SENATE AMENDMENTS

2ⁿᵈ Printing

By: Capriglione, Button, Bonnen, Orr,   H.B. No. 149
     Bhojani

A BILL TO BE ENTITLED

1   AN ACT

2 relating to regulation of the use of artificial intelligence

3 systems in this state; providing civil penalties.

4   BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF TEXAS:

5   SECTION 1. This Act may be cited as the Texas Responsible

6 Artificial Intelligence Governance Act.

7   SECTION 2. Section 503.001, Business & Commerce Code, is

8 amended by amending Subsections (a) and (e) and adding Subsections

9 (b-1) and (f) to read as follows:

10   (a) In this section:

11   (1) "Artificial intelligence system" has the meaning

12 assigned by Section 551.001.

13   (2) "Biometric [, "biometric] identifier" means a

14 retina or iris scan, fingerprint, voiceprint, or record of hand or

15 face geometry.

16   (b-1) For purposes of Subsection (b), an individual has not

17 been informed of and has not provided consent for the capture or

18 storage of a biometric identifier of an individual for a commercial

19 purpose based solely on the existence of an image or other media

20 containing one or more biometric identifiers of the individual on

21 the Internet or other publicly available source.

22   (e) This section does not apply to:

23   (1) voiceprint data retained by a financial

24 institution or an affiliate of a financial institution, as those

1 terms are defined by 15 U.S.C. Section 6809; or

2   (2) the training, processing, or storage of biometric

3 identifiers involved in artificial intelligence systems, unless

4 the training, processing, or storage is performed for the purpose

5 of uniquely identifying a specific individual.

6   (f) If a biometric identifier captured for the purpose of

7 training an artificial intelligence system is subsequently used for

8 a commercial purpose, the person possessing the biometric

9 identifier is subject to:

10   (1) this section's provisions for the possession and

11 destruction of a biometric identifier; and

12   (2) the penalties associated with a violation of this

13 section.

14   SECTION 3. Section 541.104(a), Business & Commerce Code, is

15 amended to read as follows:

16   (a) A processor shall adhere to the instructions of a

17 controller and shall assist the controller in meeting or complying

18 with the controller's duties or requirements under this chapter,

19 including:

20   (1) assisting the controller in responding to consumer

21 rights requests submitted under Section 541.051 by using

22 appropriate technical and organizational measures, as reasonably

23 practicable, taking into account the nature of processing and the

24 information available to the processor;

25   (2) assisting the controller with regard to complying

26 with requirements [the requirement] relating to the security of

27 processing personal data, and if applicable, the data collected,

2

1 stored, and processed by an artificial intelligence system, as that

2 term is defined by Section 551.001, and to the notification of a

3 breach of security of the processor's system under Chapter 521,

4 taking into account the nature of processing and the information

5 available to the processor; and

6   (3) providing necessary information to enable the

7 controller to conduct and document data protection assessments

8 under Section 541.105.

9   SECTION 4. Title 11, Business & Commerce Code, is amended by

10 adding Subtitle D to read as follows:

11   SUBTITLE D. ARTIFICIAL INTELLIGENCE PROTECTION

12   CHAPTER 551. GENERAL PROVISIONS

13   Sec. 551.001. DEFINITIONS. In this subtitle:

14   (1) "Artificial intelligence system" means machine

15 learning and related technology that uses data to train statistical

16 models for the purpose of enabling computer systems to perform

17 tasks normally associated with human intelligence or perception,

18 such as computer vision, speech or natural language processing, and

19 content generation.

20   (2) "Consumer" means an individual who is a resident

21 of this state acting only in an individual or household context.

22 The term does not include an individual acting in a commercial or

23 employment context.

24   (3) "Council" means the Texas Artificial Intelligence

25 Council established under Chapter 554.

26   Sec. 551.002. APPLICABILITY OF SUBTITLE. This subtitle

27 applies only to a person who:

3

1   (1) promotes, advertises, or conducts business in this

2 state;

3   (2) produces a product or service used by residents of

4 this state; or

5   (3) develops or deploys an artificial intelligence

6 system in this state.

7   Sec. 551.003. CONSTRUCTION AND APPLICATION OF SUBTITLE.

8 This subtitle shall be broadly construed and applied to promote its

9 underlying purposes, which are to:

10   (1) facilitate and advance the responsible

11 development and use of artificial intelligence systems;

12   (2) protect individuals and groups of individuals from

13 known and reasonably foreseeable risks associated with artificial

14 intelligence systems;

15   (3) provide transparency regarding risks in the

16 development, deployment, and use of artificial intelligence

17 systems; and

18   (4) provide reasonable notice regarding the use or

19 contemplated use of artificial intelligence systems by state

20 agencies.

21   CHAPTER 552. ARTIFICIAL INTELLIGENCE PROTECTION

22   SUBCHAPTER A. GENERAL PROVISIONS

23   Sec. 552.001. DEFINITIONS. In this chapter:

24   (1) "Deployer" means a person who deploys an

25 artificial intelligence system for use in this state.

26   (2) "Developer" means a person who develops an

27 artificial intelligence system that is offered, sold, leased,

1 given, or otherwise provided in this state.

2   Sec. 552.002. CONSTRUCTION OF CHAPTER. This chapter may

3 not be construed to:

4   (1) impose a requirement on a person that adversely

5 affects the rights or freedoms of any person, including the right of

6 free speech; or

7   (2) authorize any department or agency other than the

8 Department of Insurance to regulate or oversee the business of

9 insurance.

10   Sec. 552.003. LOCAL PREEMPTION. This chapter supersedes

11 and preempts any ordinance, resolution, rule, or other regulation

12 adopted by a political subdivision regarding the use of artificial

13 intelligence systems.

14   SUBCHAPTER B. DUTIES AND PROHIBITIONS ON USE OF ARTIFICIAL

15   INTELLIGENCE

16   Sec. 552.051. DISCLOSURE TO CONSUMERS. (a) In this

17 section, "health care services" means services related to human

18 health or to the diagnosis, prevention, or treatment of a human

19 disease or impairment provided by an individual licensed,

20 registered, or certified under applicable state or federal law to

21 provide those services.

22   (b) A governmental agency that makes available an

23 artificial intelligence system intended to interact with consumers

24 shall disclose to each consumer, before or at the time of

25 interaction, that the consumer is interacting with an artificial

26 intelligence system.

27   (c) A person is required to make the disclosure under

1 Subsection (b) regardless of whether it would be obvious to a

2 reasonable consumer that the consumer is interacting with an

3 artificial intelligence system.

4   (d) A disclosure under Subsection (b):

5   (1) must be clear and conspicuous;

6   (2) must be written in plain language; and

7   (3) may not use a dark pattern, as that term is defined

8 by Section 541.001.

9   (e) A disclosure under Subsection (b) may be provided:

10   (1) by using a hyperlink to direct a consumer to a

11 separate Internet web page; or

12   (2) for an artificial intelligence system related to

13 health care services, as part of any waivers or forms signed by a

14 patient at the start of service.

15   Sec. 552.052. MANIPULATION OF HUMAN BEHAVIOR. A person may

16 not develop or deploy an artificial intelligence system in a manner

17 that intentionally aims to incite or encourage a person to:

18   (1) commit physical self-harm, including suicide;

19   (2) harm another person; or

20   (3) engage in criminal activity.

21   Sec. 552.053. SOCIAL SCORING. A governmental entity may

22 not use or deploy an artificial intelligence system that evaluates

23 or classifies a natural person or group of natural persons based on

24 social behavior or personal characteristics, whether known,

25 inferred, or predicted, with the intent to calculate or assign a

26 social score or similar categorical estimation or valuation of the

27 person or group of persons that results or may result in:

1   (1) detrimental or unfavorable treatment of a person

2 or group of persons in a social context unrelated to the context in

3 which the behavior or characteristics were observed or noted;

4   (2) detrimental or unfavorable treatment of a person

5 or group of persons that is unjustified or disproportionate to the

6 nature or gravity of the observed or noted behavior or

7 characteristics; or

8   (3) the infringement of any right guaranteed under the

9 United States Constitution, the Texas Constitution, or state or

10 federal law.

11   Sec. 552.054. CAPTURE OF BIOMETRIC DATA.   (a)   In this

12 section, "biometric data" means data generated by automatic

13 measurements of an individual's biological characteristics. The

14 term includes a fingerprint, voiceprint, eye retina or iris, or

15 other unique biological pattern or characteristic that is used to

16 identify a specific individual.   The term does not include a

17 physical or digital photograph or data generated from a physical or

18 digital photograph, a video or audio recording or data generated

19 from a video or audio recording, or information collected, used, or

20 stored for health care treatment, payment, or operations under the

21 Health Insurance Portability and Accountability Act of 1996 (42

22 U.S.C. Section 1320d et seq.).

23   (b) A governmental entity may not develop or deploy an

24 artificial intelligence system for the purpose of uniquely

25 identifying a specific individual using biometric data or the

26 targeted or untargeted gathering of images or other media from the

27 Internet or any other publicly available source without the

1 individual's consent, if the gathering would infringe on any right

2 of the individual under the United States Constitution, the Texas

3 Constitution, or state or federal law.

4   (c) A violation of Section 503.001 is a violation of this

5 section.

6   Sec. 552.055. CONSTITUTIONAL PROTECTION. A person may not

7 develop or deploy an artificial intelligence system with the sole

8 intent for the artificial intelligence system to infringe,

9 restrict, or otherwise impair an individual's rights guaranteed

10 under the United States Constitution.

11   Sec. 552.056. UNLAWFUL DISCRIMINATION.   (a)   In this

12 section:

13   (1) "Insurance entity" means:

14   (A) an entity described by Section 82.002(a),

15 Insurance Code;

16   (B) a fraternal benefit society regulated under

17 Chapter 885, Insurance Code; or

18   (C) the developer of an artificial intelligence

19 system used by an entity described by Paragraph (A) or (B).

20   (2) "Protected class" means a group or class of

21 persons with a characteristic, quality, belief, or status protected

22 from discrimination by state or federal civil rights laws, and

23 includes race, color, national origin, sex, age, religion, or

24 disability.

25   (b) A person may not develop or deploy an artificial

26 intelligence system with the intent to unlawfully discriminate

27 against a protected class in violation of state or federal law.

8

1   (c) For purposes of this section, a disparate impact is not

2 sufficient by itself to demonstrate an intent to discriminate.

3   (d) This section does not apply to an insurance entity for

4 purposes of providing insurance services if the entity is subject

5 to applicable statutes regulating unfair discrimination, unfair

6 methods of competition, or unfair or deceptive acts or practices

7 related to the business of insurance.

8   Sec. 552.057. CERTAIN SEXUALLY EXPLICIT CONTENT AND CHILD

9 PORNOGRAPHY. A person may not:

10   (1) develop or distribute an artificial intelligence

11 system with the sole intent of producing, assisting or aiding in

12 producing, or distributing:

13   (A) visual material in violation of Section

14 43.26, Penal Code; or

15   (B) deep fake videos or images in violation of

16 Section 21.165, Penal Code; or

17   (2) intentionally develop or distribute an artificial

18 intelligence system capable of engaging in text-based conversation

19 that simulates or describes sexual conduct, as that term is defined

20 by Section 43.25, Penal Code, while impersonating or imitating a

21 child younger than 18 years of age.

22   SUBCHAPTER C. ENFORCEMENT

23   Sec. 552.101. ENFORCEMENT AUTHORITY. (a) The attorney

24 general has exclusive authority to enforce this chapter, except to

25 the extent provided by Section 552.106.

26   (b) This chapter does not provide a basis for, and is not

27 subject to, a private right of action for a violation of this

1 chapter or any other law.

2   Sec. 552.102. INFORMATION AND COMPLAINTS. The attorney

3 general shall create and maintain an online mechanism on the

4 attorney general's Internet website through which a consumer may

5 submit a complaint under this chapter to the attorney general.

6   Sec. 552.103. INVESTIGATIVE AUTHORITY. (a) If the

7 attorney general receives a complaint through the online mechanism

8 under Section 552.102 alleging a violation of this chapter, the

9 attorney general may issue a civil investigative demand to

10 determine if a violation has occurred. The attorney general shall

11 issue demands in accordance with and under the procedures

12 established under Section 15.10.

13   (b) The attorney general may request from the person

14 reported through the online mechanism, pursuant to a civil

15 investigative demand issued under Subsection (a):

16   (1) a description of the purpose, intended use,

17 deployment context, and associated benefits of the artificial

18 intelligence system with which the person is affiliated;

19   (2) a description of the type of data used to program

20 or train the artificial intelligence system;

21   (3) a description of the categories of data processed

22 as inputs for the artificial intelligence system;

23   (4) a description of the outputs produced by the

24 artificial intelligence system;

25   (5) any metrics the person uses to evaluate the

26 performance of the artificial intelligence system;

27   (6) any known limitations of the artificial

1 intelligence system;

2   (7) a description of the post-deployment monitoring

3 and user safeguards the person uses for the artificial intelligence

4 system, including, if the person is a deployer, the oversight, use,

5 and learning process established by the person to address issues

6 arising from the system's deployment; or

7   (8) any other relevant documentation reasonably

8 necessary for the attorney general to conduct an investigation

9 under this section.

10   Sec. 552.104. NOTICE OF VIOLATION; OPPORTUNITY TO CURE.

11 (a) If the attorney general determines that a person has violated

12 or is violating this chapter, the attorney general shall notify the

13 person in writing of the determination, identifying the specific

14 provisions of this chapter the attorney general alleges have been

15 or are being violated.

16   (b) The attorney general may not bring an action against the

17 person:

18   (1) before the 60th day after the date the attorney

19 general provides the notice under Subsection (a); or

20   (2) if, before the 60th day after the date the attorney

21 general provides the notice under Subsection (a), the person:

22   (A) cures the identified violation; and

23   (B) provides the attorney general with a written

24 statement that the person has:

25   (i) cured the alleged violation;

26   (ii) notified the council and, if

27 technically feasible, the consumer who submitted the complaint

11

1 under Section 552.102 that the violation has been addressed;

2   (iii) provided supporting documentation to

3 show the manner in which the person cured the violation; and

4   (iv) made any necessary changes to internal

5 policies to reasonably prevent further violation of this chapter.

6   Sec. 552.105. CIVIL PENALTY; INJUNCTION. (a) A person who

7 violates this chapter and does not cure the violation under Section

8 552.104 is liable to this state for a civil penalty in an amount of:

9   (1) for each violation the court determines to be

10 curable or a breach of a statement submitted to the attorney general

11 under Section 552.104(b)(2), not less than $10,000 and not more

12 than $12,000;

13   (2) for each violation the court determines to be

14 uncurable, not less than $80,000 and not more than $200,000; and

15   (3) for a continued violation, not less than $2,000

16 and not more than $40,000 for each day the violation continues.

17   (b) The attorney general may bring an action in the name of

18 this state to:

19   (1) collect a civil penalty under this section;

20   (2) seek injunctive relief against further violation

21 of this chapter; and

22   (3) recover attorney's fees and reasonable court costs

23 or other investigative expenses.

24   (c) There is a rebuttable presumption that a person used

25 reasonable care as required under this chapter.

26   (d) A defendant in an action under this section may seek an

27 expedited hearing or other process, including a request for

12

1 declaratory judgment, if the person believes in good faith that the

2 person has not violated this chapter.

3   (e) A defendant in an action under this section may not be

4 found liable if:

5   (1) another person uses the artificial intelligence

6 system affiliated with the defendant in a manner prohibited by this

7 chapter; or

8   (2) the defendant discovers a violation of this

9 chapter through:

10   (A) feedback from a developer, deployer, or other

11 person who believes a violation has occurred;

12   (B) testing, including adversarial testing or

13 red-team testing;

14   (C) following guidelines set by applicable state

15 agencies; or

16   (D) if the defendant substantially complies with

17 the most recent version of the "Artificial Intelligence Risk

18 Management Framework: Generative Artificial Intelligence Profile"

19 published by the National Institute of Standards and Technology or

20 another nationally or internationally recognized risk management

21 framework for artificial intelligence systems, an internal review

22 process.

23   (f) The attorney general may not bring an action to collect

24 a civil penalty under this section against a person for an

25 artificial intelligence system that has not been deployed.

26   Sec. 552.106. ENFORCEMENT ACTIONS BY STATE AGENCIES. (a) A

27 state agency may impose sanctions against a person licensed,

1 registered, or certified by that agency for a violation of

2 Subchapter B if:

3   (1) the person has been found in violation of this

4 chapter under Section 552.105; and

5   (2) the attorney general has recommended additional

6 enforcement by the applicable agency.

7   (b) Sanctions under this section may include:

8   (1) suspension, probation, or revocation of a license,

9 registration, certificate, or other authorization to engage in an

10 activity; and

11   (2) a monetary penalty not to exceed $100,000.

12 CHAPTER 553. ARTIFICIAL INTELLIGENCE REGULATORY SANDBOX PROGRAM

13   SUBCHAPTER A. GENERAL PROVISIONS

14   Sec. 553.001. DEFINITIONS. In this chapter:

15   (1) "Applicable agency" means a department of this

16 state established by law to regulate certain types of business

17 activity in this state and the people engaging in that business,

18 including the issuance of licenses and registrations, that the

19 department determines would regulate a program participant if the

20 person were not operating under this chapter.

21   (2) "Department" means the Texas Department of

22 Information Resources.

23   (3) "Program" means the regulatory sandbox program

24 established under this chapter that allows a person, without being

25 licensed or registered under the laws of this state, to test an

26 artificial intelligence system for a limited time and on a limited

27 basis.

1   (4) "Program participant" means a person whose

2 application to participate in the program is approved and who may

3 test an artificial intelligence system under this chapter.

4   SUBCHAPTER B. SANDBOX PROGRAM FRAMEWORK

5   Sec. 553.051. ESTABLISHMENT OF SANDBOX PROGRAM. (a) The

6 department, in consultation with the council, shall create a

7 regulatory sandbox program that enables a person to obtain legal

8 protection and limited access to the market in this state to test

9 innovative artificial intelligence systems without obtaining a

10 license, registration, or other regulatory authorization.

11   (b) The program is designed to:

12   (1) promote the safe and innovative use of artificial

13 intelligence systems across various sectors including healthcare,

14 finance, education, and public services;

15   (2) encourage responsible deployment of artificial

16 intelligence systems while balancing the need for consumer

17 protection, privacy, and public safety;

18   (3) provide clear guidelines for a person who develops

19 an artificial intelligence system to test systems while certain

20 laws and regulations are waived or suspended; and

21   (4) allow a person to engage in research, training,

22 testing, or other pre-deployment activities to develop an

23 artificial intelligence system.

24   (c) The attorney general may not file or pursue charges

25 against a program participant for violation of a law or regulation

26 waived under this chapter that occurs during the testing period.

27   (d) A state agency may not file or pursue punitive action

15

1 against a program participant, including the imposition of a fine

2 or the suspension or revocation of a license, registration, or

3 other authorization, for violation of a law or regulation waived

4 under this chapter that occurs during the testing period.

5   (e) Notwithstanding Subsections (c) and (d), the

6 requirements of Subchapter B, Chapter 552, may not be waived, and

7 the attorney general or a state agency may file or pursue charges or

8 action against a program participant who violates that subchapter.

9   Sec. 553.052. APPLICATION FOR PROGRAM PARTICIPATION. (a)

10 A person must obtain approval from the department before testing an

11 artificial intelligence system under the program.

12   (b) The department by rule shall prescribe the application

13 form. The form must require the applicant to:

14   (1) provide a detailed description of the artificial

15 intelligence system the applicant desires to test in the program,

16 and its intended use;

17   (2) include a benefit assessment that addresses

18 potential impacts on consumers, privacy, and public safety;

19   (3) describe the applicant's plan for mitigating any

20 adverse consequences that may occur during the test; and

21   (4) provide proof of compliance with any applicable

22 federal artificial intelligence laws and regulations.

23   Sec. 553.053. DURATION AND SCOPE OF PARTICIPATION. (a) A

24 program participant approved by the department may test and deploy

25 an artificial intelligence system under the program for a period of

26 not more than 36 months.

27   (b) The department may extend a test under this chapter if

1 the department finds good cause for the test to continue.

2   SUBCHAPTER C. OVERSIGHT AND COMPLIANCE

3   Sec. 553.101. COORDINATION WITH APPLICABLE AGENCY. (a)

4 The department shall coordinate with all applicable agencies to

5 oversee the operation of a program participant.

6   (b) The council or an applicable agency may recommend to the

7 department that a program participant be removed from the program

8 if the applicable agency finds that the program participant's

9 artificial intelligence system:

10   (1) poses an undue risk to public safety or welfare;

11   (2) violates any federal law or regulation; or

12   (3) violates any state law or regulation not waived

13 under the program.

14   Sec. 553.102. PERIODIC REPORT BY PROGRAM PARTICIPANT. (a)

15 A program participant shall provide a quarterly report to the

16 department.

17   (b) The report shall include:

18   (1) metrics for the artificial intelligence system's

19 performance;

20   (2) updates on how the artificial intelligence system

21 mitigates any risks associated with its operation; and

22   (3) feedback from consumers and affected stakeholders

23 that are using an artificial intelligence system tested under this

24 chapter.

25   (c) The department shall maintain confidentiality regarding

26 the intellectual property, trade secrets, and other sensitive

27 information it obtains through the program.

1   Sec. 553.103. ANNUAL REPORT BY DEPARTMENT. (a) The

2 department shall submit an annual report to the legislature.

3   (b) The report shall include:

4   (1) the number of program participants testing an

5 artificial intelligence system in the program;

6   (2) the overall performance and impact of artificial

7 intelligence systems tested in the program; and

8   (3) recommendations on changes to laws or regulations

9 for future legislative consideration.

10   CHAPTER 554. TEXAS ARTIFICIAL INTELLIGENCE COUNCIL

11   SUBCHAPTER A. CREATION AND ORGANIZATION OF COUNCIL

12   Sec. 554.001. CREATION OF COUNCIL. (a) The Texas

13 Artificial Intelligence Council is created to:

14   (1) ensure artificial intelligence systems in this

15 state are ethical and developed in the public's best interest;

16   (2) ensure artificial intelligence systems in this

17 state do not harm public safety or undermine individual freedoms by

18 finding issues and making recommendations to the legislature

19 regarding the Penal Code and Chapter 82, Civil Practice and

20 Remedies Code;

21   (3) identify existing laws and regulations that impede

22 innovation in the development of artificial intelligence systems

23 and recommend appropriate reforms;

24   (4) analyze opportunities to improve the efficiency

25 and effectiveness of state government operations through the use of

26 artificial intelligence systems;

27   (5) make recommendations to applicable state agencies

1 regarding the use of artificial intelligence systems to improve the

2 agencies' efficiency and effectiveness;

3   (6) investigate and evaluate potential instances of

4 regulatory capture, including undue influence by technology

5 companies or disproportionate burdens on smaller innovators caused

6 by the use of artificial intelligence systems;

7   (7) investigate and evaluate the influence of

8 technology companies on other companies and determine the existence

9 or use of tools or processes designed to censor competitors or users

10 through the use of artificial intelligence systems;

11   (8) offer guidance and recommendations to the

12 legislature on the ethical and legal use of artificial intelligence

13 systems;

14   (9) conduct and publish the results of a study on the

15 current regulatory environment for artificial intelligence

16 systems;

17   (10) monitor the regulatory sandbox program under

18 Chapter 553 in coordination with the Texas Department of

19 Information Resources; and

20   (11) make recommendations for improvements to the

21 regulatory sandbox program under Chapter 553.

22   (b) The council is administratively attached to the Texas

23 Department of Information Resources, and the department shall

24 provide administrative support to the council as provided by this

25 section.

26   (c) The Texas Department of Information Resources and the

27 council shall enter into a memorandum of understanding detailing:

1   (1) the administrative support the council requires

2 from the department to fulfill the council's purposes;

3   (2) the reimbursement of administrative expenses to

4 the department; and

5   (3) any other provisions necessary to ensure the

6 efficient operation of the council.

7   Sec. 554.002. COUNCIL MEMBERSHIP. (a) The council is

8 composed of 10 members as follows:

9   (1) four members of the public appointed by the

10 governor;

11   (2) two members of the public appointed by the

12 lieutenant governor;

13   (3) two members of the public appointed by the speaker

14 of the house of representatives;

15   (4) one senator appointed by the lieutenant governor

16 as a nonvoting member; and

17   (5) one member of the house of representatives

18 appointed by the speaker of the house of representatives as a

19 nonvoting member.

20   (b) Voting members of the council serve staggered four-year

21 terms, with the terms of four members expiring every two years.

22   (c) The governor shall appoint a chair from among the

23 members, and the council shall elect a vice chair from its

24 membership.

25   (d) The council may establish an advisory board composed of

26 individuals from the public who possess expertise directly related

27 to the council's functions, including technical, ethical,

1 regulatory, and other relevant areas.

2 Sec. 554.003. QUALIFICATIONS. Members of the council must

3 be Texas residents and have knowledge or expertise in one or more of

4 the following areas:

5 (1) artificial intelligence systems;

6 (2) data privacy and security;

7 (3) ethics in technology or law;

8 (4) public policy and regulation;

9 (5) risk management related to artificial

10 intelligence systems;

11 (6) improving the efficiency and effectiveness of

12 governmental operations; or

13 (7) anticompetitive practices and market fairness.

14 Sec. 554.004. STAFF AND ADMINISTRATION. The council may

15 hire an executive director and other personnel as necessary to

16 perform its duties.

17 SUBCHAPTER B. POWERS AND DUTIES OF COUNCIL

18 Sec. 554.101. ISSUANCE OF REPORTS. (a) The council may

19 issue reports to the legislature regarding the use of artificial

20 intelligence systems in this state.

21 (b) The council may issue reports on:

22 (1) the compliance of artificial intelligence systems

23 in this state with the laws of this state;

24 (2) the ethical implications of deploying artificial

25 intelligence systems in this state;

26 (3) data privacy and security concerns related to

27 artificial intelligence systems in this state; or

1   (4) potential liability or legal risks associated with

2 the use of artificial intelligence systems in this state.

3   Sec. 554.102. TRAINING AND EDUCATIONAL OUTREACH. The

4 council shall conduct training programs for state agencies and

5 local governments on the use of artificial intelligence systems.

6   Sec. 554.103. LIMITATION OF AUTHORITY. The council may

7 not:

8   (1) adopt rules or promulgate guidance that is binding

9 for any entity;

10   (2) interfere with or override the operation of a

11 state agency; or

12   (3) perform a duty or exercise a power not granted by

13 this chapter.

14   SECTION 5. Section 325.011, Government Code, is amended to

15 read as follows:

16   Sec. 325.011. CRITERIA FOR REVIEW. The commission and its

17 staff shall consider the following criteria in determining whether

18 a public need exists for the continuation of a state agency or its

19 advisory committees or for the performance of the functions of the

20 agency or its advisory committees:

21   (1) the efficiency and effectiveness with which the

22 agency or the advisory committee operates;

23   (2)(A) an identification of the mission, goals, and

24 objectives intended for the agency or advisory committee and of the

25 problem or need that the agency or advisory committee was intended

26 to address; and

27   (B) the extent to which the mission, goals, and

1 objectives have been achieved and the problem or need has been

2 addressed;

3   (3)(A) an identification of any activities of the

4 agency in addition to those granted by statute and of the authority

5 for those activities; and

6   (B) the extent to which those activities are

7 needed;

8   (4) an assessment of authority of the agency relating

9 to fees, inspections, enforcement, and penalties;

10   (5) whether less restrictive or alternative methods of

11 performing any function that the agency performs could adequately

12 protect or provide service to the public;

13   (6) the extent to which the jurisdiction of the agency

14 and the programs administered by the agency overlap or duplicate

15 those of other agencies, the extent to which the agency coordinates

16 with those agencies, and the extent to which the programs

17 administered by the agency can be consolidated with the programs of

18 other state agencies;

19   (7) the promptness and effectiveness with which the

20 agency addresses complaints concerning entities or other persons

21 affected by the agency, including an assessment of the agency's

22 administrative hearings process;

23   (8) an assessment of the agency's rulemaking process

24 and the extent to which the agency has encouraged participation by

25 the public in making its rules and decisions and the extent to which

26 the public participation has resulted in rules that benefit the

27 public;

1   (9) the extent to which the agency has complied with:

2   (A) federal and state laws and applicable rules

3   regarding equality of employment opportunity and the rights and

4   privacy of individuals; and

5   (B) state law and applicable rules of any state

6   agency regarding purchasing guidelines and programs for

7   historically underutilized businesses;

8   (10) the extent to which the agency issues and

9   enforces rules relating to potential conflicts of interest of its

10   employees;

11   (11) the extent to which the agency complies with

12   Chapters 551 and 552 and follows records management practices that

13   enable the agency to respond efficiently to requests for public

14   information;

15   (12) the effect of federal intervention or loss of

16   federal funds if the agency is abolished;

17   (13) the extent to which the purpose and effectiveness

18   of reporting requirements imposed on the agency justifies the

19   continuation of the requirement; [and]

20   (14) an assessment of the agency's cybersecurity

21   practices using confidential information available from the

22   Department of Information Resources or any other appropriate state

23   agency; and

24   (15) an assessment of the agency's use of artificial

25   intelligence systems, as that term is defined by Section 551.001,

26   Business & Commerce Code, in its operations and its oversight of the

27   use of artificial intelligence systems by persons under the

1 agency's jurisdiction, and any related impact on the agency's

2 ability to achieve its mission, goals, and objectives, made using

3 information available from the Department of Information

4 Resources, the attorney general, or any other appropriate state

5 agency.

6   SECTION 6. Section 2054.068(b), Government Code, is amended

7 to read as follows:

8   (b) The department shall collect from each state agency

9 information on the status and condition of the agency's information

10 technology infrastructure, including information regarding:

11   (1) the agency's information security program;

12   (2) an inventory of the agency's servers, mainframes,

13 cloud services, and other information technology equipment;

14   (3) identification of vendors that operate and manage

15 the agency's information technology infrastructure; [and]

16   (4) any additional related information requested by

17 the department; and

18   (5) an evaluation of the use or considered use of

19 artificial intelligence systems, as defined by Section 551.001,

20 Business & Commerce Code, by each state agency.

21   SECTION 7. Section 2054.0965(b), Government Code, is

22 amended to read as follows:

23   (b) Except as otherwise modified by rules adopted by the

24 department, the review must include:

25   (1) an inventory of the agency's major information

26 systems, as defined by Section 2054.008, and other operational or

27 logistical components related to deployment of information

1 resources as prescribed by the department;

2   (2) an inventory of the agency's major databases,

3 artificial intelligence systems, as defined by Section 551.001,

4 Business & Commerce Code, and applications;

5   (3) a description of the agency's existing and planned

6 telecommunications network configuration;

7   (4) an analysis of how information systems,

8 components, databases, applications, and other information

9 resources have been deployed by the agency in support of:

10   (A) applicable achievement goals established

11 under Section 2056.006 and the state strategic plan adopted under

12 Section 2056.009;

13   (B) the state strategic plan for information

14 resources; and

15   (C) the agency's business objectives, mission,

16 and goals;

17   (5) agency information necessary to support the state

18 goals for interoperability and reuse; and

19   (6) confirmation by the agency of compliance with

20 state statutes, rules, and standards relating to information

21 resources.

22   SECTION 8. Not later than September 1, 2026, the attorney

23 general shall post on the attorney general's Internet website the

24 information and online mechanism required by Section 552.102,

25 Business & Commerce Code, as added by this Act.

26   SECTION 9. This Act takes effect January 1, 2026.

26

By: _C. Schwo___   **H**.B. No. **149**

Substitute the following for **H**.B. No. **149** :

By: *Donna Campbell*   C.S.**H**.B. No. **149**

A BILL TO BE ENTITLED

1   AN ACT

2 relating to regulation of the use of artificial intelligence

3 systems in this state; providing civil penalties.

4   BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF TEXAS:

5   SECTION 1. This Act may be cited as the Texas Responsible

6 Artificial Intelligence Governance Act.

7   SECTION 2. Section 503.001, Business & Commerce Code, is

8 amended by amending Subsections (a) and (e) and adding Subsections

9 (b-1) and (f) to read as follows:

10   (a) In this section:

11   (1) "Artificial intelligence system" has the meaning

12 assigned by Section 551.001.

13   (2) "Biometric [, "biometric] identifier" means a

14 retina or iris scan, fingerprint, voiceprint, or record of hand or

15 face geometry.

16   (b-1) For purposes of Subsection (b), an individual has not

17 been informed of and has not provided consent for the capture or

18 storage of a biometric identifier of an individual for a commercial

19 purpose based solely on the existence of an image or other media

20 containing one or more biometric identifiers of the individual on

21 the Internet or other publicly available source unless the image or

22 other media was made publicly available by the individual to whom

23 the biometric identifiers relate.

24   (e) This section does not apply to:

89R31345 BCH-F   1

(1) voiceprint data retained by a financial institution or an affiliate of a financial institution, as those terms are defined by 15 U.S.C. Section 6809;

(2) the training, processing, or storage of biometric identifiers involved in developing, training, evaluating, disseminating, or otherwise offering artificial intelligence models or systems, unless a system is used or deployed for the purpose of uniquely identifying a specific individual; or

(3) the development or deployment of an artificial intelligence model or system for the purposes of:

(A) preventing, detecting, protecting against, or responding to security incidents, identity theft, fraud, harassment, malicious or deceptive activities, or any other illegal activity;

(B) preserving the integrity or security of a system; or

(C) investigating, reporting, or prosecuting a person responsible for a security incident, identity theft, fraud, harassment, a malicious or deceptive activity, or any other illegal activity.

(f) If a biometric identifier captured for the purpose of training an artificial intelligence system is subsequently used for a commercial purpose not described by Subsection (e), the person possessing the biometric identifier is subject to:

(1) this section's provisions for the possession and destruction of a biometric identifier; and

(2) the penalties associated with a violation of this

1 section.

2   SECTION 3. Section 541.104(a), Business & Commerce Code, is

3 amended to read as follows:

4   (a) A processor shall adhere to the instructions of a

5 controller and shall assist the controller in meeting or complying

6 with the controller's duties or requirements under this chapter,

7 including:

8   (1) assisting the controller in responding to consumer

9 rights requests submitted under Section 541.051 by using

10 appropriate technical and organizational measures, as reasonably

11 practicable, taking into account the nature of processing and the

12 information available to the processor;

13   (2) assisting the controller with regard to complying

14 with requirements [the requirement] relating to the security of

15 processing personal data, and if applicable, the personal data

16 collected, stored, and processed by an artificial intelligence

17 system, as that term is defined by Section 551.001, and to the

18 notification of a breach of security of the processor's system

19 under Chapter 521, taking into account the nature of processing and

20 the information available to the processor; and

21   (3) providing necessary information to enable the

22 controller to conduct and document data protection assessments

23 under Section 541.105.

24   SECTION 4. Title 11, Business & Commerce Code, is amended by

25 adding Subtitle D to read as follows:

SUBTITLE D. ARTIFICIAL INTELLIGENCE PROTECTION

CHAPTER 551. GENERAL PROVISIONS

Sec. 551.001. DEFINITIONS. In this subtitle:

(1) "Artificial intelligence system" means any machine-based system that, for any explicit or implicit objective, infers from the inputs the system receives how to generate outputs, including content, decisions, predictions, or recommendations, that can influence physical or virtual environments.

(2) "Consumer" means an individual who is a resident of this state acting only in an individual or household context. The term does not include an individual acting in a commercial or employment context.

(3) "Council" means the Texas Artificial Intelligence Council established under Chapter 554.

Sec. 551.002. APPLICABILITY OF SUBTITLE. This subtitle applies only to a person who:

(1) promotes, advertises, or conducts business in this state;

(2) produces a product or service used by residents of this state; or

(3) develops or deploys an artificial intelligence system in this state.

Sec. 551.003. CONSTRUCTION AND APPLICATION OF SUBTITLE. This subtitle shall be broadly construed and applied to promote its underlying purposes, which are to:

(1) facilitate and advance the responsible development and use of artificial intelligence systems;

1   (2) protect individuals and groups of individuals from
2 known and reasonably foreseeable risks associated with artificial
3 intelligence systems;
4   (3) provide transparency regarding risks in the
5 development, deployment, and use of artificial intelligence
6 systems; and
7   (4) provide reasonable notice regarding the use or
8 contemplated use of artificial intelligence systems by state
9 agencies.
10   CHAPTER 552. ARTIFICIAL INTELLIGENCE PROTECTION
11   SUBCHAPTER A. GENERAL PROVISIONS
12   Sec. 552.001. DEFINITIONS. In this chapter:
13   (1) "Deployer" means a person who deploys an
14 artificial intelligence system for use in this state.
15   (2) "Developer" means a person who develops an
16 artificial intelligence system that is offered, sold, leased,
17 given, or otherwise provided in this state.
18   Sec. 552.002. CONSTRUCTION OF CHAPTER. This chapter may
19 not be construed to:
20   (1) impose a requirement on a person that adversely
21 affects the rights or freedoms of any person, including the right of
22 free speech; or
23   (2) authorize any department or agency other than the
24 Department of Insurance to regulate or oversee the business of
25 insurance.
26   Sec. 552.003. LOCAL PREEMPTION. This chapter supersedes
27 and preempts any ordinance, resolution, rule, or other regulation

adopted by a political subdivision regarding the use of artificial

intelligence systems.

     SUBCHAPTER B. DUTIES AND PROHIBITIONS ON USE OF ARTIFICIAL

INTELLIGENCE

     Sec. 552.051. DISCLOSURE TO CONSUMERS. (a) In this section, "health care services" means services related to human health or to the diagnosis, prevention, or treatment of a human disease or impairment provided by an individual licensed, registered, or certified under applicable state or federal law to provide those services.

     (b) A governmental agency that makes available an artificial intelligence system intended to interact with consumers shall disclose to each consumer, before or at the time of interaction, that the consumer is interacting with an artificial intelligence system.

     (c) A person is required to make the disclosure under Subsection (b) regardless of whether it would be obvious to a reasonable consumer that the consumer is interacting with an artificial intelligence system.

     (d) A disclosure under Subsection (b):

          (1) must be clear and conspicuous;

          (2) must be written in plain language; and

          (3) may not use a dark pattern, as that term is defined by Section 541.001.

     (e) A disclosure under Subsection (b) may be provided by using a hyperlink to direct a consumer to a separate Internet web page.

1   (f) If an artificial intelligence system is used in relation

2 to health care service or treatment, the provider of the service or

3 treatment shall provide the disclosure under Subsection (b) to the

4 recipient of the service or treatment or the recipient's personal

5 representative not later than the date the service or treatment is

6 first provided, except in the case of emergency, in which case the

7 provider   shall   provide   the   required   disclosure   as   soon   as

8 reasonably possible.

9   Sec. 552.052. MANIPULATION OF HUMAN BEHAVIOR. A person may

10 not develop or deploy an artificial intelligence system in a manner

11 that intentionally aims to incite or encourage a person to:

12   (1) commit physical self-harm, including suicide;

13   (2) harm another person; or

14   (3) engage in criminal activity.

15   Sec. 552.053. SOCIAL SCORING. A governmental entity may

16 not use or deploy an artificial intelligence system that evaluates

17 or classifies a natural person or group of natural persons based on

18 social   behavior   or   personal   characteristics,   whether   known,

19 inferred, or predicted, with the intent to calculate or assign a

20 social score or similar categorical estimation or valuation of the

21 person or group of persons that results or may result in:

22   (1) detrimental or unfavorable treatment of a person

23 or group of persons in a social context unrelated to the context in

24 which the behavior or characteristics were observed or noted;

25   (2) detrimental or unfavorable treatment of a person

26 or group of persons that is unjustified or disproportionate to the

27 nature   or   gravity   of   the   observed   or   noted   behavior   or

1 characteristics; or

2   (3) the infringement of any right guaranteed under the

3 United States Constitution, the Texas Constitution, or state or

4 federal law.

5   Sec. 552.054. CAPTURE OF BIOMETRIC DATA. (a) In this

6 section, "biometric data" means data generated by automatic

7 measurements of an individual's biological characteristics. The

8 term includes a fingerprint, voiceprint, eye retina or iris, or

9 other unique biological pattern or characteristic that is used to

10 identify a specific individual. The term does not include a

11 physical or digital photograph or data generated from a physical or

12 digital photograph, a video or audio recording or data generated

13 from a video or audio recording, or information collected, used, or

14 stored for health care treatment, payment, or operations under the

15 Health Insurance Portability and Accountability Act of 1996 (42

16 U.S.C. Section 1320d et seq.).

17   (b) A governmental entity may not develop or deploy an

18 artificial intelligence system for the purpose of uniquely

19 identifying a specific individual using biometric data or the

20 targeted or untargeted gathering of images or other media from the

21 Internet or any other publicly available source without the

22 individual's consent, if the gathering would infringe on any right

23 of the individual under the United States Constitution, the Texas

24 Constitution, or state or federal law.

25   (c) A violation of Section 503.001 is a violation of this

26 section.

27   Sec. 552.055. CONSTITUTIONAL PROTECTION. A person may not

1 develop or deploy an artificial intelligence system with the sole

2 intent for the artificial intelligence system to infringe,

3 restrict, or otherwise impair an individual's rights guaranteed

4 under the United States Constitution.

5   Sec. 552.056. UNLAWFUL DISCRIMINATION. (a) In this

6 section:

7   (1) "Financial institution" has the meaning assigned

8 by Section 201.101, Finance Code.

9   (2) "Insurance entity" means:

10   (A) an entity described by Section 82.002(a),

11 Insurance Code;

12   (B) a fraternal benefit society regulated under

13 Chapter 885, Insurance Code; or

14   (C) the developer of an artificial intelligence

15 system used by an entity described by Paragraph (A) or (B).

16   (3) "Protected class" means a group or class of

17 persons with a characteristic, quality, belief, or status protected

18 from discrimination by state or federal civil rights laws, and

19 includes race, color, national origin, sex, age, religion, or

20 disability.

21   (b) A person may not develop or deploy an artificial

22 intelligence system with the intent to unlawfully discriminate

23 against a protected class in violation of state or federal law.

24   (c) For purposes of this section, a disparate impact is not

25 sufficient by itself to demonstrate an intent to discriminate.

26   (d) This section does not apply to an insurance entity for

27 purposes of providing insurance services if the entity is subject

1 to applicable statutes regulating unfair discrimination, unfair

2 methods of competition, or unfair or deceptive acts or practices

3 related to the business of insurance.

4 (e) A federally insured financial institution is considered

5 to be in compliance with this section if the institution complies

6 with all federal and state banking laws and regulations.

7 Sec. 552.057. CERTAIN SEXUALLY EXPLICIT CONTENT AND CHILD

8 PORNOGRAPHY. A person may not:

9 (1) develop or distribute an artificial intelligence

10 system with the sole intent of producing, assisting or aiding in

11 producing, or distributing:

12 (A) visual material in violation of Section

13 43.26, Penal Code; or

14 (B) deep fake videos or images in violation of

15 Section 21.165, Penal Code; or

16 (2) intentionally develop or distribute an artificial

17 intelligence system that engages in text-based conversations that

18 simulate or describe sexual conduct, as that term is defined by

19 Section 43.25, Penal Code, while impersonating or imitating a child

20 younger than 18 years of age.

21 SUBCHAPTER C. ENFORCEMENT

22 Sec. 552.101. ENFORCEMENT AUTHORITY. (a) The attorney

23 general has exclusive authority to enforce this chapter, except to

24 the extent provided by Section 552.106.

25 (b) This chapter does not provide a basis for, and is not

26 subject to, a private right of action for a violation of this

27 chapter or any other law.

Sec. 552.102. INFORMATION AND COMPLAINTS. The attorney general shall create and maintain an online mechanism on the attorney general's Internet website through which a consumer may submit a complaint under this chapter to the attorney general.

Sec. 552.103. INVESTIGATIVE AUTHORITY. (a) If the attorney general receives a complaint through the online mechanism under Section 552.102 alleging a violation of this chapter, the attorney general may issue a civil investigative demand to determine if a violation has occurred. The attorney general shall issue demands in accordance with and under the procedures established under Section 15.10.

(b) The attorney general may request from the person reported through the online mechanism, pursuant to a civil investigative demand issued under Subsection (a):

(1) a high-level description of the purpose, intended use, deployment context, and associated benefits of the artificial intelligence system with which the person is affiliated;

(2) a description of the type of data used to program or train the artificial intelligence system;

(3) a high-level description of the categories of data processed as inputs for the artificial intelligence system;

(4) a high-level description of the outputs produced by the artificial intelligence system;

(5) any metrics the person uses to evaluate the performance of the artificial intelligence system;

(6) any known limitations of the artificial intelligence system;

1 (7) a high-level description of the post-deployment
2 monitoring and user safeguards the person uses for the artificial
3 intelligence system, including, if the person is a deployer, the
4 oversight, use, and learning process established by the person to
5 address issues arising from the system's deployment; or

6 (8) any other relevant documentation reasonably
7 necessary for the attorney general to conduct an investigation
8 under this section.

9 Sec. 552.104. NOTICE OF VIOLATION; OPPORTUNITY TO CURE.
10 (a) If the attorney general determines that a person has violated
11 or is violating this chapter, the attorney general shall notify the
12 person in writing of the determination, identifying the specific
13 provisions of this chapter the attorney general alleges have been
14 or are being violated.

15 (b) The attorney general may not bring an action against the
16 person:

17 (1) before the 60th day after the date the attorney
18 general provides the notice under Subsection (a); or

19 (2) if, before the 60th day after the date the attorney
20 general provides the notice under Subsection (a), the person:

21 (A) cures the identified violation; and

22 (B) provides the attorney general with a written
23 statement that the person has:

24 (i) cured the alleged violation;

25 (ii) provided supporting documentation to
26 show the manner in which the person cured the violation; and

27 (iii) made any necessary changes to

1 internal policies to reasonably prevent further violation of this

2 chapter.

3   Sec. 552.105. CIVIL PENALTY; INJUNCTION. (a) A person who

4 violates this chapter and does not cure the violation under Section

5 552.104 is liable to this state for a civil penalty in an amount of:

6   (1) for each violation the court determines to be

7 curable or a breach of a statement submitted to the attorney general

8 under Section 552.104(b)(2), not less than $10,000 and not more

9 than $12,000;

10   (2) for each violation the court determines to be

11 uncurable, not less than $80,000 and not more than $200,000; and

12   (3) for a continued violation, not less than $2,000

13 and not more than $40,000 for each day the violation continues.

14   (b) The attorney general may bring an action in the name of

15 this state to:

16   (1) collect a civil penalty under this section;

17   (2) seek injunctive relief against further violation

18 of this chapter; and

19   (3) recover attorney's fees and reasonable court costs

20 or other investigative expenses.

21   (c) There is a rebuttable presumption that a person used

22 reasonable care as required under this chapter.

23   (d) A defendant in an action under this section may seek an

24 expedited hearing or other process, including a request for

25 declaratory judgment, if the person believes in good faith that the

26 person has not violated this chapter.

27   (e) A defendant in an action under this section may not be

found liable if:

    (1) another person uses the artificial intelligence system affiliated with the defendant in a manner prohibited by this chapter; or

    (2) the defendant discovers a violation of this chapter through:

      (A) feedback from a developer, deployer, or other person who believes a violation has occurred;

      (B) testing, including adversarial testing or red-team testing;

      (C) following guidelines set by applicable state agencies; or

      (D) if the defendant substantially complies with the most recent version of the "Artificial Intelligence Risk Management Framework: Generative Artificial Intelligence Profile" published by the National Institute of Standards and Technology or another nationally or internationally recognized risk management framework for artificial intelligence systems, an internal review process.

  (f) The attorney general may not bring an action to collect a civil penalty under this section against a person for an artificial intelligence system that has not been deployed.

  Sec. 552.106. ENFORCEMENT ACTIONS BY STATE AGENCIES. (a) A state agency may impose sanctions against a person licensed, registered, or certified by that agency for a violation of Subchapter B if:

    (1) the person has been found in violation of this

1   chapter under Section 552.105; and

2   (2)   the attorney general has recommended additional

3   enforcement by the applicable agency.

4   (b)   Sanctions under this section may include:

5   (1)   suspension, probation, or revocation of a license,

6   registration, certificate, or other authorization to engage in an

7   activity; and

8   (2)   a monetary penalty not to exceed $100,000.

9   CHAPTER 553.   ARTIFICIAL INTELLIGENCE REGULATORY SANDBOX PROGRAM

10   SUBCHAPTER A.   GENERAL PROVISIONS

11   Sec. 553.001.   DEFINITIONS.   In this chapter:

12   (1)   "Applicable agency" means a department of this

13 state established by law to regulate certain types of business

14 activity in this state and the people engaging in that business,

15 including the issuance of licenses and registrations, that the

16 department determines would regulate a program participant if the

17 person were not operating under this chapter.

18   (2)   "Department" means the Texas Department of

19 Information Resources.

20   (3)   "Program" means the regulatory sandbox program

21 established under this chapter that allows a person, without being

22 licensed or registered under the laws of this state, to test an

23 artificial intelligence system for a limited time and on a limited

24 basis.

25   (4)   "Program participant" means a person whose

26 application to participate in the program is approved and who may

27 test an artificial intelligence system under this chapter.

89R31345 BCH-F   15

SUBCHAPTER B. SANDBOX PROGRAM FRAMEWORK

Sec. 553.051. ESTABLISHMENT OF SANDBOX PROGRAM. (a) The department, in consultation with the council, shall create a regulatory sandbox program that enables a person to obtain legal protection and limited access to the market in this state to test innovative artificial intelligence systems without obtaining a license, registration, or other regulatory authorization.

(b) The program is designed to:

(1) promote the safe and innovative use of artificial intelligence systems across various sectors including healthcare, finance, education, and public services;

(2) encourage responsible deployment of artificial intelligence systems while balancing the need for consumer protection, privacy, and public safety;

(3) provide clear guidelines for a person who develops an artificial intelligence system to test systems while certain laws and regulations related to the testing are waived or suspended; and

(4) allow a person to engage in research, training, testing, or other pre-deployment activities to develop an artificial intelligence system.

(c) The attorney general may not file or pursue charges against a program participant for violation of a law or regulation waived under this chapter that occurs during the testing period.

(d) A state agency may not file or pursue punitive action against a program participant, including the imposition of a fine or the suspension or revocation of a license, registration, or

1   other authorization, for violation of a law or regulation waived

2   under this chapter that occurs during the testing period.

3   (e) Notwithstanding Subsections (c) and (d), the

4   requirements of Subchapter B, Chapter 552, may not be waived, and

5   the attorney general or a state agency may file or pursue charges or

6   action against a program participant who violates that subchapter.

7   Sec. 553.052. APPLICATION FOR PROGRAM PARTICIPATION. (a)

8   A person must obtain approval from the department and any

9   applicable agency before testing an artificial intelligence system

10 under the program.

11   (b) The department by rule shall prescribe the application

12 form. The form must require the applicant to:

13   (1) provide a detailed description of the artificial

14 intelligence system the applicant desires to test in the program,

15 and its intended use;

16   (2) include a benefit assessment that addresses

17 potential impacts on consumers, privacy, and public safety;

18   (3) describe the applicant's plan for mitigating any

19 adverse consequences that may occur during the test; and

20   (4) provide proof of compliance with any applicable

21 federal artificial intelligence laws and regulations.

22   Sec. 553.053. DURATION AND SCOPE OF PARTICIPATION. (a) A

23 program participant approved by the department and each applicable

24 agency may test and deploy an artificial intelligence system under

25 the program for a period of not more than 36 months.

26   (b) The department may extend a test under this chapter if

27 the department finds good cause for the test to continue.

1   Sec. 553.054. EFFICIENT USE OF RESOURCES. The department

2 shall coordinate the activities under this subchapter and any other

3 law relating to artificial intelligence systems to ensure efficient

4 system implementation and to streamline the use of department

5 resources, including information sharing and personnel.

6   SUBCHAPTER C. OVERSIGHT AND COMPLIANCE

7   Sec. 553.101. COORDINATION WITH APPLICABLE AGENCY. (a)

8 The department shall coordinate with all applicable agencies to

9 oversee the operation of a program participant.

10   (b) The council or an applicable agency may recommend to the

11 department that a program participant be removed from the program

12 if the council or applicable agency finds that the program

13 participant's artificial intelligence system:

14   (1) poses an undue risk to public safety or welfare;

15   (2) violates any federal law or regulation; or

16   (3) violates any state law or regulation not waived

17 under the program.

18   Sec. 553.102. PERIODIC REPORT BY PROGRAM PARTICIPANT. (a)

19 A program participant shall provide a quarterly report to the

20 department.

21   (b) The report shall include:

22   (1) metrics for the artificial intelligence system's

23 performance;

24   (2) updates on how the artificial intelligence system

25 mitigates any risks associated with its operation; and

26   (3) feedback from consumers and affected stakeholders

27 that are using an artificial intelligence system tested under this

1 chapter.

2 (c) The department shall maintain confidentiality regarding

3 the intellectual property, trade secrets, and other sensitive

4 information it obtains through the program.

5 Sec. 553.103. ANNUAL REPORT BY DEPARTMENT. (a) The

6 department shall submit an annual report to the legislature.

7 (b) The report shall include:

8 (1) the number of program participants testing an

9 artificial intelligence system in the program;

10 (2) the overall performance and impact of artificial

11 intelligence systems tested in the program; and

12 (3) recommendations on changes to laws or regulations

13 for future legislative consideration.

14 CHAPTER 554. TEXAS ARTIFICIAL INTELLIGENCE COUNCIL

15 SUBCHAPTER A. CREATION AND ORGANIZATION OF COUNCIL

16 Sec. 554.001. CREATION OF COUNCIL. (a) The Texas

17 Artificial Intelligence Council is created to:

18 (1) ensure artificial intelligence systems in this

19 state are ethical and developed in the public's best interest;

20 (2) ensure artificial intelligence systems in this

21 state do not harm public safety or undermine individual freedoms by

22 finding issues and making recommendations to the legislature

23 regarding the Penal Code and Chapter 82, Civil Practice and

24 Remedies Code;

25 (3) identify existing laws and regulations that impede

26 innovation in the development of artificial intelligence systems

27 and recommend appropriate reforms;

1   (4) analyze opportunities to improve the efficiency

2 and effectiveness of state government operations through the use of

3 artificial intelligence systems;

4   (5) make recommendations to applicable state agencies

5 regarding the use of artificial intelligence systems to improve the

6 agencies' efficiency and effectiveness;

7   (6) evaluate potential instances of regulatory

8 capture, including undue influence by technology companies or

9 disproportionate burdens on smaller innovators caused by the use of

10 artificial intelligence systems;

11   (7) evaluate the influence of technology companies on

12 other companies and determine the existence or use of tools or

13 processes designed to censor competitors or users through the use

14 of artificial intelligence systems;

15   (8) offer guidance and recommendations to the

16 legislature on the ethical and legal use of artificial intelligence

17 systems;

18   (9) conduct and publish the results of a study on the

19 current regulatory environment for artificial intelligence

20 systems;

21   (10) receive reports from the Department of

22 Information Resources regarding the regulatory sandbox program

23 under Chapter 553; and

24   (11) make recommendations for improvements to the

25 regulatory sandbox program under Chapter 553.

26   (b) The council is administratively attached to the

27 Department of Information Resources, and the department shall

1 provide administrative support to the council as provided by this

2 section.

3   (c) The Department of Information Resources and the council

4 shall enter into a memorandum of understanding detailing:

5   (1) the administrative support the council requires

6 from the department to fulfill the council's purposes;

7   (2) the reimbursement of administrative expenses to

8 the department; and

9   (3) any other provisions necessary to ensure the

10 efficient operation of the council.

11   Sec. 554.002. COUNCIL MEMBERSHIP. (a) The council is

12 composed of seven members as follows:

13   (1) three members of the public appointed by the

14 governor;

15   (2) two members of the public appointed by the

16 lieutenant governor; and

17   (3) two members of the public appointed by the speaker

18 of the house of representatives.

19   (b) Members of the council serve staggered four-year terms,

20 with the terms of three or four members expiring every two years.

21   (c) The governor shall appoint a chair from among the

22 members, and the council shall elect a vice chair from its

23 membership.

24   (d) The council may establish an advisory board composed of

25 individuals from the public who possess expertise directly related

26 to the council's functions, including technical, ethical,

27 regulatory, and other relevant areas.

Sec. 554.003. QUALIFICATIONS. Members of the council must be Texas residents and have knowledge or expertise in one or more of the following areas:

        (1) artificial intelligence systems;

        (2) data privacy and security;

        (3) ethics in technology or law;

        (4) public policy and regulation;

        (5) risk management related to artificial intelligence systems;

        (6) improving the efficiency and effectiveness of governmental operations; or

        (7) anticompetitive practices and market fairness.

Sec. 554.004. STAFF AND ADMINISTRATION. The council may hire an executive director and other personnel as necessary to perform its duties.

SUBCHAPTER B. POWERS AND DUTIES OF COUNCIL

Sec. 554.101. ISSUANCE OF REPORTS. (a) The council may issue reports to the legislature regarding the use of artificial intelligence systems in this state.

(b) The council may issue reports on:

        (1) the compliance of artificial intelligence systems in this state with the laws of this state;

        (2) the ethical implications of deploying artificial intelligence systems in this state;

        (3) data privacy and security concerns related to artificial intelligence systems in this state; or

        (4) potential liability or legal risks associated with

the use of artificial intelligence systems in this state.

Sec. 554.102. TRAINING AND EDUCATIONAL OUTREACH. The council shall conduct training programs for state agencies and local governments on the use of artificial intelligence systems.

Sec. 554.103. LIMITATION OF AUTHORITY. The council may not:

(1) adopt rules or promulgate guidance that is binding for any entity;

(2) interfere with or override the operation of a state agency; or

(3) perform a duty or exercise a power not granted by this chapter.

SECTION 5. Section 325.011, Government Code, is amended to read as follows:

Sec. 325.011. CRITERIA FOR REVIEW. The commission and its staff shall consider the following criteria in determining whether a public need exists for the continuation of a state agency or its advisory committees or for the performance of the functions of the agency or its advisory committees:

(1) the efficiency and effectiveness with which the agency or the advisory committee operates;

(2)(A) an identification of the mission, goals, and objectives intended for the agency or advisory committee and of the problem or need that the agency or advisory committee was intended to address; and

(B) the extent to which the mission, goals, and objectives have been achieved and the problem or need has been

1   addressed;

2   (3)(A) an identification of any activities of the

3   agency in addition to those granted by statute and of the authority

4   for those activities; and

5   (B) the extent to which those activities are

6   needed;

7   (4)   an assessment of authority of the agency relating

8   to fees, inspections, enforcement, and penalties;

9   (5)   whether less restrictive or alternative methods of

10 performing any function that the agency performs could adequately

11 protect or provide service to the public;

12   (6)   the extent to which the jurisdiction of the agency

13 and the programs administered by the agency overlap or duplicate

14 those of other agencies, the extent to which the agency coordinates

15 with those agencies, and the extent to which the programs

16 administered by the agency can be consolidated with the programs of

17 other state agencies;

18   (7)   the promptness and effectiveness with which the

19 agency addresses complaints concerning entities or other persons

20 affected by the agency, including an assessment of the agency's

21 administrative hearings process;

22   (8)   an assessment of the agency's rulemaking process

23 and the extent to which the agency has encouraged participation by

24 the public in making its rules and decisions and the extent to which

25 the public participation has resulted in rules that benefit the

26 public;

27   (9)   the extent to which the agency has complied with:

(A) federal and state laws and applicable rules regarding equality of employment opportunity and the rights and privacy of individuals; and

(B) state law and applicable rules of any state agency regarding purchasing guidelines and programs for historically underutilized businesses;

(10) the extent to which the agency issues and enforces rules relating to potential conflicts of interest of its employees;

(11) the extent to which the agency complies with Chapters 551 and 552 and follows records management practices that enable the agency to respond efficiently to requests for public information;

(12) the effect of federal intervention or loss of federal funds if the agency is abolished;

(13) the extent to which the purpose and effectiveness of reporting requirements imposed on the agency justifies the continuation of the requirement; [and]

(14) an assessment of the agency's cybersecurity practices using confidential information available from the Department of Information Resources or any other appropriate state agency; and

(15) an assessment of the agency's use of artificial intelligence systems, as that term is defined by Section 551.001, Business & Commerce Code, in its operations and its oversight of the use of artificial intelligence systems by persons under the agency's jurisdiction, and any related impact on the agency's

1 ability to achieve its mission, goals, and objectives, made using

2 information available from the Department of Information

3 Resources, the attorney general, or any other appropriate state

4 agency.

5   SECTION 6. Section 2054.068(b), Government Code, is amended

6 to read as follows:

7   (b) The department shall collect from each state agency

8 information on the status and condition of the agency's information

9 technology infrastructure, including information regarding:

10   (1) the agency's information security program;

11   (2) an inventory of the agency's servers, mainframes,

12 cloud services, and other information technology equipment;

13   (3) identification of vendors that operate and manage

14 the agency's information technology infrastructure; [and]

15   (4) any additional related information requested by

16 the department; and

17   (5) an evaluation of the use or considered use of

18 artificial intelligence systems, as defined by Section 551.001,

19 Business & Commerce Code, by each state agency.

20   SECTION 7. Section 2054.0965(b), Government Code, is

21 amended to read as follows:

22   (b) Except as otherwise modified by rules adopted by the

23 department, the review must include:

24   (1) an inventory of the agency's major information

25 systems, as defined by Section 2054.008, and other operational or

26 logistical components related to deployment of information

27 resources as prescribed by the department;

1   (2)   an inventory of the agency's major databases,

2 artificial intelligence systems, as defined by Section 551.001,

3 Business & Commerce Code, and applications;

4   (3)   a description of the agency's existing and planned

5 telecommunications network configuration;

6   (4)   an   analysis   of   how   information   systems,

7 components, databases, applications, and other information

8 resources have been deployed by the agency in support of:

9   (A)   applicable   achievement   goals   established

10 under Section 2056.006 and the state strategic plan adopted under

11 Section 2056.009;

12   (B)   the   state   strategic   plan   for   information

13 resources; and

14   (C)   the agency's business objectives, mission,

15 and goals;

16   (5)   agency information necessary to support the state

17 goals for interoperability and reuse; and

18   (6)   confirmation by the agency of compliance with

19 state statutes, rules, and standards relating to information

20 resources.

21   SECTION 8. Not later than September 1, 2026, the attorney

22 general shall post on the attorney general's Internet website the

23 information and online mechanism required by Section 552.102,

24 Business & Commerce Code, as added by this Act.

25   SECTION 9. This Act takes effect January 1, 2026.

FLOOR AMENDMENT NO. _____1_____   BY: _____C. Schwab_____

1   Amend C.S.H.B. No. 149 (senate committee report) in SECTION 4
2 of the bill as follows:
3   (1) In added Section 552.055, Business & Commerce Code (page
4 4, line 35), between "PROTECTION." and "A", insert "(a)".
5   (2) At the end of added Section 552.055, Business & Commerce
6 Code (page 4, between lines 39 and 40), add the following:
7   (b) This section is remedial in purpose and may not be
8 construed to create or expand any right guaranteed by the United
9 States Constitution.

89R32745 BCH-D   1

FLOOR AMENDMENT NO. **2**   BY: *C. Schwert*

1   Amend C.S.H.B. No. 149 (senate committee report) in SECTION 4

2 of the bill, at the end of added Section 552.001, Business &

3 Commerce Code (page 3, between lines 13 and 14), by adding the

4 following:

5   (3) "Governmental entity" means any department,

6 commission, board, office, authority, or other administrative unit

7 of this state or of any political subdivision of this state, that

8 exercises governmental functions under the authority of the laws of

9 this state. The term does not include:

10   (A) a hospital district created under the Health

11 and Safety Code or Article IX, Texas Constitution; or

12   (B) an institution of higher education, as

13 defined by Section 61.003, Education Code, including any university

14 system or any component institution of the system.

FLOOR AMENDMENT NO. __3__   BY: _C. Schwertner_

1   Amend C.S.H.B. No. 149 (senate committee report) by adding

2   the following appropriately numbered SECTION to the bill and

3   renumbering subsequent SECTIONS of the bill accordingly:

4   SECTION ____. (a) Notwithstanding any other section of this

5   Act, in a state fiscal year, a state agency to which this Act

6   applies is not required to implement a provision found in another

7   section of this Act that is drafted as a mandatory provision

8   imposing a duty on the agency to take an action unless money is

9   specifically appropriated to the agency for that fiscal year to

10   carry out that duty. The agency may implement the provision in

11   that fiscal year to the extent other funding is available to the

12   agency to do so.

13   (b) If, as authorized by Subsection (a) of this section, the

14   state agency does not implement the mandatory provision in a state

15   fiscal year, the state agency, in its legislative budget request

16   for the next state fiscal biennium, shall certify that fact to the

17   Legislative Budget Board and include a written estimate of the

18   costs of implementing the provision in each year of that next state

19   fiscal biennium.

1   25.143.988 BCH

LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 89TH LEGISLATIVE REGULAR SESSION

May 26, 2025

TO: Honorable Dustin Burrows, Speaker of the House, House of Representatives

FROM: Jerry McGinty, Director, Legislative Budget Board

IN RE: HB149 by Capriglione (Relating to regulation of the use of artificial intelligence systems in this state; providing civil penalties.), **As Passed 2nd House**

Estimated Two-year Net Impact to General Revenue Related Funds for HB149, As Passed 2nd House: a negative impact of ($24,937,448) through the biennium ending August 31, 2027.

The bill would make no appropriation but could provide the legal basis for an appropriation of funds to implement the provisions of the bill.

General Revenue-Related Funds, Five- Year Impact:

Fiscal Year	Probable Net Positive/(Negative) Impact to General Revenue Related Funds
2026	($14,590,033)
2027	($10,347,415)
2028	($10,222,415)
2029	($10,222,415)
2030	($10,222,415)

All Funds, Five-Year Impact:

Fiscal Year	Probable Savings/(Cost) from General Revenue Fund 1	Change in Number of State Employees from FY 2025
2026	($14,590,033)	20.0
2027	($10,347,415)	20.0
2028	($10,222,415)	20.0
2029	($10,222,415)	20.0
2030	($10,222,415)	20.0

Fiscal Analysis

The bill requires disclosure of an artificial intelligence system to consumers; lists the prohibited uses of artificial intelligence; and lists the prohibitions on the capture of biometric identifiers, political viewpoint and other types of discrimination, and certain sexually explicit videos, images and child pornography.

The bill empowers the attorney general with the exclusive authority to enforce the chapter and requires the development of an online mechanism on the attorney general's website through which consumers may submit a complaint under the chapter.

The bill empowers the attorney general to bring legal action in the name of the state to restrain a person from violating the chapter and allows the attorney general to recover attorney's fees and collect fines for violations.

The bill authorizes a state agency to sanction an individual licensed, registered, or certified by that agency for violations of the chapter, including the suspension, probation, or revocation of a license, registration, certificate, or other form of permission to engage in an activity, and monetary penalties up to $100,000.

The bill requires the Department of Information Resources (DIR), in coordination with the Texas Artificial Intelligence Council, to administer the Artificial Intelligence Regulatory Sandbox Program, which is intended to provide legal protection and limited access to the market in this state for a person to test innovative artificial intelligence systems without obtaining a license, registration, or other regulatory authorization.

The bill requires DIR to coordinate with all relevant state regulatory agencies to oversee the operations of the sandbox participants, and authorizes the council or a relevant agency to recommend that a participant's sandbox privileges be revoked in certain instances. DIR would be required to report annually on the status of the program and provide legislative recommendations.

The bill establishes the "Texas Artificial Intelligence Council" which is administratively attached to DIR and requires administrative support to be provided to the council through a memorandum of understanding.

The bill details the powers and duties of the council and requires it to conduct training programs for state agencies & local governments.

An agency would not be required to implement this bill unless money were specifically appropriated for that purpose.

Methodology

The Department of Information Resources indicates an additional eight full-time equivalent (8.0 FTEs) positions are required to implement the legislation, totaling $1,072,996 in each fiscal year. Additional FTEs include: 2.0 Systems Analysts VII to act as technical subject matter experts that are high level AI intelligence technologists ($344,544 per fiscal year); 2.0 Programmers VI to be technology implementors that can coordinate the testing and evaluation of systems in the sandbox ($344,544 per fiscal year); 1.0 Compliance Analyst IV to act as subject matter expert on AI policy and risk and privacy ($114,099 per fiscal year); 1.0 Contract Specialist V as subject matter expert on procurement and contracting ($85,869 per fiscal year); 1.0 Program Management Specialist III as a program coordinator ($113,278 per fiscal year); and 1.0 Technical Writer II to craft the annual report to the Legislature and assist in the creation of requirements and procedures ($70,662 per fiscal year).

The Office of the Attorney General (OAG) indicates an additional twelve full-time equivalent (12.0 FTEs) positions are required to implement the legislation, totaling $1,269,060 in each fiscal year. Additional FTEs include: 1.0 Assistant Attorney General VI ($165,850 per fiscal year), 1.0 Assistant Attorneys General V ($150,773 per fiscal year), 2.0 Assistant Attorneys General III ($205,960 per fiscal year), 1.0 Compliance Analyst II ($70,662 per fiscal year), 1.0 Data Analyst V ($102,980 per fiscal year), 1.0 Data Analyst III ($75,376 per fiscal year), 1.0 Investigator V ($75,376 per fiscal year), 2.0 Legal Assistants V ($171,738 per fiscal year), 1.0 Programmer VI ($137,066 per fiscal year), and 1.0 Systems Administrator VI ($113,278 per fiscal year).

Associated retirement, social security, group insurance, and agency payroll contributions for 20.0 FTEs would be $700,743 per fiscal year. Associated equipment, supplies, travel and operating costs for 20.0 FTEs are assumed to be $159,692 in fiscal year 2026, and $98,754 each year thereafter.

Additionally, OAG would require $4,000,000 annually to retain consulting and testifying experts with specialized knowledge in artificial intelligence systems such as machine learning engineers for the investigation and litigation of cases involving complex evidence and issues, as well as $250,000 in fiscal year 2026 and $125,000 in fiscal year 2027 for IT Staff Augmentation Contracts through DIR for project management.

The bill authorizes OAG to bring action in the name of the state to restrain a person from violating the chapter and allows the attorney general to recover attorney's fees and collect fines for violations. However, the amounts and timing of any administrative penalty revenue and the recovery of reasonable fee and expense revenue by OAG are unknown. As such, the fiscal impact cannot be determined.

The bill administratively attaches the AI Council to DIR, and requires DIR to provide administrative support to the Council. This analysis assumes any administrative costs incurred by the Council could be absorbed using existing resources.

Technology

According to DIR, technology costs are expected to be $3,000,000 per fiscal year. This includes $1,000,000 in each fiscal year for estimated professional service costs for security and compliance audits, as well as vendor and agency support for the AI Sandbox. This cost will depend on the number and type of AI system participants invited in the sandbox program. Costs per instance of AI in the sandbox could range from $50,000 to $400,000. Also included is $2,000,000 per fiscal year for cloud service costs for hosting and computing for the regulatory sandbox program.

According to the Office of the Attorney General, technology costs include one-time costs of $4,137,542 in fiscal year 2026 and a recurring cost in each FY 2026-2030 of $80,862. One-time costs include the development of a consumer complaint mechanism, automated notice generation, case management and enforcement tools, and various IT equipment. Annual recurring charges cover data center services, voice lines, and additional licensing through Salesforce and Box.

Local Government Impact

No significant fiscal implication to units of local government is anticipated.

Source Agencies: 116 Sunset Advisory Commission, 212 Office of Court Administration, Texas Judicial Council, 302 Office of the Attorney General, 304 Comptroller of Public Accounts, 313 Department of Information Resources, 320 Texas Workforce Commission, 352 Bond Review Board, 452 Department of Licensing and Regulation, 503 Texas Medical Board, 529 Health and Human Services Commission, 582 Commission on Environmental Quality, 601 Department of Transportation, 710 Texas A&M University System Administrative and General Offices, 720 The University of Texas System Administration

LBB Staff: JMc, RStu, CSmi, LCO, CMA, NV, SD, KTw

LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 89TH LEGISLATIVE REGULAR SESSION

May 21, 2025

TO: Honorable Charles Schwertner, Chair, Senate Committee on Business & Commerce

FROM: Jerry McGinty, Director, Legislative Budget Board

IN RE: HB149 by Capriglione (relating to regulation of the use of artificial intelligence systems in this state; providing civil penalties.), **Committee Report 2nd House, Substituted**

Estimated Two-year Net Impact to General Revenue Related Funds for HB149, Committee Report 2nd House, Substituted: a negative impact of ($24,937,448) through the biennium ending August 31, 2027.

The bill would make no appropriation but could provide the legal basis for an appropriation of funds to implement the provisions of the bill.

General Revenue-Related Funds, Five- Year Impact:

Fiscal Year	Probable Net Positive/(Negative) Impact to General Revenue Related Funds
2026	($14,590,033)
2027	($10,347,415)
2028	($10,222,415)
2029	($10,222,415)
2030	($10,222,415)

All Funds, Five-Year Impact:

Fiscal Year	Probable Savings/(Cost) from General Revenue Fund 1	Change in Number of State Employees from FY 2025
2026	($14,590,033)	20.0
2027	($10,347,415)	20.0
2028	($10,222,415)	20.0
2029	($10,222,415)	20.0
2030	($10,222,415)	20.0

Fiscal Analysis

The bill requires disclosure of an artificial intelligence system to consumers; lists the prohibited uses of artificial intelligence; and lists the prohibitions on the capture of biometric identifiers, political viewpoint and other types of discrimination, and certain sexually explicit videos, images and child pornography.

The bill empowers the attorney general with the exclusive authority to enforce the chapter and requires the development of an online mechanism on the attorney general's website through which consumers may submit a complaint under the chapter.

The bill empowers the attorney general to bring legal action in the name of the state to restrain a person from violating the chapter and allows the attorney general to recover attorney's fees and collect fines for violations.

The bill authorizes a state agency to sanction an individual licensed, registered, or certified by that agency for violations of the chapter, including the suspension, probation, or revocation of a license, registration, certificate, or other form of permission to engage in an activity, and monetary penalties up to $100,000.

The bill requires the Department of Information Resources (DIR), in coordination with the Texas Artificial Intelligence Council, to administer the Artificial Intelligence Regulatory Sandbox Program, which is intended to provide legal protection and limited access to the market in this state for a person to test innovative artificial intelligence systems without obtaining a license, registration, or other regulatory authorization.

The bill requires DIR to coordinate with all relevant state regulatory agencies to oversee the operations of the sandbox participants, and authorizes the council or a relevant agency to recommend that a participant's sandbox privileges be revoked in certain instances. DIR would be required to report annually on the status of the program and provide legislative recommendations.

The bill establishes the "Texas Artificial Intelligence Council" which is administratively attached to DIR and requires administrative support to be provided to the council through a memorandum of understanding.

The bill details the powers and duties of the council and requires it to conduct training programs for state agencies & local governments.

Methodology

The Department of Information Resources indicates an additional eight full-time equivalent (8.0 FTEs) positions are required to implement the legislation, totaling $1,072,996 in each fiscal year. Additional FTEs include: 2.0 Systems Analysts VII to act as technical subject matter experts that are high level AI intelligence technologists ($344,544 per fiscal year); 2.0 Programmers VI to be technology implementors that can coordinate the testing and evaluation of systems in the sandbox ($344,544 per fiscal year); 1.0 Compliance Analyst IV to act as subject matter expert on AI policy and risk and privacy ($114,099 per fiscal year); 1.0 Contract Specialist V as subject matter expert on procurement and contracting ($85,869 per fiscal year); 1.0 Program Management Specialist III as a program coordinator ($113,278 per fiscal year); and 1.0 Technical Writer II to craft the annual report to the Legislature and assist in the creation of requirements and procedures ($70,662 per fiscal year).

The Office of the Attorney General (OAG) indicates an additional twelve full-time equivalent (12.0 FTEs) positions are required to implement the legislation, totaling $1,269,060 in each fiscal year. Additional FTEs include: 1.0 Assistant Attorney General VI ($165,850 per fiscal year), 1.0 Assistant Attorneys General V ($150,773 per fiscal year), 2.0 Assistant Attorneys General III ($205,960 per fiscal year), 1.0 Compliance Analyst II ($70,662 per fiscal year), 1.0 Data Analyst V ($102,980 per fiscal year), 1.0 Data Analyst III ($75,376 per fiscal year), 1.0 Investigator V ($75,376 per fiscal year), 2.0 Legal Assistants V ($171,738 per fiscal year), 1.0 Programmer VI ($137,066 per fiscal year), and 1.0 Systems Administrator VI ($113,278 per fiscal year).

Associated retirement, social security, group insurance, and agency payroll contributions for 20.0 FTEs would be $700,743 per fiscal year. Associated equipment, supplies, travel and operating costs for 20.0 FTEs are assumed to be $159,692 in fiscal year 2026, and $98,754 each year thereafter.

Additionally, OAG would require $4,000,000 annually to retain consulting and testifying experts with specialized knowledge in artificial intelligence systems such as machine learning engineers for the investigation and litigation of cases involving complex evidence and issues, as well as $250,000 in fiscal year 2026 and $125,000 in fiscal year 2027 for IT Staff Augmentation Contracts through DIR for project management.

The bill authorizes OAG to bring action in the name of the state to restrain a person from violating the chapter and allows the attorney general to recover attorney's fees and collect fines for violations. However, the amounts and timing of any administrative penalty revenue and the recovery of reasonable fee and expense revenue by

OAG are unknown. As such, the fiscal impact cannot be determined.

The bill administratively attaches the AI Council to DIR, and requires DIR to provide administrative support to the Council. This analysis assumes any administrative costs incurred by the Council could be absorbed using existing resources.

Technology

According to DIR, technology costs are expected to be $3,000,000 per fiscal year. This includes $1,000,000 in each fiscal year for estimated professional service costs for security and compliance audits, as well as vendor and agency support for the AI Sandbox. This cost will depend on the number and type of AI system participants invited in the sandbox program. Costs per instance of AI in the sandbox could range from $50,000 to $400,000. Also included is $2,000,000 per fiscal year for cloud service costs for hosting and computing for the regulatory sandbox program.

According to the Office of the Attorney General, technology costs include one-time costs of $4,137,542 in fiscal year 2026 and a recurring cost in each FY 2026-2030 of $80,862. One-time costs include the development of a consumer complaint mechanism, automated notice generation, case management and enforcement tools, and various IT equipment. Annual recurring charges cover data center services, voice lines, and additional licensing through Salesforce and Box.

Local Government Impact

No significant fiscal implication to units of local government is anticipated.

Source Agencies: 116 Sunset Advisory Commission, 212 Office of Court Administration, Texas Judicial Council, 302 Office of the Attorney General, 304 Comptroller of Public Accounts, 313 Department of Information Resources, 320 Texas Workforce Commission, 352 Bond Review Board, 452 Department of Licensing and Regulation, 503 Texas Medical Board, 529 Health and Human Services Commission, 582 Commission on Environmental Quality, 601 Department of Transportation, 710 Texas A&M University System Administrative and General Offices, 720 The University of Texas System Administration

LBB Staff: JMc, RStu, CSmi, LCO, CMA, NV, SD, KTw

LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 89TH LEGISLATIVE REGULAR SESSION

May 1, 2025

TO: Honorable Charles Schwertner, Chair, Senate Committee on Business & Commerce

FROM: Jerry McGinty, Director, Legislative Budget Board

IN RE: **HB149** by Capriglione (Relating to regulation of the use of artificial intelligence systems in this state; providing civil penalties.), **As Engrossed**

Estimated Two-year Net Impact to General Revenue Related Funds for HB149, As Engrossed: a negative impact of ($25,062,448) through the biennium ending August 31, 2027.

The bill would make no appropriation but could provide the legal basis for an appropriation of funds to implement the provisions of the bill.

General Revenue-Related Funds, Five- Year Impact:

Fiscal Year	Probable Net Positive/(Negative) Impact to General Revenue Related Funds
2026	($14,590,033)
2027	($10,472,415)
2028	($10,222,415)
2029	($10,222,415)
2030	($10,222,415)

All Funds, Five-Year Impact:

Fiscal Year	Probable Savings/(Cost) from General Revenue Fund 1	Change in Number of State Employees from FY 2025
2026	($14,590,033)	20.0
2027	($10,472,415)	20.0
2028	($10,222,415)	20.0
2029	($10,222,415)	20.0
2030	($10,222,415)	20.0

Fiscal Analysis

The bill requires disclosure of an artificial intelligence system to consumers; lists the prohibited uses of artificial intelligence; and lists the prohibitions on the capture of biometric identifiers, political viewpoint and other types of discrimination, and certain sexually explicit videos, images and child pornography.

The bill empowers the attorney general with the exclusive authority to enforce the chapter and requires the development of an online mechanism on the attorney general's website through which consumers may submit a complaint under the chapter.

The bill empowers the attorney general to bring legal action in the name of the state to restrain a person from violating the chapter and allows the attorney general to recover attorney's fees and collect fines for violations.

The bill authorizes a state agency to sanction an individual licensed, registered, or certified by that agency for violations of the chapter, including the suspension, probation, or revocation of a license, registration, certificate, or other form of permission to engage in an activity, and monetary penalties up to $100,000.

The bill requires the Department of Information Resources (DIR), in coordination with the Texas Artificial Intelligence Council, to administer the Artificial Intelligence Regulatory Sandbox Program, which is intended to provide legal protection and limited access to the market in this state for a person to test innovative artificial intelligence systems without obtaining a license, registration, or other regulatory authorization.

The bill requires DIR to coordinate with all relevant state regulatory agencies to oversee the operations of the sandbox participants, and authorizes the council or a relevant agency to recommend that a participant's sandbox privileges be revoked in certain instances. DIR would be required to report annually on the status of the program and provide legislative recommendations.

The bill establishes the "Texas Artificial Intelligence Council" which is administratively attached to DIR and requires administrative support to be provided to the council through a memorandum of understanding.

The bill details the powers and duties of the council and requires it to conduct training programs for state agencies & local governments.

Methodology

The Department of Information Resources indicates an additional eight full-time equivalent (8.0 FTEs) positions are required to implement the legislation, totaling $1,072,996 in each fiscal year. Additional FTEs include: 2.0 Systems Analysts VII to act as technical subject matter experts that are high level AI intelligence technologists ($344,544 per fiscal year); 2.0 Programmers VI to be technology implementors that can coordinate the testing and evaluation of systems in the sandbox ($344,544 per fiscal year); 1.0 Compliance Analyst IV to act as subject matter expert on AI policy and risk and privacy ($114,099 per fiscal year); 1.0 Contract Specialist V as subject matter expert on procurement and contracting ($85,869 per fiscal year); 1.0 Program Management Specialist III as a program coordinator ($113,278 per fiscal year); and 1.0 Technical Writer II to craft the annual report to the Legislature and assist in the creation of requirements and procedures ($70,662 per fiscal year).

The Office of the Attorney General (OAG) indicates an additional twelve full-time equivalent (12.0 FTEs) positions are required to implement the legislation, totaling $1,269,060 in each fiscal year. Additional FTEs include: 1.0 Assistant Attorney General VI ($165,850 per fiscal year), 1.0 Assistant Attorneys General V ($150,773 per fiscal year), 2.0 Assistant Attorneys General III ($205,960 per fiscal year), 1.0 Compliance Analyst II ($70,662 per fiscal year), 1.0 Data Analyst V ($102,980 per fiscal year), 1.0 Data Analyst III ($75,376 per fiscal year), 1.0 Investigator V ($75,376 per fiscal year), 2.0 Legal Assistants V ($171,738 per fiscal year), 1.0 Programmer VI ($137,066 per fiscal year), and 1.0 Systems Administrator VI ($113,278 per fiscal year).

Associated retirement, social security, group insurance, and agency payroll contributions for 20.0 FTEs would be $700,743 per fiscal year. Associated equipment, supplies, travel and operating costs for 20.0 FTEs are assumed to be $159,692 in fiscal year 2026, and $98,754 each year thereafter.

Additionally, OAG would require $4,000,000 annually to retain consulting and testifying experts with specialized knowledge in artificial intelligence systems such as machine learning engineers for the investigation and litigation of cases involving complex evidence and issues, as well as $250,000 in each year of the 2026-27 biennium for IT Staff Augmentation Contracts through DIR for project management.

The bill authorizes OAG to bring action in the name of the state to restrain a person from violating the chapter and allows the attorney general to recover attorney's fees and collect fines for violations. However, the amounts and timing of any administrative penalty revenue and the recovery of reasonable fee and expense revenue by OAG are unknown. As such, the fiscal impact cannot be determined.

The bill administratively attaches the AI Council to DIR, and requires DIR to provide administrative support to the Council. This analysis assumes any administrative costs incurred by the Council could be absorbed using existing resources.

Technology

According to DIR, technology costs are expected to be $3,000,000 per fiscal year. This includes $1,000,000 in each fiscal year for estimated professional service costs for security and compliance audits, as well as vendor and agency support for the AI Sandbox. This cost will depend on the number and type of AI system participants invited in the sandbox program. Costs per instance of AI in the sandbox could range from $50,000 to $400,000. Also included is $2,000,000 per fiscal year for cloud service costs for hosting and computing for the regulatory sandbox program.

According to the Office of the Attorney General, technology costs include one-time costs of $4,137,542 in fiscal year 2026 and a recurring cost in each FY 2026-2030 of $80,862. One-time costs include the development of a consumer complaint mechanism, automated notice generation, case management and enforcement tools, and various IT equipment. Annual recurring charges cover data center services, voice lines, and additional licensing through Salesforce and Box.

Local Government Impact

No significant fiscal implication to units of local government is anticipated.

Source Agencies: 116 Sunset Advisory Commission, 212 Office of Court Administration, Texas Judicial Council, 302 Office of the Attorney General, 304 Comptroller of Public Accounts, 313 Department of Information Resources, 320 Texas Workforce Commission, 352 Bond Review Board, 452 Department of Licensing and Regulation, 503 Texas Medical Board, 529 Health and Human Services Commission, 582 Commission on Environmental Quality, 601 Department of Transportation, 710 Texas A&M University System Administrative and General Offices, 720 The University of Texas System Administration

LBB Staff: JMc, RStu, LCO, CSmi, CMA, NV, SD, KTw

LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 89TH LEGISLATIVE REGULAR SESSION

April 6, 2025

TO: Honorable Giovanni Capriglione, Chair, House Committee on Delivery of Government Efficiency

FROM: Jerry McGinty, Director, Legislative Budget Board

IN RE: **HB149** by Capriglione (relating to regulation of the use of artificial intelligence systems in this state; providing civil penalties.), **Committee Report 1st House, Substituted**

Estimated Two-year Net Impact to General Revenue Related Funds for HB149, Committee Report 1st House, Substituted: a negative impact of ($25,062,448) through the biennium ending August 31, 2027.

The bill would make no appropriation but could provide the legal basis for an appropriation of funds to implement the provisions of the bill.

General Revenue-Related Funds, Five- Year Impact:

Fiscal Year	Probable Net Positive/(Negative) Impact to General Revenue Related Funds
2026	($14,590,033)
2027	($10,472,415)
2028	($10,222,415)
2029	($10,222,415)
2030	($10,222,415)

All Funds, Five-Year Impact:

Fiscal Year	Probable Savings/(Cost) from General Revenue Fund 1	Change in Number of State Employees from FY 2025
2026	($14,590,033)	20.0
2027	($10,472,415)	20.0
2028	($10,222,415)	20.0
2029	($10,222,415)	20.0
2030	($10,222,415)	20.0

Fiscal Analysis

The bill requires disclosure of an artificial intelligence system to consumers; lists the prohibited uses of artificial intelligence; and lists the prohibitions on the capture of biometric identifiers, political viewpoint and other types of discrimination, and certain sexually explicit videos, images and child pornography.

The bill empowers the attorney general with the exclusive authority to enforce the chapter and requires the development of an online mechanism on the attorney general's website through which consumers may submit a complaint under the chapter.

The bill empowers the attorney general to bring legal action in the name of the state to restrain a person from violating the chapter and allows the attorney general to recover attorney's fees and collect fines for violations.

The bill authorizes a state agency to sanction an individual licensed, registered, or certified by that agency for violations of the chapter, including the suspension, probation, or revocation of a license, registration, certificate, or other form of permission to engage in an activity, and monetary penalties up to $100,000.

The bill requires the Department of Information Resources (DIR), in coordination with the Texas Artificial Intelligence Council, to administer the Artificial Intelligence Regulatory Sandbox Program, which is intended to provide legal protection and limited access to the market in this state for a person to test innovative artificial intelligence systems without obtaining a license, registration, or other regulatory authorization.

The bill requires DIR to coordinate with all relevant state regulatory agencies to oversee the operations of the sandbox participants, and authorizes the council or a relevant agency to recommend that a participant's sandbox privileges be revoked in certain instances. DIR would be required to report annually on the status of the program and provide legislative recommendations.

The bill establishes the "Texas Artificial Intelligence Council" which is administratively attached to DIR and requires administrative support to be provided to the council through a memorandum of understanding.

The bill details the powers and duties of the council and requires it to conduct training programs for state agencies & local governments.

Methodology

The Department of Information Resources indicates an additional eight full-time equivalent (8.0 FTEs) positions are required to implement the legislation, totaling $1,072,996 in each fiscal year. Additional FTEs include: 2.0 Systems Analysts VII to act as technical subject matter experts that are high level AI intelligence technologists ($344,544 per fiscal year); 2.0 Programmers VI to be technology implementors that can coordinate the testing and evaluation of systems in the sandbox ($344,544 per fiscal year); 1.0 Compliance Analyst IV to act as subject matter expert on AI policy and risk and privacy ($114,099 per fiscal year); 1.0 Contract Specialist V as subject matter expert on procurement and contracting ($85,869 per fiscal year); 1.0 Program Management Specialist III as a program coordinator ($113,278 per fiscal year); and 1.0 Technical Writer II to craft the annual report to the Legislature and assist in the creation of requirements and procedures ($70,662 per fiscal year).

The Office of the Attorney General (OAG) indicates an additional twelve full-time equivalent (12.0 FTEs) positions are required to implement the legislation, totaling $1,269,060 in each fiscal year. Additional FTEs include: 1.0 Assistant Attorney General VI ($165,850 per fiscal year), 1.0 Assistant Attorneys General V ($150,773 per fiscal year), 2.0 Assistant Attorneys General III ($205,960 per fiscal year), 1.0 Compliance Analyst II ($70,662 per fiscal year), 1.0 Data Analyst V ($102,980 per fiscal year), 1.0 Data Analyst III ($75,376 per fiscal year), 1.0 Investigator V ($75,376 per fiscal year), 2.0 Legal Assistants V ($171,738 per fiscal year), 1.0 Programmer VI ($137,066 per fiscal year), and 1.0 Systems Administrator VI ($113,278 per fiscal year).

Associated retirement, social security, group insurance, and agency payroll contributions for 20.0 FTEs would be $700,743 per fiscal year. Associated equipment, supplies, travel and operating costs for 20.0 FTEs are assumed to be $159,692 in fiscal year 2026, and $98,754 each year thereafter.

Additionally, OAG would require $4,000,000 annually to retain consulting and testifying experts with specialized knowledge in artificial intelligence systems such as machine learning engineers for the investigation and litigation of cases involving complex evidence and issues, as well as $250,000 in each year of the 2026-27 biennium for IT Staff Augmentation Contracts through DIR for project management.

The bill authorizes OAG to bring action in the name of the state to restrain a person from violating the chapter and allows the attorney general to recover attorney's fees and collect fines for violations. However, the amounts and timing of any administrative penalty revenue and the recovery of reasonable fee and expense revenue by OAG are unknown. As such, the fiscal impact cannot be determined.

The bill administratively attaches the AI Council to DIR, and requires DIR to provide administrative support to the Council. This analysis assumes any administrative costs incurred by the Council could be absorbed using existing resources.

Technology

According to DIR, technology costs are expected to be $3,000,000 per fiscal year. This includes $1,000,000 in each fiscal year for estimated professional service costs for security and compliance audits, as well as vendor and agency support for the AI Sandbox. This cost will depend on the number and type of AI system participants invited in the sandbox program. Costs per instance of AI in the sandbox could range from $50,000 to $400,000. Also included is $2,000,000 per fiscal year for cloud service costs for hosting and computing for the regulatory sandbox program.

According to the Office of the Attorney General, technology costs include one-time costs of $4,137,542 in fiscal year 2026 and a recurring cost in each FY 2026-2030 of $80,862. One-time costs include the development of a consumer complaint mechanism, automated notice generation, case management and enforcement tools, and various IT equipment. Annual recurring charges cover data center services, voice lines, and additional licensing through Salesforce and Box.

Local Government Impact

No significant fiscal implication to units of local government is anticipated.

Source Agencies: 116 Sunset Advisory Commission, 212 Office of Court Administration, Texas Judicial Council, 302 Office of the Attorney General, 304 Comptroller of Public Accounts, 313 Department of Information Resources, 320 Texas Workforce Commission, 352 Bond Review Board, 452 Department of Licensing and Regulation, 503 Texas Medical Board, 529 Health and Human Services Commission, 582 Commission on Environmental Quality, 601 Department of Transportation, 710 Texas A&M University System Administrative and General Offices, 720 The University of Texas System Administration

LBB Staff: JMc, RStu, LCO, CSmi, CMA, NV, SD, KTw

LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 89TH LEGISLATIVE REGULAR SESSION

March 25, 2025

TO: Honorable Giovanni Capriglione, Chair, House Committee on Delivery of Government Efficiency

FROM: Jerry McGinty, Director, Legislative Budget Board

IN RE: HB149 by Capriglione (Relating to the regulation of the use of artificial intelligence systems in this state; providing civil penalties.), **As Introduced**

Estimated Two-year Net Impact to General Revenue Related Funds for HB149, As Introduced: a negative impact of ($27,934,862) through the biennium ending August 31, 2027.

The bill would make no appropriation but could provide the legal basis for an appropriation of funds to implement the provisions of the bill.

General Revenue-Related Funds, Five- Year Impact:

Fiscal Year	Probable Net Positive/(Negative) Impact to General Revenue Related Funds
2026	($17,037,903)
2027	($10,896,959)
2028	($10,646,959)
2029	($10,646,959)
2030	($10,646,959)

All Funds, Five-Year Impact:

Fiscal Year	Probable Savings/(Cost) from General Revenue Fund 1	Change in Number of State Employees from FY 2025
2026	($17,037,903)	23.0
2027	($10,896,959)	23.0
2028	($10,646,959)	23.0
2029	($10,646,959)	23.0
2030	($10,646,959)	23.0

Fiscal Analysis

The bill requires disclosure of an artificial intelligence system to consumers; lists the prohibited uses of artificial intelligence; and lists the prohibitions on the capture of biometric identifiers, political viewpoint and other types of discrimination, and certain sexually explicit videos, images and child pornography.

The bill empowers the attorney general with the authority to enforce the chapter and requires the development of an online mechanism on the attorney general's website through which consumers may submit a complaint under the chapter.

The bill empowers the attorney general to bring legal action in the name of the state to restrain a person from violating the chapter and allows the attorney general to recover attorney's fees and collect fines for violations.

The bill authorizes a state agency to sanction an individual licensed, registered, or certified by that agency for violations of the chapter, including the suspension, probation, or revocation of a license, registration, certificate, or other form of permission to engage in an activity, and monetary penalties up to $100,000.

The bill requires the Department of Information Resources (DIR), in coordination with the Texas Artificial Intelligence Council, to administer the Artificial Intelligence Regulatory Sandbox Program, which is intended to facilitate the development, testing, and deployment of innovative artificial intelligence systems in Texas.

The bill requires DIR to coordinate with all relevant state regulatory agencies to oversee the operations of the sandbox participants, and authorizes the council or a relevant agency to recommend that a participant's sandbox privileges be revoked in certain instances.

The bill establishes the "Texas Artificial Intelligence Council" which is administratively attached to DIR and requires administrative support to be provided to the council through a memorandum of understanding.

The bill details the powers and duties of the council and requires it to conduct training programs for state agencies & local governments.

Methodology

The Department of Information Resources indicates an additional eight full-time equivalent (8.0 FTEs) positions are required to implement the legislation, totaling $1,072,996 in each fiscal year. Additional FTEs include: 2.0 Systems Analysts VII to act as technical subject matter experts that are high level AI intelligence technologists ($344,544 per fiscal year); 2.0 Programmers VI to be technology implementors that can coordinate the testing and evaluation of systems in the sandbox ($344,544 per fiscal year); 1.0 Compliance Analyst IV to act as subject matter expert on AI policy and risk and privacy ($114,099 per fiscal year); 1.0 Contract Specialist V as subject matter expert on procurement and contracting ($85,869 per fiscal year); 1.0 Program Management Specialist III as a program coordinator ($113,278 per fiscal year); and 1.0 Technical Writer II to craft the annual report to the Legislature and assist in the creation of requirements and procedures ($70,662 per fiscal year).

The Office of the Attorney General (OAG) indicates an additional fifteen full-time equivalent (15.0 FTEs) positions are required to implement the legislation, totaling $1,566,508 in each fiscal year. Additional FTEs include: 1.0 Assistant Attorney General VI ($165,850 per fiscal year), 2.0 Assistant Attorneys General V ($301,546 per fiscal year), 2.0 Assistant Attorneys General III ($205,960 per fiscal year), 1.0 Compliance Analyst II ($70,662 per fiscal year), 1.0 Data Analyst V ($102,980 per fiscal year), 1.0 Data Analyst III ($75,376 per fiscal year), 1.0 Investigator V ($75,376 per fiscal year), 2.0 Legal Assistants V ($171,738 per fiscal year), 1.0 Legal Assistant III ($66,254 per fiscal year), 1.0 Programmer VI ($137,066 per fiscal year), 1.0 Systems Administrator VI ($113,278 per fiscal year), and 1.0 Systems Analyst IV ($80,421 per fiscal year).

Associated retirement, social security, group insurance, and agency payroll contributions for 23.0 FTEs would be $789,739 per fiscal year. Associated equipment, supplies, travel and operating costs for 23.0 FTEs are assumed to be $191,108 in fiscal year 2026, and $121,014 each year thereafter.

Additionally, OAG would require $4,000,000 annually to retain consulting and testifying experts with specialized knowledge in artificial intelligence systems such as machine learning engineers for the investigation and litigation of cases involving complex evidence and issues, as well as $250,000 in each year of the 2026-27 biennium for IT Staff Augmentation Contracts through DIR for project management.

The bill authorizes OAG to bring action in the name of the state to restrain a person from violating the chapter and allows the attorney general to recover attorney's fees and collect fines for violations. However, the amounts and timing of any administrative penalty revenue and the recovery of reasonable fee and expense revenue by OAG are unknown. As such, the fiscal impact cannot be determined.

The bill administratively attaches the AI Council to DIR, and requires DIR to provide administrative support to

the Council. This analysis assumes any administrative costs incurred by the Council could be absorbed using existing resources.

Technology

According to DIR, technology costs are expected to be $3,000,000 per fiscal year. This includes $1,000,000 in each fiscal year for estimated professional service costs for security and compliance audits, as well as vendor and agency support for the AI Sandbox. This cost will depend on the number and type of AI system participants invited in the sandbox program. Costs per instance of AI in the sandbox could range from $400,000 to $500,000. Also included is $2,000,000 per fiscal year for cloud service costs for hosting and computing for the regulatory sandbox program.

According to the Office of the Attorney General, technology costs include one-time costs of $6,070,850 in fiscal year 2026 and a recurring cost in each FY 2026-2030 of $96,702. One-time costs include the development of a consumer complaint mechanism, automated notice generation, case management and enforcement tools, and various IT equipment. Annual recurring charges cover data center services, voice lines, and additional licensing through Salesforce and Box.

Local Government Impact

No significant fiscal implication to units of local government is anticipated.

Source Agencies: 212 Office of Court Administration, Texas Judicial Council, 302 Office of the Attorney General, 304 Comptroller of Public Accounts, 313 Department of Information Resources, 320 Texas Workforce Commission, 352 Bond Review Board, 452 Department of Licensing and Regulation, 503 Texas Medical Board, 529 Health and Human Services Commission, 582 Commission on Environmental Quality, 601 Department of Transportation, 710 Texas A&M University System Administrative and General Offices, 720 The University of Texas System Administration

LBB Staff: JMc, RStu, LCO, CSmi, CMA, NV, SD, KTw