



August 6, 2024

Assemblymember Buffy Wicks, Chair
Assembly Appropriations Committee
1021 O Street, Room 8140
Sacramento, CA 95814

Dear Assemblymember Wicks,

On behalf of our nation's venture capital (VC) investors and the entrepreneurs they support, we write to express our opposition to SB 1047, the *Safe and Secure Innovation for Frontier Artificial Intelligence Systems Act*. While we share your goal of ensuring the safe and responsible development of AI, we believe that the bill, as currently written, would have severe unintended consequences that could stifle innovation, harm California's economy, and undermine America's global leadership in AI.

Since 2020, over 4,200 California-based artificial intelligence (AI) startups have raised \$159 billion in venture capital funding. In 2024 alone, over 850 CA-based AI startups have raised \$31 billion in capital.¹ This wave of innovative startups is already making significant contributions to California's economy in key ways:

1. **Direct Employment:** AI startups themselves are hiring across a range of roles, from software developers and data scientists to project managers and business development professionals. As these startups continue to grow, they create high-paying jobs that contribute directly to the local economy.
2. **Supporting Industries:** The rise of AI fosters job creation in related fields such as hardware development, cloud computing infrastructure, and cybersecurity. As startups build and refine AI technologies, there's a parallel demand for advanced hardware and secure computing environments, which in turn creates jobs in these specialized sectors.
3. **Educational and Training Opportunities:** The growing AI sector is also driving demand for educational programs and training initiatives. California universities and training institutions are expanding their offerings in AI and machine learning, leading to additional job opportunities for educators in the state.

The flywheel effect created through this wave of investment in California's AI ecosystem extends to the state's fiscal position. The creation of high-paying jobs and the expansion of AI

¹ PitchBook Data, <https://pitchbook.com/>

startups in California contribute to higher state tax revenues. As AI startups continue to grow and become profitable, initial public offerings (IPOs) generate significant inflows for the state's budget coffers. Furthermore, the expansion of office spaces and facilities for AI startups is providing much-needed support for commercial real estate in California, increasing property tax revenues.

In the long term, the robust growth of AI startups could lead to even more significant economic benefits. A thriving AI sector fosters an ecosystem of innovation, attracting additional investors and talent to California. This creates a positive feedback loop, driving further growth and job creation. California's position as a leader in AI can attract international companies and talent, enhancing the state's global competitiveness and economic influence. Furthermore, increased state revenues can be reinvested into community programs, infrastructure, and public services, creating a more vibrant and well-supported society.

Ensuring uniformity in AI regulations across the nation and globally is crucial, particularly as it relates to safety and security. President Biden signed an Executive Order in October 2023 mandating companies developing foundational models with significant implications for national security, economic security, or public health and safety to inform the federal government during the model training phase. Companies must disclose the outcomes of all red-team safety assessments to guarantee the safety, security, and reliability of AI systems before their public release. Additionally, the National Institute of Standards and Technology (NIST) is currently collaborating with federal agencies to establish testing and safety guidelines for large AI models.

Should SB 1047 become law, it would likely result in confusion regarding applicable standards and impose additional burdens on AI developers without proportional safety benefits, particularly as it diverges from national regulations and introduces new criteria such as the evaluation of "hazardous capabilities". Enacting a patchwork of inconsistent AI regulations risks further fragmenting the U.S. regulatory landscape.

Startups typically consist of small teams whose entire focus is dedicated to innovating and scaling-up a new technology. A heightened regulatory compliance burden has an outsized impact on these small, resource-constrained teams and will only serve to encourage developers to relocate to other states or nations seeking to encourage AI innovation in their borders. Consequently, rather than improving AI safety, this legislation could undermine ongoing federal AI safety initiatives and hinder innovation in California. Considering California's current budget deficit and heavy reliance on capital gains taxes, even a slight migration of AI startups out of the state could hamper government revenues.

SB 1047 seeks to establish regulations preventing frontier AI developers from creating AI models that will result in any kind of foreseeable harm, even those not directly resulting from the model itself. In doing so, it requires developers to adhere to exceedingly ambiguous, broad, and often impractical standards in the development of "covered models" while threatening severe penalties, including criminal liability. We are concerned that the regulatory framework proposed in this bill sets impractical expectations that developers can certify that a model, prior to fine-tuning, is entirely free of potential hazards, even if someone removes all the protections

that a developer adds to a model.

The bill imposes unrealistic standards on developers who must “reasonably exclude the possibility that a covered model has a hazardous capability or may come close to possessing a hazardous capability when accounting for a reasonable margin for safety and the possibility of post training modifications.” A developer’s failure to make these certifications to the newly-established Frontier Model Division within the Department of Technology could result in excessively harsh penalties, including:

- Potential imprisonment for misrepresenting a model’s capabilities;
- Using a “kill switch” to disable a model, and;
- Fines in “an amount not exceeding 10 percent of the cost, excluding labor cost, to develop the covered model for a first violation and in an amount not exceeding 30 percent of the cost, excluding labor cost, to develop the covered model for any subsequent violation.”

SB 1047’s approach of broadly regulating AI technology rather than focusing on specific high-risk applications introduces considerable regulatory uncertainty, increasing compliance costs and exposing developers to significant liability risks if their models are misused. These provisions will inevitably stifle economic and technological innovation while failing to better protect Californians. Instead, by restricting businesses from developing AI technologies that could mitigate risks posed by models developed outside California's jurisdiction, the bill may inadvertently leave them more vulnerable.

We stand ready to work with you to find a path forward that promotes innovation while also ensuring the safe and responsible development of AI technology. Unfortunately, if SB 1047 is enacted in its current form, it would have a chilling effect on AI research and development in California and across the United States, hamstringing progress in a field that holds immense promise for improving medicine, addressing climate change, advancing scientific understanding and driving economic growth.

Sincerely,

A handwritten signature in black ink that reads "Bobby Franklin". The signature is written in a cursive, slightly slanted style.

Bobby Franklin
President and CEO