AI Adoption, Governance and Impact

New research shows how states and localities are maturing AI policies and expanding AI deployment.

SPONSORED BY

IBM

Artificial intelligence (AI) and machine learning are gaining ground in city, county and state governments nationwide. Test cases are moving toward mainstream use, helping agencies improve operational efficiency and streamline constituent experiences.

New research by the Center for Digital Government (CDG) bears this out. CDG interviewed 17 technology leaders from 15 U.S. state and local agencies in early 2025 to gather their perspectives on:

Adoption. Agencies have deployed generative AI (GenAI) in places like contact centers. They're also automating workflows, freeing human employees from manual tasks and accomplishing tasks in minutes that once took hours or days.

Governance. Agency leaders are updating critical oversight and building guardrails to protect data and align AI outcomes with agency values.

Impact. Agency teams are documenting their gains. One state agency, for instance, used GenAI to shrink a project timeline from 18 months to 45 minutes by automating the manual analysis of content and generating succinct information.

Along with its promise, however, AI poses significant questions about safety, fairness and trust. This report includes guidance from CDG and IBM experts to help agencies optimize AI use cases, navigate potential issues and prepare for what's next.

Agencies are using AI to automate workflows, freeing human employees from manual tasks.

Adoption

State and local agencies are transitioning AI pilots into production, the CDG research found, most commonly in the form of virtual assistants like chatbots and employee productivity tools.

Interviewees said they're proceeding cautiously and looking for real value from AI deployments. "We don't want to just do AI for AI's sake," said one state government IT leader, who added their organization's highest priorities are ROI, security and sustainability.

Although the pace of deployment is deliberate, a growing number of GenAI apps are finding a home in the public sector. And while chatbots and productivity tools were most common, interviewees said they had begun using AI for a range of other functions over the past year, including decision support for contact center agents, code extraction, airport crowd management, procurement analysis, case management and benefit application processing.

Even AI holdouts were relaxing blanket restrictions, the interviews found. An IT leader at a state treasury department said the organization recently lifted its ban on GenAI, creating a structured adoption process with mandatory training and legal vetting.

State and local agencies also continue to seek new uses for AI. "Experimentation is at an all-time high," says Romelia Flores, IBM Distinguished Engineer and Master Inventor. She says agencies are exploring AI-based digital assistants and GenAI tools to help explain and update legacy code bases.

Selection and Funding Policies

Many agencies are establishing new structures to prioritize and fund AI projects. Just under three-quarters of interviewees said they use an AI-specific review process to determine which use cases receive funding. One-fifth said their agency uses a standard IT review. A few said they are still developing a process.

Data security, privacy protection, ROI and mission alignment were top factors in deciding which projects move forward. Georgia, for instance, developed a framework called PRICE to prioritize AI use cases, focusing on policy alignment, reach, impact, certainty and effort.

As AI tools proliferate, choosing appropriate use cases can be challenging. But there are some guiding principles. "Always start with low-risk, high-value opportunities," says Bala Vaithyalingam, Global Leader of Data and AI for IBM Expert Labs. For example, AI capabilities built into enterprise software platforms may be a practical starting point because these solutions typically include security and data governance.

"Selection is all about aligning value and feasibility," adds Thomas Nisbet, Associate Partner for Public Sector AI with IBM Consulting. AI must drive measurable value with a provable ROI, he says. It's also crucial to take a big-picture perspective and find ways to integrate AI tools across your enterprise technology ecosystem.

Developing business cases that show value for taxpayers and service recipients can help AI projects win support from policymakers and budget decision-makers, says Daniel Chenok, Executive Director of the IBM Center for the Business of Government.

Chenok also urges governments to consider innovative options such as multiyear technology funds for AI initiatives. Public-private partnerships can be another effective approach. Private companies may provide capital for productivity-boosting AI deployments in exchange for a percentage of the savings generated, he says.

AI Training and Literacy

Along with expanding their use of AI, state and local agencies are addressing AI literacy in their workforces. More than 53,000 New Jersey state employees have received AI instruction, for instance. Nebraska is partnering with universities and private firms to create AI-focused internships. And the city of San Diego requires all employees to acknowledge their AI training through an internal system.

This type of training is crucial as more public employees gain access to AI tools. "They'll need to know how to use AI securely and safely — and avoid overusing it," Chenok says. Training must ensure AI doesn't make decisions that should be made by humans.

Governance

All interviewees said they have developed AI-specific governance policies, and about half said they had adopted a formal AI policy within the past year. Policies and frameworks focused on security were by far the most common type of governance. But multiple interviewees also mentioned policies on responsible use, ethics, privacy and human-in-the-loop oversight.

Interviewees said their biggest governance challenges were ensuring transparency around AI features embedded in existing technology solutions and preventing governance rules from stifling AI innovation. They often characterized their governance efforts — especially data governance — as relatively immature. AI oversight is commonly decentralized, according to the research, typically resting with individual project owners or departments.

Transparency around AI features embedded in existing technology solutions is a top governance challenge.

Guidelines, Policies, Frameworks, Regulations

Governance priorities are focused on mitigating unique risks posed by AI, such as preventing inappropriate use of personal data, ensuring ethical and explainable AI outcomes, and maintaining human oversight of AI activities.

The research interviews surfaced multiple examples.

Ohio's policy covers the AI development lifecycle, focusing on prototyping, quality control, continuous monitoring and procurement. The state has created a structured risk assessment tool for data privacy, security controls and vulnerabilities in AI implementations. High-risk AI use cases require agencies to work with vendors to address security gaps before deployment.

Nebraska created a statewide AI policy that classifies data impact (high, moderate and low) to prevent sensitive information from being entered into public AI models.

The Massachusetts Executive Office of Technology Services and Security launched an AI Center of Excellence to develop best practices and standard language around reducing risks. The office also directed agencies to create an inventory of approved and implemented AI tools.

The California Department of Rehabilitation issued guidelines for software developers to ensure they fully understand and document how AI-generated code operates. Minnesota's IT services team focuses on developing flexible governance frameworks to avoid creating policies that quickly become obsolete.

Effective governance policies will become even more important as AI models and tools proliferate. "I call it the sprawl effect," says IBM's Flores. She urges agencies to adopt policies and monitoring processes to keep sprawl in check. "The more you can add a method to the madness, the better off you're going to be."

AI IN PUBLIC SAFETY: RISKS AND REWARDS

Public safety and criminal justice systems offer both intriguing and cautionary AI use case examples for public agencies.

IBM's Dan Chenok says the IBM Center for the Business of Government worked with a Kansas county to test if AI could identify factors that help incarcerated people successfully return to society. The AI tool looked for common threads among those who, for example, got jobs and didn't return to prison.

"It turned out that AI could help the county design better programs in prison service with the goal of reducing recidivism rates over time," Chenok says.

But AI also poses risks that agencies cannot neglect. The Spanish government announced earlier this year it would overhaul a program that attempted to use AI to identify potential repeat victims of domestic violence.[1] According to news reports, the software program's predictions proved unreliable, and some women labeled as low risk experienced further abuse.

Phaedra Boinodiris, IBM Consulting's Global Leader for Trustworthy AI, says the Spain example illustrates the importance of conducting in-depth research to make sure AI works as intended. She recommends engaging with domain experts who have in-the-trenches experience. A social worker or domestic violence expert, for instance, might provide context about issues unknown to data scientists, software developers and agency leadership.

"Pull out a seat at the AI table for your domain experts because they understand the problem space," Boinodiris says.

Implementing governance and addressing data quality are vital as agencies move toward deeper AI deployments.

What's more, the emergence of agentic AI — where AI agents act autonomously or semi-autonomously on behalf of a user — adds new issues and urgency into the governance mix. State and local agencies will need logging and audit tools to ensure transparency around agentic AI use, as well as procedures to maintain proper human oversight of AI agents, IBM experts say.

Governance Challenges

Keeping up with the rapid pace of AI development is a key governance challenge. Interviewees generally said they need more transparency from vendors around AI capabilities that are being embedded into products or services. This is especially true when AI capabilities are added to solutions agencies already use.

"It's quite a bit of extra work for cybersecurity teams, having in some cases to re-vet tools that previously were cleared," said one city government interviewee. Another interviewee suggested that agencies could request AI fact sheets from their vendors and work through groups like the Government AI Coalition — a multijurisdictional organization launched by the city of San José to promote responsible and purposeful AI use — to strengthen industry transparency practices.

State and local agencies are working to mature their AI and data governance policies, although they're wary of implementing rules that slow down innovation.

Interviewees tended to rank their data maturity as low or moderate. In many cases, maturity varies by department or data set. An interviewee from New Jersey noted concern about data silos that discourage sharing between agencies, which can hold back AI progress: "How can we do better at breaking down or at least softening some of these silos?"

Agencies are taking multiple steps to address data deficiencies, according to the research, including modernizing data storage technologies, adopting AI-assisted data tools, and creating data catalogs and dictionaries.

Addressing data issues can seem overwhelming because agencies often have massive amounts of data to classify, clean up and organize. For instance, a state treasury department official said their department is required by statute to retain much of its data indefinitely.

However, implementing governance and addressing data quality are vital as agencies move toward deeper AI deployments. "When you have enterprise data governance, you can try out more sophisticated AI use cases because you're managing risk properly at scale," says Dave Fletcher, a CDG senior fellow and former Utah chief technology officer who served as an advisor on the research project. He adds that AI-based tools are available to help agencies address data issues.

"It's important that you don't give up," he says. "You just need some very basic policies in place and make sure security people are involved in every project."

Many AI projects stall in the pilot stage because governance is an afterthought, says IBM's Vaithyalingam. "Our most successful engagements put governance front and center," he says. Effective governance performs three critical functions, IBM's experts say. It aligns AI applications with your agency's core mission, creates processes and policies to ensure trustworthy results, and trains people to provide thorough oversight of vendors' AI practices.

About the Research

The Center for Digital Government conducted in-depth interviews with 17 state and local government leaders from 15 agencies in February and March 2025 about their progress on adopting AI. The interviews included officials from seven state central IT agencies, four state departments, two cities and two counties.

Jurisdictions Interviewed:

States

California
Georgia
Massachusetts
Minnesota
Nebraska
New Jersey
Ohio
Pennsylvania
Texas
Washington

Cities

Mesa, Arizona
San Diego, California

Counties

Miami-Dade, Florida
Santa Clara, California

The key to advancing AI maturity is addressing governance as early as possible. "As soon as you've got a twinkle in your eye on thinking about using AI, you need to bring in governance and ethics," says Phaedra Boinodiris, IBM Consulting's Global Leader for Trustworthy AI. That's essential because LLMs and other AI tools must be fine-tuned to address data quality issues that can affect the user experience and potentially embarrass an agency if AI delivers biased or unfair results.

Accountability and Oversight

About half of the interviewees said they organize AI oversight by business unit. A half-dozen said their organization has created an AI-specific oversight commission or board, while a similar number apply their general IT oversight policies to AI.

MassHealth, the Massachusetts public health agency, assigned its chief data officer to align AI governance across the organization. The agency's director of data strategy handles day-to-day governance oversight.

The central IT department in Miami-Dade County, Florida, has innovation teams that oversee governance with help from the county's AI Advisory Council. In the state of Washington, each agency manages IT oversight, and the state's enterprise IT office lets each agency decide how fast they want to move on AI. "We do not want to impede anyone who wants to move forward at their own pace," said an IT leader with the agency.

"If bad guys are using AI to infiltrate your systems, you need the most advanced tools to defend against them."

— **Dave Fletcher,** Former Chief Technology Officer, State of Utah

IBM's Vaithyalingam urges agencies to create independent oversight committees that establish strong standards and define responsibilities if things go wrong. "If everybody's accountable, then nobody's accountable," he says.

Cybersecurity Risks and Responses

Interviewees said AI adds to long-standing cybersecurity challenges by enabling more sophisticated and more frequent cyberattacks. They also said the technology creates new risks for protecting personally identifiable information.

Anxieties around deepfakes — highly realistic fake images or audio produced by AI — surfaced in several interviews. In Santa Clara County, IT and security leaders created an executive education program to illustrate the risks. They also created a deepfake based on a county commissioner to demonstrate how simple it is to generate this type of deceptive content.

Interviewees anticipate that AI will improve efficiency, constituent engagement and analytics.

Interviewees and industry experts agree that AI security tools are necessary to mitigate AI-based threats. "If bad guys are using AI to infiltrate your systems, you need the most advanced tools to defend against them," CDG's Fletcher says.

Impact

Although many agencies are still trying to move limited AI use cases into full production, interviewees said the technology is already producing results. Better back-office workflows, faster content generation and improved availability of constituent services are the biggest benefits so far, according to the research.

"We are so inspired by AI," said one state IT leader, noting significant gains in communication and workplace efficiency. "The biggest impact to date has been an improvement in general communication ... you get a more business-like professional communication when it's appropriate."

A city government official described the impact of automation on payroll procedures. "We had a process that took something like 40 to 45 hours of human labor every pay period that we got down to 30 minutes using robotic process automation and AI."

Nebraska used GenAI to analyze 400,000 pages of financial regulations and develop a compliance framework in 45 minutes — a project a vendor estimated would take 18 months to complete manually.

Miami-Dade County cited productivity gains in training, contract analysis and document processing. The California Department of Rehabilitation noted AI-assisted writing tools were especially helpful in communicating with constituents who speak different languages.

Sharing these early results helps promote further AI adoption. Fletcher recommends that technology leaders spread the word about successful AI deployments with other agencies through internal centers of excellence or AI committees and more broadly through multijurisdictional groups like the Government AI Coalition.

Looking Ahead: What's Next?

Interviewees broadly anticipate AI to produce continuing improvements in efficiency, constituent engagement and analytics. They expect these benefits to accumulate as more use cases come online in the next 18 to 24 months.

Several IT leaders noted the potential of agentic AI to automate government workflows and enable agencies to deliver better services with fewer resources. But the use of autonomous AI agents raises additional oversight issues.

"With agentic AI, making sure you've got your house in order on governance and managing risk is going to be central," said IBM's Boinodiris. Agentic AI systems demand careful oversight and human supervision, she adds. "You're going to want observability, so you are immediately notified in real time if your agent goes off the rails."

Ultimately, success with AI requires a focus on results. "AI is not a technology initiative," IBM's Nisbet says. "It's a business initiative."

AI solutions must address human needs in ways that produce measurable business value. That means engaging stakeholders — constituents, elected officials, end users and domain experts — to make sure AI delivers real ROI.

"Otherwise," Nisbet cautions, "you're going to create a thousand little tchotchkes that sit on shelves."

1. https://www.nytimes.com/2025/01/17/technology/spain-domestic-violence-algorithm.html

This piece was written and produced by the Government Technology Content Studio, with information and input from IBM.

government technology

Produced by Government Technology

Government Technology is about solving problems in state and local government through the smart use of technology. Government Technology is a division of e.Republic, the nation's only media and research company focused exclusively on state and local government and education.

www.govtech.com

IBM

Sponsored by IBM

IBM (NYSE: IBM) is a leading provider of global hybrid cloud and AI, and consulting expertise. We help clients in more than 175 countries capitalize on insights from their data, streamline business processes, reduce costs and gain the competitive edge in their industries. Thousands of government and corporate entities in critical infrastructure areas such as financial services, telecommunications and healthcare rely on IBM's hybrid cloud platform and Red Hat OpenShift to affect their digital transformations quickly, efficiently and securely. IBM's breakthrough innovations in AI, quantum computing, industry-specific cloud solutions and consulting deliver open and flexible options to our clients. All of this is backed by IBM's long-standing commitment to trust, transparency, responsibility, inclusivity and service.

www.ibm.com

The right partner for a changing world: At IBM, we collaborate with our clients, bringing together business insight, advanced research and technology to give them a distinct advantage in today's rapidly changing environment. For more information to help you on your Journey with AI, contact your local IBM representative, or go to:

https://www.ibm.com/artificial-intelligence