



Colorado's AI Task Force Warns of Compliance Challenges Ahead of Groundbreaking 2026 AI Law: What Employers Need to Know

Insights

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Colorado's impending landmark AI law continues to raise compliance challenges and policy concerns for employers and the broader business community, as highlighted in a recent report from the state's AI Task Force. The February report follows the governor's lead and suggests that legislative changes may be necessary before the law goes into effect in order to address lingering ambiguities, compliance burdens, and other stakeholder concerns. Here's what employers need to know about the law, the governor's concerns, and the task force's findings as the clock ticks down to the February 2026 effective date.

Recap of Colorado's Groundbreaking AI Law

Last year, Colorado enacted Senate Bill 24-205, a first-of-its-kind law regulating the use of artificial intelligence in high-risk decision-making. When it takes effect on February 1, 2026, the law will impose new obligations on developers and deployers of AI systems that influence “**consequential decisions**,” such as workplace, lending, housing, and healthcare determinations. It establishes a **duty to avoid algorithmic discrimination**, requiring businesses to ensure their AI systems do not produce biased outcomes.

The law mandates **impact assessments** for AI systems that are subject to the law's requirements. Developers must provide deployers with detailed documentation, and deployers must notify consumers when AI is used in a consequential decision. The law also grants consumers the right to appeal decisions made by AI, and in some cases, businesses must allow consumers to correct erroneous data.

Additionally, SB 24-205 provides a **small business exemption** for companies with fewer than 50 employees and imposes **direct reporting requirements** to the Colorado Attorney General. The law does not focus on intent – it regulates the **outcome** of AI-generated decisions, which some have argued creates an overly broad compliance burden.

[You can read a full summary of the law in our Insight here.](#)

Governor Polis's Reservations

When signing SB 24-205 into law, Governor Jared Polis expressed concerns about its potential impact on innovation and competitiveness. In a signing statement issued on May 17, 2024, Polis acknowledged the importance of preventing AI-driven discrimination – but warned that the law’s broad regulatory framework could stifle technological advancement in Colorado.

Specifically, he encouraged legislators to refine key definitions (such as “algorithmic discrimination” and “consequential decisions”) and to revisit the law’s complex compliance structure before the February 2026 effective date. Polis also raised concerns about the law’s patchwork effect, urging federal action to provide a more uniform AI regulatory framework nationwide.

AI Task Force Report Findings

The Artificial Intelligence Impact Task Force, formed to study and recommend potential legislative refinements, issued its February 2025 report highlighting areas for revision. The report categorized proposed changes into four groups:

Issues with Apparent Consensus for Change

The report noted that most stakeholders agree that some minor clarifications are needed, such as refining **notification and documentation requirements**.

Issues Where Consensus Could Be Reached with More Discussion

While there is broad agreement that certain provisions of the law require further refinement, the exact approach to fixing them remains under debate. These topics are particularly important for employers because they affect how companies will need to comply with the law’s requirements and structure their AI governance programs.

- One key area of ongoing discussion is the definition of “**consequential decisions**,” which determines which AI-driven business processes fall under the law’s purview. Employers would prefer greater clarity to ensure that their use of AI in hiring, promotions, terminations, and other HR functions aligns with legal obligations. Without clearer definitions, businesses could face uncertainty in compliance and heightened litigation risks.
- Another issue under negotiation is the **scope of exemptions** for certain businesses. While the law currently exempts small businesses with fewer than 50 employees, some stakeholders argue that exemption thresholds should be revised or extended. These stakeholders want to avoid imposing disproportionate compliance burdens on mid-sized businesses that may lack the resources to conduct comprehensive AI impact assessments.
- Additionally, the **timing and scope of impact assessments** remains an area of concern. The law requires that AI deployers conduct regular impact assessments, but stakeholders are debating when these assessments should be required, what triggers them, and what documentation must

be provided. Employers deploying AI in HR, finance, and customer service should track these discussions to anticipate compliance obligations and operational impacts.

Interconnected Issues That Require Broader Compromise

Some of the most complex challenges in revising SB 24-205 arise from the interconnected nature of its provisions. Adjusting one section often has ripple effects on others, making compromise more difficult. For employers, these issues are particularly relevant because they shape the legal risks, compliance obligations, and operational realities of using AI in business processes.

- One major area requiring broader compromise is the **definition of “algorithmic discrimination.”** The current definition has been criticized for being too vague, potentially making it difficult for businesses to determine whether their AI systems comply. Employers who weighed in want clearer, more workable definition to ensure their AI tools do not inadvertently trigger violations.
- Another complex issue involves **risk management requirements for AI deployers.** The law requires companies using AI in consequential decisions to implement robust risk management programs, but stakeholders disagree on the level of documentation and oversight required.
- Additionally, discussions among those in the AI Task Force continue around **businesses’ reporting obligations to the Attorney General (AG).** Some industry representatives argue that current reporting requirements are too broad and could expose trade secrets, while public interest groups insist that transparency is necessary to prevent AI discrimination.

Issues with Deep Divisions

Some of the most controversial aspects of SB 24-205 remain deeply divisive among stakeholders, making legislative consensus challenging. Employers should be particularly mindful of these issues, as their resolution (or lack thereof) could significantly impact compliance requirements, enforcement risks, and overall business operations.

- One of the most hotly debated topics is **whether businesses should have a right to cure before enforcement actions.** Some industry representatives argue that companies should have an opportunity to rectify non-compliance before facing penalties, while public interest groups maintain that such provisions could weaken the law’s deterrent effect.
- Another contested issue is **the extent of trade secret protections** under the law. Businesses are concerned that mandatory AI disclosures could force them to reveal proprietary information, while advocates argue that transparency is necessary to prevent algorithmic discrimination.
- The **role of the Attorney General’s office** in enforcing the law is also under dispute. Some propose expanding AG oversight and investigatory powers, while others push for limiting the AG’s discretion to reduce regulatory uncertainty.
- Other contentious topics include whether to revise the **consumer right to appeal AI-driven decisions**, potential **modifications to the small business exemption**, and whether to **delay the**

law's implementation to allow businesses more time to prepare.

What's Next?

With less than a year before SB 24-205 becomes enforceable, legislative changes appear likely – but the substance of such changes remains uncertain. While the report does not propose specific legislative amendments, it strongly recommends that policymakers continue discussions to address these concerns before the law takes effect. The task force's findings indicate that further refinements will be necessary to balance consumer protections with business feasibility.

What Employers Should Do

To prepare for the law's implementation, businesses should:

- **Assess AI Usage** – Determine whether any AI systems used in employment, lending, housing, or other regulated areas fall under SB 24-205.
- **Conduct AI Risk Assessments** – Even before mandatory compliance begins, evaluating AI-driven decisions for bias can help mitigate risk.
- **Review Contracts with AI Vendors** – Ensure that AI developers provide the necessary documentation for compliance.
- **Stay Informed** – Follow legislative developments and task force updates to anticipate potential changes. The best way to do so is to subscribe to [FP's Insight System](#).
- **Develop a Compliance Plan** – Prepare for potential consumer notification and appeal obligations by refining internal processes now.

Conclusion

We will continue to monitor developments as they unfold. Make sure you subscribe to [Fisher Phillips' Insight System](#) to receive the most up-to-date information on AI and the workplace. If you have any question, contact your Fisher Phillips attorney, the authors of this Insight, any attorney in [our Denver office](#), or any attorney in our [AI, Data, and Analytics Practice Group](#).

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