SB 25B-004

Fiscal Note

Legislative Council Staff

Nonpartisan Services for Colorado's Legislature

SB 25B-004: INCREASE TRANSPARENCY FOR ALGORITHMIC SYSTEMS

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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 and reenacts standards and requirements for the development and use of artificial intelligence systems established in Senate Bill 24-205 to take effect February 1, 2026.

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

- State Revenue
- State Expenditures
- Local Government
- Statutory Public Entity

Appropriations. The bill requires appropriations of $4.2 million in the current FY 2025-26 and $6.7 million in FY 2026-27 to multiple state agencies. See State Appropriations section for detail.

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	at least $4,417,575	at least $7,057,796	at least $7,057,796
Transferred Funds	$0	$0	$0
Change in TABOR Refunds	$0	$0	$0
Change in State FTE	at least 24.7 FTE	at least 48.9 FTE	at least 48.9 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	$4,246,449	$6,727,544	$6,727,544
Cash Funds	$0	$0	$0
Federal Funds	$0	$0	$0
Centrally Appropriated	$171,126	$330,252	$330,252
Total Expenditures	**$4,417,575**	**$7,057,796**	**$7,057,796**
Total FTE	**24.7 FTE**	**48.9 FTE**	**48.9 FTE**

Summary of Legislation

The bill repeals and reenacts standards and requirements for the development and use of artificial intelligence (AI) systems provided by Senate Bill 24-205.

Algorithmic Decision Systems

Starting February 1, 2026, developers and deployers of algorithmic decision systems must provide certain disclosures about these systems. “Algorithmic decision systems” are defined as any machine-based systems or computational processes that use statistical modeling, data analytics, machine learning, or artificial intelligence to generate simplified outputs which assist, inform, or replace human decision-making. Certain technologies are excluded, including tools that organize data already in human possession and those that perform rote functions, such as anti-virus software and administrative functions.

Developers must disclose:

- an analysis of whether and how the use of a system poses a risk of violating consumer protection or anti-discrimination statutes;
- a description of steps taken by a developer to mitigate these risks;
- a statement of the intended uses and potential misuses of a system; and
- all other information necessary for deployers of systems to comply with consumer protection statutes.

Deployers must disclose this information, either directly or through a developer, to individuals affected by the use of such a system to make an influential decision. This information must include the disclosures from the developers, and a list of 20 personal characteristics of the individual that influenced the algorithmic decision system.

Disclosures are required both before and after a system is used to make a decision that has a material legal or similarly significant effect on the provision, denial, cost, or terms of certain services, including employment, health-care, housing, and essential government services. Individuals affected by an algorithmic decision system have a right to access their personal data used in decision making and to challenge or correct any inaccurate data. This data must be provided to individuals by deployers or developers with access to the data.

Generative AI Systems

For generative AI systems specifically, the bill requires a disclosure to individuals when they are interacting with such a system. "Generative AI systems" are defined as AI systems that are trained on data, interact with individuals using text, audio, or visual communication, and generate output similar to what could be created by a human. Disclosure is required by a person that deploys or otherwise makes available a generative AI system.

Liability

Notwithstanding other liability requirements, developers and deployers are liable for violations facilitated by a deployer's use of an algorithmic decision system. Developers are not liable if they took all reasonable steps to prevent misuse by deployers, did not intend or could not have foreseen misuse, or specifically disallowed the misuse in disclosures required by developers. Developers remain liable for their own separate conduct that violates applicable state or federal law.

Enforcement

Violations of any consumer protection standard in the bill are a deceptive trade practice. No private right of action is provided for violations. The Attorney General may adopt rules necessary for implementation and enforcement. The bill does not affect any other available legal remedies.

Background and Assumptions

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.

Applicability of SB 25B-004 to State Agency Systems

The bill's definition of "algorithmic decision systems" includes any machine-based systems or computational processes that use data analytics to generate simplified outputs which assist human decision making. As of writing, the Office of Information Technology estimates that this bill will impact at least 19 state systems (e.g., benefit eligibility and case management systems). The fiscal note identifies the costs to comply with the bill, which will include providing each person affected by a decision made with the help of a state computer system with a list of 20 personal characteristics regarding their case, as well as complying with other disclosure requirements, updating legal and risk management processes, updating contracts, and responding to any challenges. Costs are prorated for the bill's effective date, and standard capital outlay and operating expenses are included for new FTE.

Preliminary Nature of this Analysis

Due to time restraints, this fiscal note only reflects costs for systems managed by the Office of Information Technology and the Judicial Department, but will be updated as additional information is collected and analyzed.

State Revenue

The bill's repeal and reenactment maintains the deceptive trade practice enforced by the Attorney General and district attorneys, as well as the potential increase in civil case filings, created by SB 24-205. However, the bill's definition of "algorithmic decision systems" is broader than the current law standard created by SB 24-205, which could expand liability to additional developers and deployers of these systems. The may increase state revenue from fines and filing fees. Overall, any increase is assumed to be minimal.

State Expenditures

The bill increases state expenditures by at least $4.4 million in the current FY 2025-26 and by at least $7.1 million in FY 2026-27 and ongoing. Preliminarily, these costs will be incurred in the Office of Information Technology and the Judicial Department; however, other agencies are expected to have additional impacts. Costs are paid from the General Fund.

Table 2
State Expenditures—Preliminary
All Departments

Department	Current Year FY 2025-26	Budget Year FY 2026-27	Out Year FY 2027-28
Office of Information Technology	$3,442,068	$5,357,240	$5,357,240
Judicial Department	$975,507	$1,700,556	$1,700,556
Total Costs	**$4,417,575**	**$7,057,796**	**$7,057,796**

Governor's Office of Information Technology

The Governor's Office of Information Technology will require 17.4 FTE in the current FY 2025-26 and 34.8 FTE in FY 2026-27 and ongoing to implement the bill, as outlined in the Assumptions section. Costs in the OIT are summarized in Table 2A below.

Audits and Systems Updates

In the current FY 2025-26, OIT requires $300,000 to conduct an external audit of their information management systems, and $230,000 on external vendors to implement updates to their disclosure notice and data management systems, and provide training to executive branch agencies.

Employee Insurance and Supplemental Retirement

Pursuant to fiscal note and Joint Budget Committee policy, centrally appropriated costs for bills involving more than 20 FTE are appropriated in the bill, rather than through the annual budget process. These costs, which include employee insurance and supplemental employee retirement payments for the Governor's Office of Information Technology, are shown in Table 2A.

Table 2A
State Expenditures
Governor's Office of Information Technology

Cost Component	Current Year FY 2025-26	Budget Year FY 2026-27	Out Year FY 2027-28
Personal Services	$2,199,430	$4,398,863	$4,398,863
Operating Expenses	$22,272	$44,544	$44,544
Capital Outlay Costs	$233,450	$0	$0
Audit, Systems and Training Expenses	$530,000	$0	$0
Employee Insurance	$262,414	$524,828	$524,828
Supplemental Retirement	$194,502	$389,004	$389,004
Total Costs	**$3,442,068**	**$5,357,240**	**$5,357,240**
Total FTE	**17.4 FTE**	**34.8 FTE**	**34.8 FTE**

Judicial Department

The Judicial Department requires 7.2 FTE probation staff to provide the required disclosures to persons in the case management system. It is assumed that about 71,000 individuals will be affected per year. Additionally, it is assumed 10 percent of individuals will challenge system findings, requiring an average of 90 minutes per case, or 6.0 FTE. To support these new processes, 0.4 FTE legal counsel and 0.5 FTE IT support staff are required. Costs in the Judicial Department are shown in Table 2B below.

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 Table 2B below.

Table 2B
State Expenditures
Judicial Department

Cost Component	Current Year FY 2025-26	Budget Year FY 2026-27	Out Year FY 2027-28
Personal Services	$701,657	$1,352,256	$1,352,256
Operating Expenses	$9,344	$18,048	$18,048
Capital Outlay Costs	$93,380	$0	$0
Centrally Appropriated Costs	$171,126	$330,252	$330,252
Total Costs	**$975,507**	**$1,700,556**	**$1,700,556**
Total FTE	**7.3 FTE**	**14.1 FTE**	**14.1 FTE**

Other Executive and Legislative Branch Agencies

Other departments—including the Secretary of State's Office, the Department of Education, the Legislative Branch, and institutions of higher education—do not use the Governor's Office of Information Technology to administer their IT programs and services. As discussed in the Assumptions section, due to time constraints, these agency impacts have not been estimated.

Local Governments – School Districts – Statutory Public Entities

Similar to the state, local governments, school districts, and statutory public entities will have costs to comply with the bill. Due to time constraints, these agency impacts have not been estimated.

Effective Date

The bill takes effect upon signature of the Governor, or upon becoming law without his signature.

State Appropriations

The bill requires the following General Fund appropriations in the current FY 2025-26:

- $3,442,068 to the Governor's Office of Information Technology, and 17.4 FTE; and
- $804,381 to the Judicial Department, and 7.3 FTE.

The bill also requires the following General Fund appropriations in FY 2026-27:

- $5,357,240 to the Governor's Office of Information Technology, and 34.8 FTE; and
- $1,370,304 to the Judicial Department, and 14.1 FTE.

State and Local Government Contacts

Information Technology

Judicial

Law

Regulatory Agencies