ARIZONA STATE SENATE
Fifty-Sixth Legislature, Second Regular Session

AMENDED
FACT SHEET FOR S.B. 1338

Pacific conflict; committee; audits

Purpose

Establishes the Bipartisan Select Committee on Pacific Conflict (Committee) with the purpose of identifying all critical infrastructure and other assets within Arizona that could be targeted by malicious actions by adversarial nations in the event of a pacific conflict and that would result in a significant negative impact on the public health, safety, economic security or physical security of Arizona and the United States.

Background

The Department of Public Safety (DPS) operates the statewide critical infrastructure information system and makes critical infrastructure information available to all state, local, federal and tribal law enforcement agencies, the Department of Emergency and Military Affairs (DEMA), public health organizations, the Arizona Department of Agriculture, the Department of Health Services, fire departments and other organizations, as necessary to safeguard the personnel and property in Arizona. The critical infrastructure information program is implemented based on the state-wide assessment of threat and vulnerability by the Arizona Counterterrorism Information Center (ACTIC) under DPS.

DPS also coordinates the critical infrastructure information program that is implemented based on the statewide assessment of threat and vulnerability by ACTIC. DPS must implement state of the art technologies to address as many critical infrastructure facilities in Arizona as funding allows (A.R.S. §§ [41-1802](#) and [41-1803](#)).

There is no anticipated fiscal impact to the state General Fund associated with this legislation.

Provisions

Bipartisan Select Committee on Pacific Conflict

1. Establishes the Committee consisting of the following members:
 - a) the Director of DPS or the Director's designee;
 - b) the Adjutant General of DEMA or the Adjutant General's designee, who serves as the chairperson;
 - c) two members of the Senate, one of whom is appointed by the President of the Senate and one of whom is appointed by the Senate Minority Leader with approval of the President of the Senate;

- d) two members of the House of Representatives, one of whom is appointed by the Speaker of the House of Representatives and one of whom is appointed by the House Minority Leader with approval of the Speaker of the House of Representatives; and
 - e) five members who are appointed by the Governor in consultation with the chairperson.
2. Requires the Committee members who are appointed by the Governor to provide expertise and collaborative research support to the Committee.
 3. Exempts the Committee from statutes relating to public meetings and proceedings.
 4. Requires appointments for the Committee to be made within 60 days after the general effective date.
 5. Requires the Committees first meeting to occur within 90 days after the general effective date.
 6. Requires the Committee to meet at least once every three months, with additional regular meetings at the call of the majority of the Committee and emergency meetings at the call of the co-chairpersons or the Governor.
 7. Stipulates that members of the Committee are not eligible to receive compensation but are eligible to receive reimbursement for expenses.
 8. Allows the Committee to:
 - a) consult experts;
 - b) conduct field investigations;
 - c) hold public hearings;
 - d) conduct private hearings, but only to the extent necessary;
 - e) request the cooperation of agencies in Arizona and nongovernmental organizations that are critical to the safety and security of Arizona to carry out the duties of the Committee; and
 - f) coordinate with universities in Arizona, private firms specializing in infrastructure risk management and federal agencies, including the U.S. Department of Defense, the Cybersecurity and Infrastructure Security Agency, the National Intelligence Agency, the National Security Agency and the U.S. Department of Homeland Security.
 9. Requires the Committee to:
 - a) apply for preparedness grants through the Federal Emergency Management Agency;
 - b) identify all critical infrastructure and other assets within Arizona that could be targeted by malicious actions by adversarial nations in the event of a Pacific conflict and that would result in a significant negative impact on the public health, safety, economic security or physical security of Arizona and the nation; and
 - c) by December 31 of each year, provide an annual report to the Governor, the President of the Senate and the Speaker of the House of Representatives summarizing the Committee's findings and recommendations and any threats posed to Arizona in the event of a Pacific conflict.
 10. Requires the Committee's annual report to:
 - a) provide a comprehensive risk assessment, including all identified vulnerabilities and recommendations for emergency response strategies for the following areas:

- i. critical infrastructure;
 - ii. telecommunications infrastructure;
 - iii. military installations located within Arizona;
 - iv. state supply chain for critical procurements;
 - v. state vendor supply chain for critical procurements;
 - vi. state cybersecurity; and
 - vii. public health, safety and security in Arizona; and
 - b) include the following:
 - i. mitigation strategies and suggestions to limit or eliminate the risk posed to the critical infrastructure or other assets in the event of a Pacific conflict and mitigation strategies and suggestions that limit or eliminate the risk posed to the safety and security of Arizona or the United States in the event of a Pacific conflict; and
 - ii. a risk-based list of components determined by the degree at which the sourcing of each component is at risk of disruption or restriction, the degree to which the disruption or restriction of sourcing would cause a debilitating effect on the safety and security of Arizona and the United States and the difficulty in identifying alternative manufacturers for sourcing or supply chain delivery for the component.
11. Requires the chairperson of the Committee to develop protocols for the Committee related to the maintenance and use of the Committees annual report and all information contained in the report.

Critical Procurements Audit

12. Requires the Chief Executive Officer of the Arizona Commerce Authority to conduct an audit of all critical procurements purchased or supplied through a state supply chain or state vendor supply chain.
13. Requires the outlined audit of critical procurements to identify:
 - a) all critical procurements produced in or by:
 - i. a foreign adversary;
 - ii. a state-owned enterprise of a foreign adversary;
 - iii. a company domiciled in a foreign adversary; or
 - iv. a company owned by a company domiciled in a foreign adversary;
 - b) all critical procurements manufactured in countries or by companies at risk of disruption in the event of a Pacific conflict; and
 - c) all critical procurements sourced from any country or company that uses a Pacific supply chain process at risk of disruption in the event of a Pacific conflict.
14. Requires the outlined report relating to the audit of critical procurements to include recommendations for alternative sourcing available, highlight any difficulties in identifying potential alternative sourcing and specify the level of risk to Arizona associated with such disruption in sourcing for each procurement that is threatened in the event of a Pacific conflict.
15. Requires the Chief Executive Officer of the Arizona Commerce Authority, by July 31, 2026, to submit the outlined report relating to the audit of critical procurements to the Governor, the President of the Senate and the Speaker of the House of Representatives.

State Investments Audit

16. Requires the State Treasurer to conduct an audit of all monies managed in Arizona and any political subdivision of Arizona.
17. Requires the outlined audit on state investments to identify the following:
 - a) investments that are at risk of substantially losing value or being frozen, seized or appropriated by foreign adversaries in the event of a Pacific conflict;
 - b) investments in any arms industry of a foreign adversary;
 - c) investments in state-owned enterprises of a foreign adversary; and
 - d) investments in companies domiciled within a foreign adversary or owned by a company domiciled within a foreign adversary.
18. Requires the outlined audit to also recommend strategies for the immediate and complete divestment of the outlined assets identified.
19. Requires the State Treasurer, by July 31, 2026, to submit the outlined report on state investments to the Governor, the President of the Senate and the Speaker of the House of Representatives.

State Risk Assessment

20. Requires the Governor to produce and publish a state risk assessment by the Governor's annual State of the State address.
21. Requires the state risk assessment to:
 - a) include all substantial risks to state or national security, state or national economic security, state or national public health or any combination of those matters, occurring within and threatening Arizona;
 - b) include an analysis of the probability and severity of the consequences associated with each risk scenario; and
 - c) identify all threats and hazards that could negatively impact the citizens and assets of Arizona.

Confidentiality Requirements

22. Requires each recipient of the Committees annual report, the critical procurements audit report and the state investments audit report, before receiving the outlined reports, to develop confidentiality protocols, in consultation with the chairperson of the Committee, for the maintenance and use of the outlined reports to ensure the confidentiality of the outlined reports and all information contained in the outlined reports.
23. Stipulates that the confidentiality protocols are binding on the recipient that issues the protocols and anyone to whom the recipient shows a copy of the outlined reports.
24. Exempts the outlined reports and any information contained or used in the outlined reports preparation from statutes relating to searches and copies of public records.

Miscellaneous

25. Stipulates that it is the policy of Arizona to:
- a) support the civilian and military command of the United States and its efforts to promote and maintain prosperity, peace and security for the United States and the U.S. allies;
 - b) enhance the defensive posture of Arizona to protect the citizens and assets of Arizona and to contribute to the defensive posture of the United States by reducing security vulnerabilities within Arizona; and
 - c) exercise foresight and make reasonable preparations for a potential regional or global conflict centered in the Pacific that could involve attacks on the United States and the U.S. allies in the Pacific, could involve asymmetrical attacks on the United States and could cause the disruption or complete severing of supply chains between Arizona, its vendors and other countries in the Pacific.
26. Specifies that *critical infrastructure*:
- a) means systems and assets, whether physical or virtual, that are so vital to Arizona and the United States that the incapacity or destruction of those systems and assets would have a debilitating impact on security, economic security, public health or safety; and
 - b) includes:
 - i. gas and oil production, storage or delivery systems;
 - ii. water supply refinement, storage or delivery systems;
 - iii. electrical power delivery systems;
 - iv. telecommunications networks;
 - v. transportation systems and services; and
 - vi. personal data or otherwise classified information storage systems, including cybersecurity.
27. Defines *critical procurements* as acquisitions made by Arizona, any agency or political subdivision of Arizona or any private nongovernmental organization critical to the proper functioning of critical infrastructure or to the health, safety or security of Arizona or the United States.
28. Specifies that *Pacific conflict*:
- a) means a declared war or armed conflict between the United States or any of the allies of the United States and another nation that occurs on land or sea or in the air in the Pacific Ocean and threatens or could reasonably escalate to threaten the supply chains, critical infrastructure, safety or security of Arizona or the United States; and
 - b) includes a serious deterioration of diplomatic ties or economic engagement between the United States or the allies of the United States and another nation that threatens the status quo of Pacific trade, travel and military operations or exercises.
29. Defines *state supply chain* as the end-to-end process for shipping goods, purchased by Arizona or shipped to Arizona, beginning at the point of origin through a point or points of distribution to the destination.
30. Defines *state vendor supply chain* as the end-to-end process for shipping goods, purchased by Arizona from state vendors or shipped to the vendors, beginning at the point of origin through a point or points of distribution to the destination.

31. Repeals the outlined requirements relating to the audit of critical procurements and the audit of state investments on January 1, 2027.
32. Repeals the Committee on January 1, 2029.
33. Designates this legislation as the *Pacific Conflict Stress Test Act*.
34. Makes technical and conforming changes.
35. Becomes effective on January 1, 2025.

Amendments Adopted by Committee of the Whole

1. Modifies the membership of the Bipartisan Select Committee on Pacific Conflict (Committee) by:
 - a) removing the Chief Executive Officer of the Arizona Commerce Authority;
 - b) stipulating that the Adjutant General will serve as the chairperson; and
 - c) stipulating that the five nonvoting advisory members are voting members who are appointed by the Governor in consultation with the chairperson, rather than by the co-chairpersons.
2. Exempts the Committee from statutes relating to public meetings and proceedings.
3. Removes the six-year term limit for members of the Committee.
4. Prohibits the Committee from:
 - a) subpoenaing witnesses;
 - b) compelling the attendance and testimony of a witness;
 - c) administering oaths and affirmations; and
 - d) taking evidence and requiring by subpoena the production of any books, papers, records or other items material to the performance of the Committee's duties or the exercise of its powers.
5. Stipulates that the Committee may request, rather than compel, the cooperation of state agencies and nongovernmental organizations in carrying out the duties of the Committee.
6. Requires the Committee to apply for preparedness grants through the Federal Emergency Management Agency.
7. Requires the Auditor General, rather than the Chief Executive Officer of the Arizona Commerce Authority, to conduct the critical procurements audit.
8. Removes the requirement that the critical procurements audit be submitted within 180 days after the general effective date.
9. Requires the critical procurements audit report to be submitted by July 31, 2026, rather than July 31, 2025.

10. Removes the requirement that a copy of the critical procurements audit be submitted to the Secretary of State.
11. Requires the Auditor General, rather than the State Treasurer, to conduct the state investments audit.
12. Removes the requirement that the state investments audit be submitted within 180 days after the general effective date.
13. Requires the state investments audit report to be submitted by July 31, 2026, rather than July 31, 2025.
14. Removes the requirement that a copy of the critical procurements audit be submitted to the Secretary of State.
15. Requires each recipient of the Committees annual report, the critical procurements audit report and the state investments audit report to develop confidentiality protocols for the maintenance and use of the outlined reports to ensure the confidentiality of the outlined reports and all information in the outlined reports and outlines stipulations related to the confidentiality of the outlined reports.
16. Modifies the repeal date of the Committee to January 1, 2029, rather than January 1, 2028.
17. Modifies the repeal date of the outlined requirements relating to the critical procurements audit and the state investments audit to January 1, 2027, rather than January 1, 2026.
18. Makes technical and conforming changes.
19. Becomes effective on January 1, 2025, rather than the general effective date.

Amendments Adopted by Additional Committee of the Whole

1. Requires the Chief Executive Officer of the Arizona Commerce Authority, rather than the Auditor General, to conduct the critical procurements audit.
2. Requires the State Treasurer, rather than the Auditor General, to conduct the state investments audit.

Senate Action

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Prepared by Senate Research

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