



STATE OF ARIZONA

Joint Legislative Budget Committee

STATE
SENATE

1716 WEST ADAMS
PHOENIX, ARIZONA 85007

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MINUTES OF THE MEETING

JOINT LEGISLATIVE BUDGET COMMITTEE

June 19, 2018

The Chairman called the meeting to order at 1:06 p.m., Tuesday, June 19, 2018, in Senate Appropriations Room 109. The following were present:

Members:	Senator Kavanagh, Chairman	Representative Livingston, Vice-Chairman
	Senator Cajero Bedford	Representative Allen
	Senator Fann	Representative Alston
	Senator Farley	Representative Bowers
	Senator Farnsworth	Representative Fernandez
	Senator Petersen	Representative Ugenti-Rita
	Senator Yee	

Absent: Representative Leach

Excused: Senator Hobbs

APPROVAL OF MINUTES

Hearing no objections from the members of the Committee to the minutes of April 18, 2018, Chairman John Kavanagh stated that the minutes would stand approved.

CONSENT AGENDA

The following items were considered without discussion.

ATTORNEY GENERAL (AG) - Review of Uncollectible Debts.

A.R.S. § 35-150E requires that the AG's annual report on uncollectible debts owed to the state be reviewed by the Committee before the debt can be removed from the state accounting system. The listing totals \$41,262,369 for debts listed as uncollectible in FY 2018 and prior years. The JLBC Staff provided options.

(Continued)

ATTORNEY GENERAL - Review of FY 2019 Internet Crimes Against Children Expenditure Plan.

An FY 2019 General Appropriation Act (Laws 2018, Chapter 276) footnote requires the AG to submit an expenditure plan for the \$1,250,000 FY 2019 appropriation from the Internet Crimes Against Children Enforcement line item for Committee review prior to expenditure. The JLBC Staff provided options.

DEPARTMENT OF ECONOMIC SECURITY (DES) - Review of Developmental Disabilities Line Item Transfers.

The FY 2018 General Appropriation Act (Laws 2017, Chapter 305) requires DES to submit a report for review by the Committee before transferring any funds into or out of certain Division of Developmental Disabilities (DDD) line items. DES requested Committee review of the following FY 2018 Total Funds transfers:

- \$(19,000,000) out of the Home and Community-Based Services - Medicaid line item.
- \$12,600,000 into the DDD Operating Lump Sum line item.
- \$6,400,000 into the Case Management - Medicaid line item.

The JLBC Staff provided options.

DEPARTMENT OF ECONOMIC SECURITY - Review of Developmental Disabilities Equity Expenditures.

The FY 2018 Health Budget Reconciliation Bill (Laws 2017, Chapter 309) requires DES to submit an expenditure plan for review by the Committee before expending unexpended and unencumbered capitation payments ("equity monies") on state-only programs within the Division of Developmental Disabilities (DDD). DES requested Committee review of DES' proposed expenditure of \$12,950,000 of equity monies for the following DDD state-only programs:

- \$7,400,000 for residential room and board costs.
- \$750,000 for Cost-Effectiveness Study (CES) clients.
- \$850,000 for the Arizona Early Intervention Program (AzEIP).
- \$3,900,000 for case management services for state-only clients.
- \$50,000 for Medicare Clawback Payments.

The JLBC Staff provided options.

ARIZONA DEPARTMENT OF EDUCATION (ADE) - Review of Joint Technical Education District Quarterly Reports.

Laws 2016, Chapter 4 requires ADE to submit quarterly reports to the Committee for review on ADE's progress and the subsequent approval or rejection of currently eligible Joint Technical Education District (JTED) programs and courses for eligibility for state funding under the new requirements established in Chapter 4. ADE requested review of ADE's January 1, 2018 - March 31, 2018 JTED quarterly report. The JLBC Staff provided options.

ARIZONA DEPARTMENT OF ADMINISTRATION (ADOA) - Review of the Arizona Financial Information System Transaction Fee.

A.R.S. § 41-740.01 requires ADOA to submit proposed changes to the transaction fee charged to each state agency that uses the Arizona Financial Information System (AFIS) to the Committee for its review. ADOA requested review of the proposed 32.9-cent transaction fee to state agencies for the operation of AFIS. The JLBC Staff provided options and a potential provision:

- A. *On or before December 1, 2018 ADOA shall submit to the Joint Legislative Budget Committee the FY 2018 AFIS transaction count by agency and fund source.*

ARIZONA DEPARTMENT OF ADMINISTRATION - AUTOMATION PROJECTS FUND (APF) - Review of FY 2019 Criminal Justice Information System Replacement (Department of Public Safety Subaccount).

A.R.S. § 41-714 requires Committee review of proposed Automation Projects Fund (APF) expenditures. ADOA requested that the Committee review \$2,806,200 in proposed FY 2019 expenditures from the APF/Department of Public Safety (DPS) Subaccount for upgrades to the Criminal Justice Information System. The JLBC Staff provided options and a potential provision:

- A. *A favorable review does not constitute endorsement of General Fund appropriations to pay for future development costs or operating costs.*

ARIZONA DEPARTMENT OF ADMINISTRATION - APF - Review of Arizona Strategic Enterprise Technology Projects (ADOA Subaccount).

Pursuant to A.R.S. § 41-714, ADOA requested that the Committee review \$12,248,900 in proposed FY 2018 and FY 2019 expenditures from the APF/ADOA Subaccount for information technology projects at the Arizona Strategic Enterprise Technology (ASET) Office. The JLBC Staff provided options and a potential provision:

- A. *A favorable review does not constitute endorsement of appropriations for future year development or operating costs.*

ARIZONA DEPARTMENT OF ADMINISTRATION - APF - Review of E-Licensing Project (Department of Financial Institutions Subaccount).

Pursuant to A.R.S. § 41-714, ADOA requested that the Committee review \$1,400,000 in proposed FY 2019 expenditures from the APF/Department of Financial Institutions (DFI) Subaccount for a new e-licensing system at DFI. The JLBC Staff provided options and potential provisions:

- A. *Should the final costs exceed the estimated costs by 10% or more, or should there be significant changes to the proposed technology, scope of work or implementation schedule, DFI must amend the Project Investment Justification to reflect the changes and submit it to ADOA-ASET for review and approval prior to further expenditure of funds.*
- B. *A favorable review is contingent upon the Information Technology Authorization Committee's approval of the project.*

Representative Livingston moved that the Committee give a favorable review, including provisions as outlined in the JLBC Staff analysis, to the 9 consent agenda items listed above. The motion carried.

REGULAR AGENDA

ARIZONA DEPARTMENT OF CORRECTIONS (ADC) - Review of Inmate Health Care Per Diem Change for FY 2019.

Ms. Micaela Larkin, JLBC Staff, stated that an FY 2019 General Appropriation Act (Laws 2018, Chapter 276) footnote requires ADC to present an expenditure plan to the Joint Legislative Budget Committee for review prior to implementing any inmate health care per diem rate changes. ADC requested review to increase the inmate health care per diem from \$12.54 to \$15.164. The JLBC Staff provided options.

Mr. Michael P. Kearns, Division Director, Administrative Services, ADC responded to member questions.

Representative Allen moved that the Committee go into Executive Session. The motion carried.

At 1:23 p.m. the Joint Legislative Budget Committee went into Executive Session.

Representative Livingston moved that the Committee reconvene into open session. The motion carried.

At 2:05 p.m. the Committee reconvened into open session.

Representative Livingston moved that the Committee give a favorable review to increase the inmate health care per diem from \$12.54 to \$15.164 with the following provisions:

- A. *On or before August 15, 2018, the department shall provide the Committee a report on how the increased per diem rate will address performance measure compliance pursuant to the Parsons v. Ryan litigation.*
- B. *A favorable review does not constitute endorsement of appropriations to pay for increased health care costs.*

The motion carried.

SECRETARY OF STATE (SOS) - Review of Expenditure Plan for Other Help America Vote Act (HAVA) Projects Line Item.

Ms. Micaela Larkin, JLBC Staff, stated that an FY 2019 General Appropriation Act (Laws 2018, Chapter 276) footnote requires SOS to submit an expenditure plan for the "Other Help America Vote Act (HAVA) Projects" line item to the Joint Legislative Budget Committee for review prior to implementation. SOS requested review of the \$2,300,000 for completing the voter registration database and \$479,100 for the election security assessment in FY 2019. The JLBC Staff provided options.

Mr. Lee Miller, Assistant Secretary of State, SOS, responded to member questions and circulated a handout (*Attachment 1*).

(Continued)

Mr. Rey Valenzuela, Elections Director, Maricopa County Recorder's Office, responded to member questions.

Ms. Leslie Hoffman, Recorder, Yavapai County Recorder's Office, responded to member questions.

Representative Livingston moved that the Committee give a favorable review of the \$2,300,000 for completing the voter registration database and \$479,100 for the election security assessment in FY 2019. The favorable review also required that SOS return to the Committee later this year to seek review of the remaining monies once its assessment is complete and provide more information on its process for distributing grants to the counties to improve their election systems and the following provisions:

- A. The Committee's review only addresses FY 2019 expenditures. SOS shall return to the Committee for further review prior to expending any funds in FY 2020.
- B. SOS shall notify the Committee of any changes to the FY 2019 expenditure plan that exceed \$100,000 and the Chairman may determine whether the changes require further Committee action.
- C. The Committee intends that SOS only pay 25% of the operating costs of the existing voter registration system in FY 2019 so that the full Legislature may consider the appropriate cost sharing arrangement for future years in the next Regular Session.

Senator Farley made a substitute motion to modify the Livingston motion to remove provision C.

By a show of hands of 4 ayes and 8 nays, the substitute motion failed.

The original motion carried.

AHCCCS/DEPARTMENT OF ECONOMIC SECURITY/DEPARTMENT OF CHILD SAFETY - Review of Capitation Rate Changes for Plan Year 2019.

Mr. Patrick Moran, JLBC Staff, stated that an FY 2018 General Appropriation Act (Laws 2017, Chapter 305) footnote requires state Medicaid agencies to submit an expenditure plan to the Committee for review prior to implementing any changes in capitation rates. AHCCCS requested Committee review of rate changes for plan year 2019 for the following programs:

- The Department of Economic Security's (DES) Arizona Long Term Care System - Developmental Disabilities (ALTCS - DD) program.
- The DES - DD Targeted Case Management (TCM) program.
- The Department of Child Safety's (DCS) Comprehensive Medical and Dental Program (CMDP) for children in foster care.

The JLBC Staff provided options.

Mr. Wes Fletcher, Chief Financial Officer, DES, responded to member questions.

Representative Livingston moved that the Committee give a favorable review of AHCCCS' proposed capitation rate changes, excluding the DES ALTCS administrative cost increase in excess of the 3.5% budgeted adjustment, with the following provisions:

(Continued)

- A. *On or before June 29, 2018, AHCCCS shall provide to the JLBC Staff the DDD administrative cost justification submitted to the federal government.*
- B. *On or before October 1, 2018, AHCCCS and DES shall jointly report on the implementation of case manager caseload ratio changes in the TCM program.*

AHCCCS has already submitted information to satisfy Provision A.

The motion carried.

DEPARTMENT OF CHILD SAFETY (DCS) - Review of Line Item Transfers.

Mr. Patrick Moran, JLBC Staff, stated that an FY 2018 General Appropriation Act (Laws 2017, Chapter 305) footnote prohibits transfers between the Department of Child Safety's line items without review by the Committee. DCS requested Committee review of the department's requested transfer of \$410,000 of Federal Temporary Assistance for Needy Families Block Grant monies out of the Out-of-Home Support Services line item and into the Kinship Stipend line item. The JLBC Staff provided options.

Mr. Mike Faust, Deputy Director, DCS, responded to member questions.

Representative Livingston moved that the Committee give a favorable review of the department's requested transfer of \$410,000 of Federal Temporary Assistance for Needy Families Block Grant monies out of the Out-of-Home Support Services line item and into the Kinship Stipend line item. The motion carried.

DEPARTMENT OF PUBLIC SAFETY (DPS) - Review of the Expenditure Plan for the Gang and Immigration Intelligence Team Enforcement Mission (GIITEM) Border Security and Law Enforcement Subaccount.

Mr. Geoffrey Paulsen, JLBC Staff, stated the FY 2019 Criminal Justice Budget Reconciliation Bill (Laws 2018, Chapter 278) and A.R.S. § 41-1724G require DPS to submit an expenditure plan for the GIITEM Subaccount to the Joint Legislative Budget Committee for review prior to expenditure. DPS requested review of \$1,345,800 of its FY 2019 appropriation as proposed by the department. The JLBC Staff provided options.

Representative Livingston moved that the Committee give a favorable review of \$1,345,800 of its FY 2019 appropriation as proposed by the department.

EXECUTIVE SESSION

Representative Livingston moved that the Committee go into Executive Session. The motion carried.

At 3:37 p.m. the Joint Legislative Budget Committee went into Executive Session.

Representative Livingston moved that the Committee reconvene into open session. The motion carried.

At 4:37 p.m. the Committee reconvened into open session.

(Continued)

A. Arizona Department of Administration, Risk Management Services - Consideration of Proposed Settlements under Rule 14.

Representative Livingston moved that the Committee approve the recommended settlements proposed by the Attorney General's office in the cases of:

- *Simmons v. State of Arizona*
- *Saba v. State of Arizona*

The motion carried.

B. Arizona Department of Administration (ADOA) - Review for Committee the Planned Contribution Strategy for State Employee and Retiree Medical and Dental Plans as Required under A.R.S. § 38-658A.

Representative Livingston moved that the Committee accept the report for the planned contribution strategy for state employee and retiree medical plans.

Senator Farley made a substitute motion that the Committee give an unfavorable review to the planned contribution strategy for state employee and retiree medical and dental plans with the following provisions:

- A. *On or before December 1, 2018 ADOA shall submit to the Joint Legislative Budget Committee the FY 2018 employer health insurance premium payments by agency and fund source.*
- B. *On or before November 1, 2018 ADOA shall submit to the Joint Legislative Budget Committee data on the plan structure, including employer and employee premiums, deductibles, out-of-pocket maximums, copays, coinsurance, Health Savings Account (HSA) contributions of other major public employers in Arizona, including Maricopa County, Pima County, and the City of Phoenix.*

The substitute motion carried.

Without objection, the meeting adjourned at 4:39 p.m.

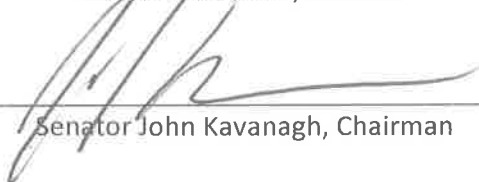
Respectfully submitted:



Kristy Paddack, Secretary



Richard Stavneak, Director



Senator John Kavanagh, Chairman

Overview for the AZ Election Systems Security Assessment

Why is Secretary of State Taking on a Comprehensive Cyber Security Assessment?

- Designated critical infrastructure – need to ensure the integrity of the election process
- Maintain confidentiality of State voter information
- Protection of the State's national reputation
- Maintain citizen trust

What Secretary of State Will Accomplish with the Assessment?

- Security maturity assessment (people-process-technology) of Secretary of State's current election security posture, conducted by cyber professionals with deep experience in elections security
- Real-world intelligence-based election system threat scenario testing, i.e. more than simple technical/penetration testing
- Detailed roadmap to close security gaps, reduce risk, and guide AZSOS investments in cybersecurity going forward

Actionable recommendations resulting from the assessment will enable numerous "quick wins" to improve protection prior to the upcoming election, as well as elevate election security maturity over time to the level necessary to mitigate current and reasonably anticipated future risks.

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Election Systems Security Assessment: Independent, Objective and Measured Against Peers

Comparing Election System Cybersecurity Maturity to Peers and Recommended Target Maturity

- A measure of the required future-state – or target – level of security maturity – how capable should AZSOS be in protecting itself, which facilitates the definition of "how much security is enough" *specific to the election mission*.
- A comparison of the current-state level of security maturity to similar peers systems provides context for understanding election systems leading practice approaches.
- A measure of the level of risk exposure resulting from the current level of security maturity facilitates development and maintenance of the appropriate defense-in-depth and defense-in-context security approach.



Gartner's critical mission-specific experience is built on more than 300 assessments conducted over the past 7 years in all jurisdictions of state, local, and federal government. Recent States include: South Carolina, Texas and California. Gartner analysts regularly advise government leadership on approaches to effective cyber security protection.

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Go beyond best-practices by stress-testing the State's election systems using the real-world attack techniques in-use today by known threats

Gather and Execute on Current Cyber-Threat Intelligence to "Reality Check" the Election Process

- ❑ Develop an understanding and testing mechanisms for advanced, intelligence-based threats focusing on real-world bad actors (including sophisticated nation-state actors) that are most likely to target the State's election process and the supporting infrastructure, personnel, and operations.
- ❑ Using operationally proven experience, develop multiple advanced, realistic scenarios based on real-world attacks that mirror the most likely threats from advanced threat actors and their behavior against the State's election process and systems.
- ❑ Advanced attacker teams emulate all key aspects of the identified threat actors, including advanced reconnaissance, social engineering, elicitation, access etc. against State election systems and connected entities.
- ❑ Gain technical assurance by assessing the complex critical infrastructure upon which the election process is based using what is considered by the cybersecurity industry as the most realistic form of assurance service.

THREAT ACTOR PROFILE

ORGANIZATION NAME: APT17
OTHER NAME(S): WINDY WAGON, BRADICE, PLAVITA, CHANGER, KESKONAL
APPROXIMATE LOCATION: Private Assets of China (PLC)

THREAT ACTOR PROFILE:

- APT17 is a cyber espionage and intelligence gathering threat that actively targets critical IT/OT and control infrastructure systems throughout various sectors in Asia and other regions. The group has obtained a significant level of access to various critical systems, including the use of its own proprietary tools, such as the use of its own proprietary tools, and the use of its own proprietary tools.
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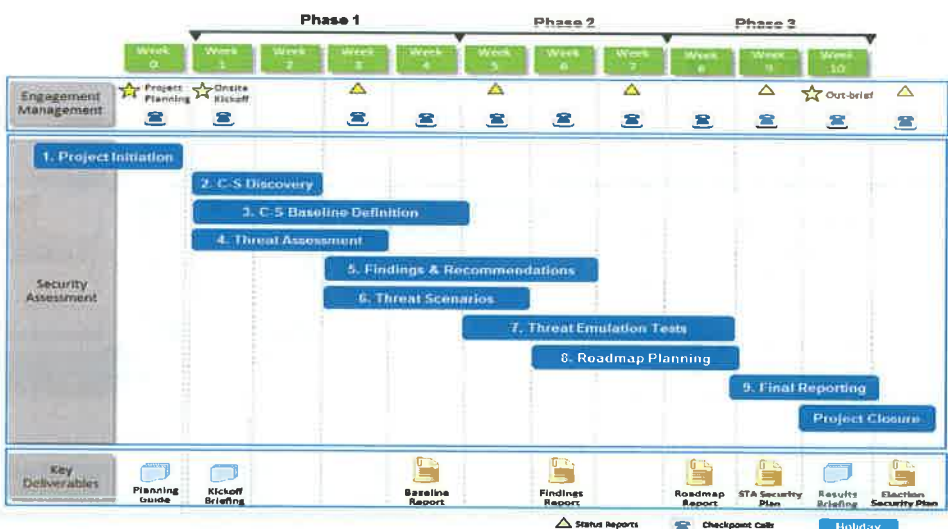
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Threat Actor	Target	Impact
APT17	Government	High level of confidentiality, integrity, and availability of critical systems
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A comprehensive review of the State's election system security posture will take between 2 and 3 months



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