AI in Employment-Related Decisions Part 2: State Strategies to Address Pressure and What It Means for Employers

Labor & Employment Law Update

By Peter Hansen and Ryan Young on October 23, 2025

Read Part 1: AI in Employment-Related Decisions Part 1: Big Tech and Federal Power

Across the country, state lawmakers are recalibrating their approaches to regulating the use of AI in employment decisions. This is in direct response to pressure from the technology industry and the Trump administration.

California initially considered broad mandates on AI use in hiring that would have imposed strict notice and impact assessment requirements on employers. Following pushback from industry groups and concerns about federal overreach, lawmakers narrowed the proposal to focus on procedural safeguards, phased compliance timelines, and aligning state standards with emerging federal guidelines.

In New York, legislators moved toward targeted disclosure and auditing requirements to preserve transparency without triggering intense opposition from the technology sector. In Texas, lawmakers established study groups and task forces to evaluate federal policy implications, rather than passing sweeping state rules.

Some states are advancing AI regulation through administrative rulemaking. California's Civil Rights Department is a leading example. It recently finalized employment discrimination regulations, effective October 1, 2025, that do not require employers to conduct formal bias audits of AI tools. However, the agency sates it will consider such bias testing when deciding if an employer met its obligations to prevent discrimination. This flexible approach allows regulators to evaluate employers' AI use on a case-by-case basis and encourages bias testing without requiring it.

Other states may use existing anti-discrimination or labor enforcement authority to shape AI governance through guidance, enforcement priorities, and interpretive rules.

Colorado's experience illustrates another dimension of this strategic adjustment. Colorado lawmakers postponed the state's innovative AI law until June 2026. This was after after negotiations with industry stakeholders, citing the need for more time to plan for compliance and assess alignment with evolving federal policy.

These examples illustrate a broader trend: States are pivoting toward narrower, more targeted bills and administrative approaches that are less likely to provoke industry or federal backlash. Instead of broad mandates on AI system development or use, lawmakers and regulators are focusing on procedural safeguards—transparency requirements, limited impact assessments, phased implementation timelines, and guidance through existing frameworks.

Some states are turning to study commissions, pilot programs, or temporary sunset provisions to gather more data and build consensus before enacting comprehensive rules. The result is a more incremental approach to AI regulation in employment shaped as much by political dynamics as by policy concerns.

Key Takeaway

While the immediate risk of sweeping AI employment regulation has receded, employers should not assume the regulatory landscape will remain static. The current trend suggests that states are slowing the pace of broad AI employment legislation,but not stepping away from regulation entirely.

Instead, states are laying the groundwork for future comprehensive frameworks that could emerge once political conditions change. Employers need to pay close attention to legislative developments and agency-level regulatory actions, which may introduce new compliance expectations.

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