



AI Regulations

Dealers should take notice of California's new rules

by: Greg Goldberg, BTA General Counsel

An appropriate word to describe the Trump administration's approach to comprehensive federal artificial intelligence (AI) regulation is "hostile." In December 2025, the president issued an executive order urging federal agencies to scrutinize and discourage state-level AI regulation. The order framed the emerging patchwork of AI laws across the states as a threat to innovation, competitiveness and national cohesion. Silicon Valley applauded, but state regulators heard a call to arms.

In practice, public policies at the state level often become the framework for broader national initiatives. Therefore, in order to understand the future of AI regulation, it is important to consider what states are doing. Around the time of the president's executive order, the California Privacy Protection Agency finalized sweeping regulations governing automated decisionmaking technology (ADMT) under the California Consumer Privacy Act (CCPA). The rules became effective earlier this year, though key compliance obligations for certain AI-driven decision systems will not go live until Jan. 1, 2027.

Like many California regulations, the ADMT rules are both narrower and broader than critics initially feared. Narrower, because they do not regulate every use of AI. Broader, because they reach deeply into the ordinary machinery of modern business. The regulations apply when a company uses AI technology to replace or substantially influence human decision-making for "significant decisions" about consumers, employees, applicants, students, tenants or independent contractors.

This development is significant for the dealer channel where AI is quickly migrating from a novelty item to critical infrastructure. Our industry routinely deploys AI-enabled monitoring software, automated help-desk ticketing, predictive service dispatch, customer scoring systems and machine-learning tools that evaluate employee productivity. The result is that AI blurs the lines between workflow optimization and automated governance.

Consider a managed print services company that utilizes AI tools to determine which technician receives overtime opportunities based on historical response times, customer sentiment analysis and GPS efficiency metrics. If managers merely rubber-stamp recommendations generated by an algorithm, states like California may view that process as ADMT making a "significant decision" concerning employment. Now imagine a managed IT services provider using AI software to rank prospective sales hires by analyzing speech cadence during



recorded interviews. That system, too, likely falls within the California regulation's orbit.

The same applies to customer-facing systems. An equipment finance company that uses AI to assess creditworthiness or to predict default risk for lease applicants could trigger ADMT obligations. So could a service

provider that uses behavioral analytics to determine which customers receive premium support tiers, escalated cybersecurity monitoring or discounts.

Businesses covered by these rules must provide consumers with detailed notices explaining how ADMT is used, what categories of personal information feed the system and how individuals may opt out. Businesses must also conduct formal risk assessments before deploying certain high-risk processing activities involving ADMT.

The risk-assessment requirement may be the most significant feature of the new regulatory regime because it forces companies to document something many would prefer to remain implicit: why the algorithm exists, what risks it creates, whether safeguards actually work and whether the commercial benefits outweigh the potential privacy intrusions. California is, in effect, compelling every business to create a paper trail of its own AI conscience.

The penalties are not theoretical. Violations of the CCPA already carry civil penalties of up to \$2,500 per violation, which may increase to \$7,500 per violation. In turn, a single flawed algorithmic workflow may affect thousands of applicants, customers or employees, and exponentially increase potential risk.

The takeaway is that AI-enabled CRM tools, dispatch platforms, cybersecurity suites and analytics engines from third-party vendors may fall within California's new regulations beginning next year, and other states may enact similar rules in the near future. The irony is that California's move may ultimately accomplish the opposite of what the Trump administration hoped to avoid. BTA members in California should adopt compliance measures by the end of the year. Those outside of California should consider themselves on notice that implementing AI-enabled tools may involve additional auditing or compliance requirements sooner than later. ■

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