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Artificial Intelligence and California's Future

A Policy Brief for Business Leaders

SILICON VALLEY LEADERSHIP GROUP

INSTITUTE for CALIFORNIA AI POLICY

Executive Summary

Artificial intelligence is reshaping the global economy and the very nature of work. California stands at the center of this transformation: home to 33 of the top 50 privately held AI companies globally, capturing 51% of U.S. AI startup funding from Q3 2024 to Q2 2025, and leading U.S. demand for AI talent. Yet this dominance is not guaranteed. Interstate competition, regulatory uncertainty, and enterprise adoption challenges all pose risks to the state's ability to translate AI innovation into broad economic gains.

For California's business leaders across sectors, such as tech, energy, healthcare, retail, entertainment, financial services, logistics and more, AI has become an operational imperative. **The next three to seven years represent a critical window to solidify California's position as the global leader in AI.** Business leaders have both a stake in this outcome and a role in shaping it.

This brief analyzes the economic, regulatory, and workforce dimensions of AI's trajectory and identifies specific engagement opportunities for business leaders. Each section includes a **3 to 7 Year Outlook** projecting how these dynamics may evolve and where proactive engagement can make a difference.

California: The Global Hub of AI Innovation

33 *of the world's top* **50**
privately held AI companies worldwide

Economic Competitiveness

California is the world's fourth-largest economy, the birthplace of the tech industry, and the undisputed center of AI development. The state hosts 33 of the top 50 privately held AI companies, accounts for a quarter of all AI patents and research publications, and leads globally in AI talent. In 2025, the San Francisco Bay Area raised $122 billion in AI funding alone, more than three-quarters of all U.S. AI investment and representing the largest concentration of AI capital in history.

Yet California's tech sector has shed jobs since mid-2022. In 2025 alone, California accounted for 43% of all U.S. tech layoffs, roughly 73,500 job cuts. Meanwhile, Texas led all states in tech job growth in 2024 and is projected to add over 40,000 tech jobs in 2025, the most of any state. States like Florida, Arizona, and Nevada continue aggressive courtship of AI companies with lower costs and lighter regulatory environments.

3-7 YEAR OUTLOOK: ECONOMIC COMPETITIVENESS

California's AI economic trajectory will be shaped by three factors: whether frontier AI development remains concentrated in the state, whether California enterprises successfully adopt AI, and whether supporting infrastructure keeps pace with demand.

FRONTIER LEADERSHIP SHIFTING.
California's status as the global epicenter for frontier AI is entering a new phase. As of January 2026, SB 53 (Transparency in Frontier AI Act) has established the nation's first mandatory safety and disclosure framework for the world's most powerful models. While this provides much-needed legal clarity for developers, it also introduces a high-cost compliance ceiling. Our competitive advantage now depends on whether we can maintain the world's highest concentration of "Frontier Talent" while navigating these new reporting requirements without triggering a "flight" of compute-heavy research to less regulated regions.

ENTERPRISE ADOPTION REMAINS THE CRITICAL VARIABLE.
The long-term trajectory depends on moving AI from experimentation to core operations. Currently, 70–80% of AI pilots fail to reach production due to data silos and organizational friction. California's opportunity lies in the convergence of its tech stack with its dominant vertical clusters, such as Biotech, Entertainment, and Financial Services. We are seeing a distinct shift toward "Physical AI", where frontier intelligence is embedded into robotics and autonomous systems. Because California has the nation's highest operating costs, local enterprises face a strategic imperative: they must capture AI-driven efficiency gains faster than lower-cost rivals to remain economically viable.

INFRASTRUCTURE CONSTRAINTS POSE GROWING RISKS.
AI growth is bottlenecked by compute capacity and grid strain. California regulators are studying data center energy impacts through 2027, but have not yet established clear operational requirements. Recent CEQA reforms (AB 130, SB 131) established procedural frameworks that could extend to AI infrastructure, but permitting timelines and grid interconnection remain uncertain.

Regulatory Posture

California has emerged as the nation's most active AI policy laboratory. The 2025 legislative session passed 16 AI and privacy bills, with Governor Newsom signing seven AI-specific measures into law, including SB 53, the Transparency in Frontier AI Act, a first-of-its-kind U.S. law requiring large AI developers to disclose risk mitigation plans. Other enacted measures address AI liability (AB 316), algorithmic pricing (AB 325), healthcare AI disclosures (AB 489), and companion chatbot regulation (SB 243).

Simultaneously, the California Privacy Protection Agency (CPPA) has finalized its Automated Decisionmaking Technology (ADMT) regulations (effective January 1, 2026), and sector regulators such as in healthcare, insurance, financial services, and energy are independently examining AI applications, creating potential for inconsistent requirements across jurisdictions.

- **SB 53** The Transparency in Frontier AI Act, a first-of-its-kind U.S. law requiring large AI developers to disclose risk mitigation plans

- **SB 243 C**ompanion-chatbot bill requiring operators to clearly disclose users are interacting with an AI "companion chatbot" and to implement/publish safety protocols (including safeguards around self-harm content).

- **AB 316** "No autonomous AI defense" bill prohibiting companies that develop, modify, or use AI from dodging liability by claiming the AI autonomously caused the harm.

- **AB 325** Algorithmic-pricing antitrust bill making it unlawful to use or distribute a "common pricing algorithm" as part of collusion/restraint of trade, or to coerce others to adopt an algorithm's recommended price/terms.

- **AB 489** Healthcare AI bill restricting AI/GenAI tools from using terms, letters, or phrases that imply licensed medical care is being provided by a human professional, and empowering boards to enforce against misleading representations.

UNDERSTANDING THE GAPS

Effective engagement requires understanding why “Sacramento - industry” dialogue on AI is often challenging. Three structural gaps shape the dynamic, and each representing an opportunity for improved, more informed channels of communication:

Knowledge Gap

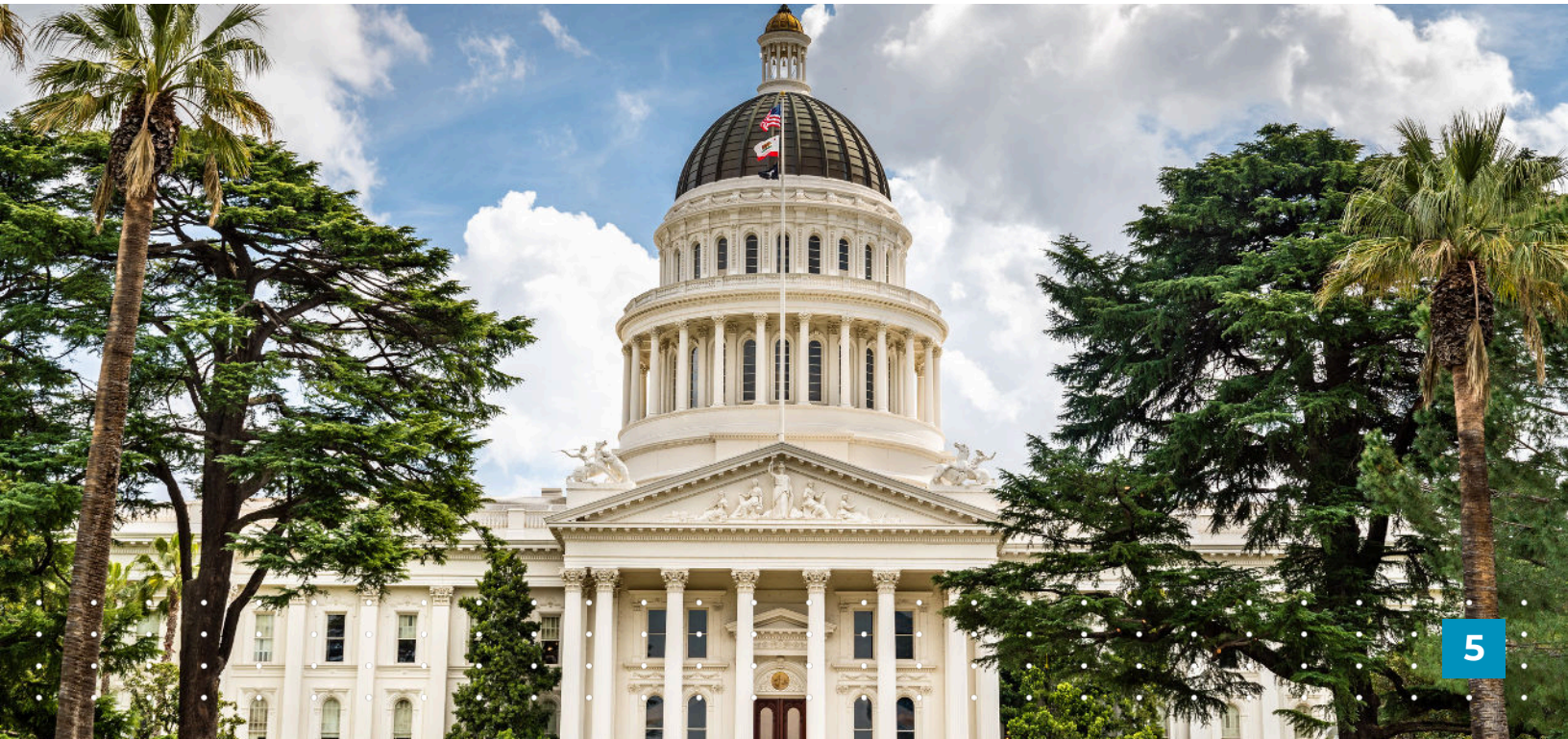
Policymakers receive dozens of complex AI bills and often lack technical background to evaluate competing claims. Industry experts who can translate technical realities into policy-relevant terms remain scarce.

Trust Gap

Policymakers often view industry input as focused solely on avoiding regulation rather than solving problems. Industry, meanwhile, perceives Sacramento as prone to overreach on topics legislators don't fully understand.

Outlook Gap

Where industry sees transformative opportunity, policymakers may see primarily risk. Neither side is fully listening to the other.



3-7 YEAR OUTLOOK: REGULATORY POSTURE

Several regulatory trajectories are likely. Sector-specific rules will proliferate, and expect continued requirements for AI in areas such as safety, automated decision systems, content authenticity, employment, etc. Transparency and disclosure requirements will likely expand. Enforcement mechanisms will grow with clearer liability frameworks. Physical AI, including robotics, autonomous vehicles, AI in manufacturing, will emerge as a new regulatory frontier.

One critical ICAP insight: AI is not social media. The regulatory playbook from platform debates, which focused on content moderation, platform liability, and privacy, does not map cleanly onto AI's complex challenges. AI governance involves different technical architectures, different risk profiles, and different stakeholder dynamics. This creates opportunity for business leaders willing to engage constructively in developing appropriate frameworks rather than simply opposing regulation.

Federal preemption remains uncertain but increasingly contested. The Trump Administration's December 2025 executive order directs the DOJ to establish an AI Litigation Task Force to challenge state AI laws, instructs Commerce to identify 'onerous' state regulations, and threatens funding cuts. However, the executive order cannot itself overturn state law, that'd require congressional action or court rulings. Until federal preemption is established through legislation or successful litigation, California's regulatory choices will continue to matter, and may set templates for other states.

Workforce Transformation

California faces a dual workforce challenge: shortage of AI-specialized talent alongside displacement of workers in AI-exposed roles. Nearly half (44%) of executives cite lack of in-house AI expertise as a key barrier to implementing generative AI initiatives—a gap expected to persist through at least 2027. At the same time, California has lost over 70,000 tech jobs since early 2023, with 18,000 in software development alone and 50,000 in entertainment sectors.

Evidence suggests AI's near-term impact will be augmentation more than wholesale displacement, and will change task composition within jobs rather than eliminating positions entirely. However, task automation creates wage pressure even when jobs persist. Roles involving routine information processing face genuine displacement risk: administrative functions, customer service, basic accounting, and entry-level knowledge work are most exposed.

3-7 YEAR OUTLOOK: WORKFORCE TRANSFORMATION

Goldman Sachs estimates approximately 25% of current U.S. work tasks are exposed to AI-driven automation, with exposure concentrated in professional services, administrative roles, and information-processing functions. California's economy is heavily weighted toward these sectors. Displacement rates are particularly high among younger workers entering the workforce.

California's unemployment insurance and retraining systems, already strained, are not prepared for AI-driven displacement at scale. The state's community college system has begun scaling AI education through its AI Fellows program, deploying 13 industry experts into colleges. Models like the Bay Area K16 Collaborative, for which SVLG serves as the business industry liaison, demonstrate how companies can partner with high schools, community colleges, and universities to develop pathways to jobs. ICAP has also contributed to this effort through its workforce development initiatives, including an AI curriculum framework developed in partnership with De Anza College.

Workforce provisions are increasingly appearing in state oversight. While Governor Newsom vetoed SB 7 in 2025 (citing its overly broad scope), the legislative intent remains clear: notice, access, and correction rights for employees subjected to AI-driven decisions are being moved into the CPPA's regulatory framework. Additional proposals addressing algorithmic management and workplace surveillance will advance in the 2026 session. Companies that proactively invest in employee transition support will shape both the policy and the narrative.

Where Business Leaders Should Engage

California's AI trajectory is not fixed. Business leaders who engage constructively can shape outcomes across three domains:

Policy Engagement

Legislative input: Early engagement during bill development, or even during bill ideation stages, such as through organizations such as SVLG/ICAP, Cal Chamber, is more effective than last-minute opposition. The 2026 session will see continued AI legislation on automated decision systems, employment, and industry-specific applications.

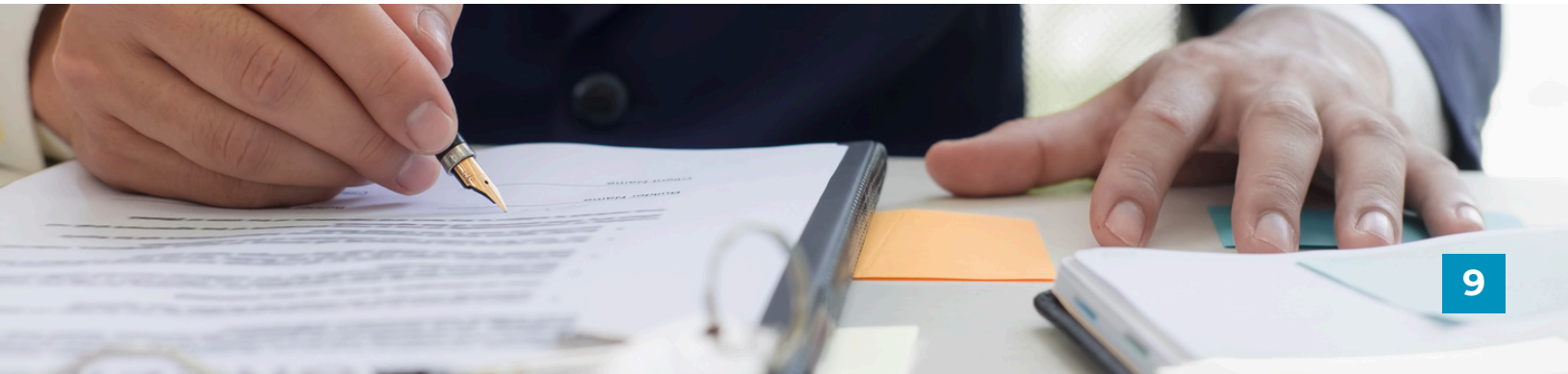
Regulatory processes: Agency rulemakings at CPPA, CPUC, and sector regulators often matter more operationally than legislation itself. For example, engage in CPUC proceedings on large load interconnection frameworks to align grid infrastructure investment with business needs.

Infrastructure advocacy: Advocate for clear project-category definitions and procedural timelines in CEQA reform discussions. Propose industry-led frameworks for data center energy efficiency that policymakers can adopt as alternatives to prescriptive regulation.

Enterprise AI Adoption

Move beyond pilots: Engage early on AI deployment strategies within companies instead of isolated pilots. Benchmark AI-assisted employee performance and participate in cross-company knowledge sharing.

Cross-sector collaboration: A unified voice from diverse sectors such as energy, healthcare, retail, entertainment, and financial services carries different weight than tech-only advocacy. Cross-sector collaboration accelerates breakthroughs and enables early education to legislators on AI's operational realities.



Workforce Investment

Treat reskilling as core investment: Only 46% of organizations integrate workforce planning into their AI roadmaps. Short-cycle upskilling aligned with real job requirements will determine which companies capture AI productivity gains.

Industry-education partnerships: Partner with California schools on curriculum development and training programs. Companies providing equipment, instructors, and internships will help create the talent pipeline they need while building goodwill with policymakers.

Policy advocacy: Support legislation funding workforce transitions, expanded training capacity, and employer retraining incentives.

Education and Policy Research

AI forums and briefings for elected officials: Focused on developing and supporting educational forums and policy briefings that provide objective, technically-informed perspectives on AI developments to elected officials and their staff.

Policy research and strategy development: Focused on supporting research initiatives that develop evidence-based policy proposals for workforce training programs and sustainable revenue sources to fund AI transition support.

Conclusion

The companies in this coalition employ hundreds of thousands of Californians, serve millions of customers, and operate critical infrastructure across the state. The most effective engagement will combine specific expertise, what AI means for your sector, with cross-industry collaboration on shared challenges.

SVLG/ICAP has a strong track record of collaboration on technology policy issues, together with our industry partners, we stand ready to support engagement through convenings, policy processes, and coalition efforts that will ensure California remains the global leader in AI.

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