

LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 89TH LEGISLATIVE REGULAR SESSION

May 18, 2025

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

FROM: Jerry McGinty, Director, Legislative Budget Board

IN RE: SB1964 by Parker (relating to the regulation and use of artificial intelligence systems and the management of data by governmental entities.), **Committee Report 2nd House, Substituted**

Estimated Two-year Net Impact to General Revenue Related Funds for SB1964, Committee Report 2nd House, Substituted: a negative impact of (\$7,280,205) 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:

<i>Fiscal Year</i>	Probable Net Positive/(Negative) Impact to <i>General Revenue Related Funds</i>
2026	(\$3,255,299)
2027	(\$4,024,906)
2028	(\$4,024,906)
2029	(\$4,024,906)
2030	(\$4,024,906)

All Funds, Five-Year Impact:

<i>Fiscal Year</i>	Probable Savings/(Cost) from <i>General Revenue Fund</i> 1	<i>Change in Number of State Employees from FY 2025</i>
2026	(\$3,255,299)	10.0
2027	(\$4,024,906)	10.0
2028	(\$4,024,906)	10.0
2029	(\$4,024,906)	10.0
2030	(\$4,024,906)	10.0

Fiscal Analysis

The bill would require the Department of Information Resources (DIR) to collect information from state agencies on the status and condition of artificial intelligence (AI) systems, and conduct reviews on certain factors surrounding deployment of information resources. It would require local governments to complete a review on the deployment of heightened scrutiny AI systems.

The bill would require state agencies with fewer than 150 full-time equivalent positions to either designate a data management officer or jointly employ a data management officer with one or more state agencies. An agency data management officer would be required to publish at least three high-value datasets on the Texas

Open Data Portal annually.

The bill would require DIR to establish an AI system code of ethics and minimum risk management and governance standards for use by state agencies and local governments that deploy, procure, develop, or use heightened scrutiny AI systems, that are consistent with the federal Artificial Intelligence Risk Management Framework.

The bill would require DIR to develop educational and training materials on AI systems, as well as host statewide forums and training sessions on best practices for state and local government employees. DIR could use appropriated funds and contract with a vendor to produce the materials.

The bill would establish an eight member Public Sector Artificial Intelligence Systems Advisory Board to obtain and share information to assist state agencies that are involved with AI systems, as well as certain other duties. DIR would provide administrative support to the board.

The bill would require DIR to establish and administer an AI system sandbox program to support eligible entities in contracting with vendors to engage in certain pre-deployment activities related to AI systems. DIR would create an application process for vendor participation and detailed guideline on exemption from compliance with otherwise applicable regulations. Vendors and eligible entities would provide quarterly reports to DIR, and DIR would compile an annual report to the legislature on program status and recommendations for legislative actions.

The bill would require state agencies involved with AI systems, and their vendors, to provide public disclosure of their public facing systems, and conduct a semiannual system assessment.

The bill would require that certain violations be reported to DIR and the Attorney General to determine any legal action. Contracts could be void if a vendor fails to cure a violation before 31 days after receiving a notice of intent to void the contract, and multiple voided contracts would be referred to the Comptroller, who may bar the vendor from state contracts.

The bill would require the Attorney General, in collaboration with DIR, to establish a webpage for complaints relating to AI systems, and to post certain information on the Attorney General's website. The Attorney General would be required to submit a biennial report to the legislature that summarizes the complaints.

The bill would require state agencies and local governments that are involved with a public facing or heightened scrutiny AI systems to include a standardized notice developed by DIR on all relevant applications.

DIR would adopt rules to implement the bill.

Methodology

It is assumed that DIR would require ten additional full-time equivalent (10.0 FTEs) positions to implement the legislation. The additional FTEs include: 2.0 Systems Analysts VII, 2.0 Training and Development Specialists VI, 1.0 Risk Management Specialist V, and 1.0 Program Specialist VI to develop and publish the AI code of ethics, minimum risk management and governance standards for heightened scrutiny AI systems, and educational and training materials as well as forums and learning opportunities for state and local government employees and the general public; 1.0 Information Specialist III to manage the complaints and coordinate with state agencies to provide an explanation; and 2.0 Systems Analysts VII and 1.0 Program Specialists VII to establish and administer the AI sandbox program and to issue a report on its activities. Personnel costs for the 10.0 FTEs could be \$2,880,205 for the 2026-27 biennium.

The Comptroller indicates there would be a cost to implement the bill's provisions; this analysis assumes the costs could be absorbed using existing resources.

According to the Attorney General, any legal work resulting from the passage of this bill could be absorbed using existing resources.

Technology

DIR would require \$500,000 per fiscal year for storage and computing costs to operate the AI Sandbox Program. Additionally, \$1,000,000 in fiscal year 2026, and \$2,000,000 in each subsequent fiscal year, would be needed to conduct AI assessments, data analysis and cleansing, model testing, and prompt engineering related to the Sandbox Program. Finally, development costs for AI learning tools for government employees and consumers are estimated to be \$300,000 in fiscal year 2026 and \$100,000 in each subsequent fiscal year. Total IT costs for DIR are estimated to be \$4,400,000 for the 2026-27 biennium.

Local Government Impact

There could be an indeterminate fiscal impact to local governments, who would be required to adopt the code of ethics and risk management practices developed by DIR, as well as report on involvement with heightened scrutiny AI systems to DIR.

Source Agencies: 242 State Commission on Judicial Conduct, 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

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