

Fiscal Note

BILL # HB 2696

TITLE: critical infrastructure; foreign adversary; prohibition

SPONSOR: Kupper

STATUS: House Engrossed

PREPARED BY: Benjamin Beutler

Description

This bill would prohibit software used for critical infrastructure and equipment used for critical communications infrastructure in Arizona from being produced by an entity that is controlled by or headquartered in the People's Republic of China (PRC). The bill would limit governmental entities and critical infrastructure service providers use of certain electronic equipment, vendors, and contracts. The Arizona Corporation Commission (ACC) is given certification and publication responsibilities under the bill.

Estimated Impact

Based on agency responses, we estimate that the bill would increase state costs. There would be ongoing costs to the ACC associated with its responsibilities under the bill. In addition, to the extent existing equipment owned by state entities would need to be replaced, the bill would generate additional one-time capital costs. We cannot determine the total magnitude of costs without additional information from state agencies.

To perform the additional functions required under the bill, the ACC estimates a fiscal impact of \$12.0 million annually and 45 new FTE Positions. The ACC estimate includes costs for personnel, information technology and infrastructure, contractual services, office space, equipment, and a secure and dedicated communications channel to connect critical infrastructure providers and military installations with the ACC and the Governor. We think that the ACC estimate is difficult to evaluate until the magnitude of the software and equipment covered by the bill is determined.

After an initial review, the Department of Public Safety (DPS) states that none of their telecommunications equipment or software would be in violation of the requirements in the bill, with the caveat that their analysis may change after their review is complete. DPS is still in the process of reviewing operational equipment (e.g., speed detection and camera systems) for compliance with the bill's stipulations. DPS plans to complete a full review of its technology before quantifying a cost to the department for the bill.

The Arizona Department of Transportation (ADOT) stated their telecommunications infrastructure is compliant with the Buy America Build America Act and the National Defense Authorization Act of 2019. Based on federal compliance, ADOT believes their telecommunications infrastructure would also be compliant with this bill. Any costs to update future broadband construction project contracts are unknown.

We also have asked the Arizona Department of Administration (ADOA), Department of Military and Emergency Affairs, and Department of Forestry and Fire Management for their analysis of the fiscal impact. The agencies have not yet responded.

Analysis

ACC responsibilities under the bill include: (1) collecting certifications of compliance with requirements in this bill from critical communication providers and governmental entities; (2) producing a map detailing areas that are serviced by equipment disallowed under the bill; (3) publishing a list of prohibited technologies; (4) reviewing requests for exceptions



from critical communication providers, publicly regulated utilities, and governmental entities to use technology or enter into contracts prohibited under the bill; and (5) establishing a secure and dedicated communications channel for critical infrastructure providers and military installations across the state to connect with the ACC and Office of the Governor in the event of an emergency.

The ACC estimates that it would take over a year to prepare facilities and hire staff to fulfill the above responsibilities.

Based on information provided to our office by ADOA during the prior legislative session, our understanding is that none of the state's critical communications equipment is manufactured by an entity that is headquartered in or under the control of the PRC. We are waiting for ADOA to clarify whether any of the state's software used for critical infrastructure or state-owned Wi-Fi router or modem systems are prohibited by the bill.

Local Government Impact

The League of Arizona Cities and Towns and County Supervisors Association do not have the necessary data related to these functions to provide estimated costs for local governments.

4/4/25