HB 25B-1008

Fiscal Note

Legislative Council Staff

Nonpartisan Services for Colorado's Legislature

HB 25B-1008: CONSUMER PROTECTIONS FOR AI INTERACTIONS

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Sen. Amabile; Frizell

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Fiscal note status: The fiscal note reflects the introduced bill. Due to time constraints, this analysis is preliminary and will be updated to reflect additional information.

Summary Information

Overview. The bill repeals standards and requirements for the development and use of artificial intelligence systems established in Senate Bill 24-205, establishes new consumer and anti-discrimination protections effective January 1, 2027, and establishes requirements for public school and public entity contracts.

Types of impacts. The bill is projected to affect the following areas on an ongoing basis:

- Minimal State Revenue
- State Expenditures
- Local Government
- School Districts

Appropriations. The bill requires a reduction in appropriations from the Judicial Department of $27,786 for the current FY 2025-26 and $55,572 for FY 2026-27.

Table 1
State Fiscal Impacts

Type of Impact	Current Year FY 2025-26	Budget Year FY 2026-27	Out Year FY 2027-28
State Revenue	$0	$0	$0
State Expenditures	-$34,490	-$66,745	-$66,745
Transferred Funds	$0	$0	$0
Change in TABOR Refunds	$0	$0	$0
Change in State FTE	-0.3 FTE	-0.5 FTE	-0.5 FTE

Fund sources for these impacts are shown in the tables below.

Table 1A
State Expenditures

Fund Source	Current Year FY 2025-26	Budget Year FY 2026-27	Out Year FY 2027-28
General Fund	$0	$0	$0
Cash Funds	-$27,786	-$55,572	-$55,572
Federal Funds	$0	$0	$0
Centrally Appropriated	-$6,704	-$11,173	-$11,173
Total Expenditures	**-$34,490**	**-$66,745**	**-$66,745**
Total FTE	**-0.3 FTE**	**-0.5 FTE**	**-0.5 FTE**

Summary of Legislation

The bill repeals standards and requirements for the development and use of artificial intelligence (AI) systems established in Senate Bill 24-205, and replaces those with new consumer protection and public contract standards related to AI systems, as outlined below.

New Consumer Protection Standards

Starting January 1, 2027, developers and deployers of AI systems that interact with consumers must disclose to consumers that they are interacting with an AI system and not a human. Deployers must also provide certain information regarding the AI system used in the consumer interaction. Disclosure is not required if it is reasonably obvious that the consumer is interacting with an AI system or disclosure would impede an emergency communication or response.

Violations of these requirements constitute a deceptive trade practice under the Colorado Consumer Protection Act. In addition, the design, development, distribution, or use of an AI system may be the basis for liability under the Colorado Anti-discrimination Act. Compliance with disclosure requirements does not affect liability under either act. The protections granted by the bill also do not affect any other available legal remedies.

The Attorney General and the Colorado Civil Rights Commission in the Department of Regulatory Agencies (DORA) may adopt rules to implement the bill.

Public Contract Requirements

Current law deems certain contracts by public schools void if they waive or limit requirements of state laws. The bill adds the AI system requirements to this list of requirements that contracts must not waive or limit.

It also specifies that contracts for AI systems entered into by other public entities are subject to the following requirements:

- contractors must certify that products comply with consumer and anti-discrimination protections provided by the bill; and
- contractors must indemnify and assume liability on behalf of public entities for any claims resulting from the contractor's noncompliance with consumer and anti-discrimination protections for AI systems.

All public entity contracts must include these terms and are deemed to include these terms if the primary purpose of the contract is to acquire AI system services for a state agency or public entity.

Background

SB 24-205 and Fiscal Note

SB 24-205 established standards and requirements developers and deployers of AI systems to protect against algorithmic discrimination, beginning February 1, 2026. The fiscal note for SB 24-205 did not include resources for any state agency because, at that time, the bill did not clearly apply to any existing state computer systems. Most existing state systems that make critical decisions on program eligibility, benefit calculations, and similar matters are programmed to generate output and results in accordance with legal requirements programmed by humans into a defined algorithm, rather than using generative AI or similar methods. The fiscal note for SB 24-205 assumed that state agencies would request additional resources through the budget process, as necessary, if they made the decision to deploy AI systems regulated under the bill.

Additional Developments and Funding

Since passage of SB 24-205, several developments have affected agencies costs and workload related to AI systems. Many consumer and business software products, including those used by state agencies, have incorporated generative AI features into their core products. The Office of Information Technology has worked to catalog these systems, evaluate their risk, and take steps to ensure compliance with SB 24-205 when it takes effect in February 2026. Other agencies outside the purview of OIT have reported similar work. Agencies have differed in their assessments about what systems and practices may or may not trigger requirements under SB 24-205.

In 2025, the Joint Budget Committee allocated 0.5 FTE to the Judicial Department through the FY 2025-26 Long Bill based on the department's interpretation that the SB 24-205 would apply to the Probation Division's case management system, which uses available information to assign a risk score individuals on probation (the Judicial Department had requested 7.0 FTE for this purpose). To date, other agencies have not received dedicated funding to address reporting, risk management, and other requirements under SB 24-205.

Fiscal Note Baseline Assumptions

The fiscal note uses the FY 2025-26 Long Bill as the baseline funding level for all agencies when evaluating AI legislation at the 2025 special session, under the assumption that funding approved by the General Assembly for FY 2025-26 reflects the amount needed to begin implementation of, and compliance with, SB 24-205 in February 2026. If an agency requires additional resources for FY 2025-26 or any future year related to SB 24-205, funding should be requested through the annual budget process. Fiscal notes for legislation at the 2025 special session will only address the impacts directly attributable to that specific legislation.

State Revenue

The bill's repeal and reenactment keeps intact the deceptive trade practice enforced by the Attorney General and district attorneys, as well as the potential increase in civil case filings. No net change to state revenue is anticipated from the bill.

State Expenditures

The bill reduces state expenditures in the Judicial Department by about $35,000 in the current FY 2025-26, and $67,000 in FY 2026 27, realized in the Offender Services Cash Fund. The bill also minimally impacts workload in other state agencies, as discussed below.

Table 2
State Expenditures
Judicial Department

Cost Component	Current Year FY 2025-26	Budget Year FY 2026-27	Out Year FY 2027-28
Personal Services	-$27,146	-$54,292	-$54,292
Operating Expenses	-$640	-$1,280	-$1,280
Centrally Appropriated Costs	$6,704	-$11,173	-$11,173
Total Costs	**-$34,490**	**-$66,745**	**-$66,745**
Total FTE	**-0.3 FTE**	**-0.5 FTE**	**-0.5 FTE**

Judicial Department

The department received an appropriation in the FY 2025-26 Long Bill with the assumption that the Probation Division's case management system is subject to the provisions of SB 24-205. Because this bill clarifies the definition of an AI system, these costs are no longer required.

The bill will have no impact to trial court workload in the Judicial Department since any increase in civil case filings was accounted for in SB 24-205.

Department of Regulatory Agencies

The bill may increase the number of complaints received by the Colorado Civil Rights Division. Discrimination is already prohibited under the Colorado Anti-Discrimination Act (CADA). While this bill has the potential to generate complaints that would not have otherwise been received by DORA, the exact number as a result of this bill cannot be determined. The fiscal note assumes any additional number of cases will be minimal and that if additional resources and relevant expertise are needed to handle new complaints, they will be addressed through the annual budget process.

Department of Personnel

The bill increases workload for the Department of Personnel to update state contractual requirements, and to handle additional caseload in the State Personnel Board and Office of the Administrative Courts to hear complaints if state agencies that use AI are found to be in violation of the Colorado Anti-Discrimination Act. The fiscal note assumes that the number of additional cases will be minimal and that if additional resources are needed, they will be requested through the annual budget process.

Other State Agencies

Workload for all state agencies, particularly the Department of Law (DOL) and the Office of Information Technology (OIT), will be reduced as any requirement from SB 24-205 will no longer be in effect. The DOL will no longer receive additional deceptive trade practice complaints, adopt rules, or receive required disclosures related to AI systems. The OIT will no longer be responsible for ensuring the requirements of SB 24-205 are reflected in the centralized administration of IT services across state agencies. As discussed in the Background section, no agencies, other than the Judicial Department, have received funding related to the implementation of SB 24-205; therefore, no adjustment in appropriations is required.

Centrally Appropriated Costs

Pursuant to a Joint Budget Committee policy, certain costs associated with this bill are addressed through the annual budget process and centrally appropriated in the Long Bill or supplemental appropriations bills, rather than in this bill. These costs, which may include employee insurance, supplemental employee retirement payments, indirect cost assessments, and other costs, are shown in the table above.

Local Government and School Districts

The bill increases workload for cities, counties, special districts, and school districts to update their contract policies with vendors of AI systems to include the new requirements of the bill, as necessary. This additional workload will vary depending on the number of contracts with AI vendors and current contract provisions, but it is assumed that the additional workload will be minimal. To the extent local governments and school districts are deploying AI systems covered by SB 24-205, workload and costs will decrease under the new regulatory structure created by this bill.

Effective Date

Sections 2, 3, and 4 of the bill take effect on January 1, 2027, assuming no referendum petition is filed. The remainder of the bill takes effect 90 days following adjournment of the General Assembly sine die, assuming no referendum petition is filed.

State Appropriations

The bill requires the following reductions in appropriations to the Judicial Department from the Offender Services Cash Fund:

- a reduction of $27,786 and 0.3 FTE for the current FY 2025-26; and
- a reduction of $55,572 and 0.5 FTE for FY 2026-27.

State and Local Government Contacts

Information Technology
Judicial
Law
Personnel
Regulatory Agencies

The revenue and expenditure impacts in this fiscal note represent changes from current law under the bill for each fiscal year. For additional information about fiscal notes, please visit the General Assembly website.