

State AI Laws Survive the One Big Beautiful Bill

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On July 4, 2025 President Donald Trump's robust "One Big Beautiful Bill Act" (H.R.1, 119th Cong. (2025)) (the "Act") was signed into law. The final text of the Act varied in several respects from the version first passed by the House of Representatives in May 2025.

Significantly, the House bill included provisions that would have established a 10-year moratorium on state regulation of artificial intelligence (AI) models, AI systems, and automated decision-making tools. The moratorium, set forth in Section 43201, would have preempted a wide variety of state and local laws regulating AI, such as those intended to mitigate bias, ensure accuracy, or promote transparency.

The House version of the Act provided that "no State or political subdivision thereof may enforce, during the 10-year period beginning on the date of the enactment of this Act, any law or regulation of that State or a political subdivision thereof, limiting, restricting, or otherwise regulating artificial intelligence models, artificial intelligence systems, or automated decision systems entered into interstate commerce."

States would have been able to continue enforcing laws or regulations if they fell under



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certain limited exceptions intended to promote development and advancement of AI technology without any guardrails.

After initially passing the House by a narrow margin, the Act's provisions allowing AI development and usage without state or local restraints garnered bipartisan criticism.

Republicans and Democrats alike commented that AI's capabilities within the next ten years cannot be accurately foreseen, and that the state level moratorium was not accompanied by a federal regulatory framework concerning AI. As such, the ban on state regulation had the potential to pose dangerous consequences.

In light of these concerns and efforts from Senators like Maria Cantwell of Washington,

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who published a memorandum warning of the impacts of an AI moratorium on state consumer protection laws and BEAD funding, the Senate Amendment to the One Big Beautiful Bill Act completely

removed the AI moratorium by a 99-1 vote.

State-level policies that may otherwise have been preempted by the Act have already been adopted in several highly regulated industries prior to the deliberation of the Act at the national level. As a result of the modifications to the Act in the Senate, state and local governments may continue to regulate the development and deployment of AI tools, including in the industries discussed below.

Insurance

The National Association of Insurance Commissioners (NAIC) assists state insurance regulators with efforts to standardize rules, regulations, and policies. In the realm of AI, the NAIC has adopted a model AI bulletin which has been adopted by several states as regulatory bulletins.

In addition, Colorado has adopted an insurance regulation (3 C.C.R. 702-10) that requires life insurers that use external consumer data and information sources (ECDIS), algorithms, and predictive models to establish risk management and governance frameworks to prevent unfair discrimination. A regulation like Colorado's could have been preempted by the Act if it became law.

Healthcare

Some states have passed or proposed legislation focused on transparency and disclosure requirements in healthcare, maintaining a human-focused approach to healthcare in an increasingly

automated world. For example, when a patient in California receives clinical information produced by generative AI, CA A.B. 3030 requires healthcare providers to disclose that it was generated by AI and

provide instruction on how to contact a human.

CA S.B. 1120 prohibits the use of AI tools to "deny, delay, or modify health care services" based upon medical necessity, keeping licensed physicians or other healthcare professionals solely authorized to make such critical decisions.

A new wave of state legislation has focused on allowing AI tools in clinical settings only once they have been approved by appropriate federal or state agencies and the developers have obtained a license from the state to operate.

Banking and Financial Services

New York and other states have introduced bills to address AI's potential for discriminatory decision making in the financial services industry. New York Assembly Bill A3930 would regulate nearly 1,000 state-chartered banks and financial institutions that may use algorithms to grant loans or credit.

Each year, banks that use automated decision tools to make lending decisions would be required to conduct a disparate impact analysis and submit a summary of its findings to the attorney general's office. Additionally, banks would be required to provide notice to loan applicants that an automated decision tool is screening them.

Employment

New York State recently incorporated a new question in its Worker Adjustment and Retraining Notification (WARN) portal that asks employers

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to disclose whether and to what extent “technological innovation or automation” has contributed to a mass layoff. Employers classify the type of innovation or automation by selecting one of the following options: artificial intelligence, robotic process automation/machinery upgrade, software modernization, or other. If the company selects artificial intelligence, the employer must provide a further explanation.

State laws like Illinois H.B. 3773 require employers to notify employees when employers use AI in decisions having to do with recruitment, hiring, promotion, renewal, training selection, discipline, discharge, tenure, and terms, privileges, and conditions of employment. An employer who subjects employees to discrimination based on protected classes when using AI for employment decisions has committed a civil rights violation.

Consumer Protection

Utah S.B. 0149 is just one example of a state regulation that promotes transparency and protects consumers by requiring businesses to disclose when end-users are interacting with generative AI systems as opposed to humans.

Businesses who fail to properly disclose such information are in violation of consumer protection laws and subject to fines. While consumer protection laws pertaining to AI do not exist at the federal level, states may continue to promulgate and enforce such legislation within their intrastate borders.

General State Regulation

As some states’ AI regulations address specific industries, others represent more comprehensive measures that broadly regulate AI use. For example, Texas H.B. 149, signed into law by Governor Greg Abbott on June 22, 2025, imposes

a comprehensive AI regulatory framework with prohibitions on unethical usage.

The law governs individuals and entities who use, develop, or deploy AI systems in Texas as well as those who circulate AI products or offer AI services within the Texas market. Due to the removal of the AI moratorium from the Act, Texas and other states can continue similar efforts.

Final Thoughts on Removal of Moratorium

During congressional debate, proponents of the moratorium urged that an abundance of differing state AI laws and regulations has created a treacherous regulatory patchwork for companies to navigate. However, opponents of the moratorium maintained that, given the lack of AI protections at the federal level, state AI laws and regulations are the only protections in place for consumers.

As a result, state AI laws and regulations may be the only near-term controls to balance the risks and benefits of emerging AI technology. While discussing the proposed amendment in the Senate to eliminate the AI moratorium, Senator Marsha Blackburn stated, “[u]ntil Congress passes federally preemptive legislation like the Kids Online Safety Act and an online privacy framework, we can’t block states from standing in the gap to protect vulnerable Americans from harm....” While some legislators at the national level have discussed the potential benefits of preempting state and local laws with a comprehensive and consistent federal policy, it is unlikely any such legislation will be adopted, especially in light of the federal government’s challenges in adopting federal consumer privacy or data breach notification laws.

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