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How state governments should use AI themselves

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WHITE PAPER
No. 299 | November 2026

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Governments should learn how to use Artificial Intelligence (AI) for their own operations and public services. We hear political debates and media coverage of what AI will mean for our future and jobs, the impact of data centers, whether new regulations are needed, and countless other things. But less attention is paid to the good things AI can do within government agencies for the people they serve.

Key Points

1. **Some states launch AI tools that begin to transform government operations and public services.** Agencies that use AI only for efficiency just get faster bureaucracies.
2. **Agencies using AI intelligently show how to create less friction in the economy and be better stewards of taxpayer dollars.** This white paper outlines 10 ways agencies can use AI.
3. **AI use cases tend to happen in isolation.** Federal, state, and local governments should learn more from each other about how to use AI. Share information about what works and solves problems.
4. **Use cases can be bipartisan and developed by states across the country.** Lay-offs and changing laws are not needed. On this issue Democrats and Republicans should set aside their political disagreements. Diverse agencies show creative use of AI can happen in larger and smaller states with deep technology industries or broad economies.

   Here are examples from states that are notable for the ways they use AI:

   - **California:** reduce mispayments in unemployment and welfare programs
   - **Maryland**: improve Medicaid and Supplemental Nutrition Assistance Program (SNAP) operations
   - **Nevada:** simplify tax correspondence
   - **Oklahoma**: analyze data from bridge inspections
   - **Texas**: decipher transportation data in multiple systems
   - **Virginia**: streamline state regulations

5. **Just getting started**. Each use case should be further developed, expanded, and replicated.

This white paper includes a practical catalog of high-value AI opportunities across state governments. Government leaders do not need another generic discussion of AI's potential and threat. They need to see valuable ways AI can be applied and how other governments are already beginning to try AI. All these use cases are curated from government sources, namely state government websites, press releases, officials in the media, industry awards, surveys, partners, procurement documents, and federal and state AI inventories. Promotions from vendors or media are excluded.

A common question for governments is where can AI be used easily and responsibly. The bigger question should be more about where AI can make the biggest difference.

State governments should use AI to fix problems. Transformation with AI can mean agencies create less friction in the economy, programs deliver better outcomes for constituents, and the government spends less money. This can be done without statutory changes. Public policy debates can be left separate.

AI often helps employees be more efficient at their current work, which is good, but this efficiency can take the place of transforming the work itself. Consider these simple scenarios that illustrate the concept.

Efficiency ⇢ Transformation

AI summarizes a permit application for an agency	AI identifies missing information before an individual submits a permit application, preventing weeks of delay
AI helps a call center employee answer questions better	AI changes operations at the agency and helps a constituent complete their transaction without needing to call

Who uses AI can matter. Agencies that design and implement AI tools for external users often become transformational use cases. External users can be the general public, individuals dealing with government, businesses, non-profits, and local governments.

AI is not one thing. AI and technology issues in the public sector come in many forms—GenAI, agentic, predictive, large language models, machine learning (ML)—and they rapidly change. Most use cases are with AI technologies that were cutting edge a couple of years ago instead of today's frontier models. For each use case, agencies must decide whether to buy a commercial application or build it themselves, how to maintain it, and make updates. Use cases vary for how much employees "consume," and agencies pay for, an AI application. Creative use cases go well beyond technology issues and the best ideas often come from leaders in the field rather than from technologists.

Responsible Use

Many individuals from across the political spectrum call for "responsible" use of AI. What does that mean?

All existing laws and policies still apply and must be enforced. Most governments have adopted additional policies to govern their agencies and employees specifically for AI. So things like what information is collected, how it is used, maintained, and then distributed. Rules against the AI directly or indirectly discriminating or creating biases, whether by the AI itself or our decision making. Many use cases do not pertain to personal data, but still need guardrails. Existing audit infrastructure and procedures need to be updated.

A human-in-the-loop (HITL) often becomes an integral design element. That is, having an employee, not just AI, involved at key junctures. For example, if an AI tool discovers anomalies in a benefits program, staff then decide what to do next. Agencies need to be thoughtful about when and how to incorporate HITL. They also should be careful not to just "click" whatever the AI tool recommends.

We must still hold our elected officials and governments that serve us accountable. Agencies cannot use AI to invade our privacy, treat their workers poorly, further any bias, or do dumb things that upend a program. They cannot just blame it on an AI application.

All federal agencies are required to publicly self-report a detailed AI inventory annually

that includes use cases they label as high impact. A minority of states report some information annually. These steps could raise awareness and mitigate risk concerns.

This white paper focuses on use cases in the executive branch of state governments. States can develop non-partisan and less controversial areas first. We do not focus here on education, health care, or public safety. Governments should not use AI for new surveillance or investigations.

Overview: 10 AI use cases states should develop

Here are 10 use cases a few agencies have started and all should pursue. They involve state agencies with the greatest role in the economy or the largest share of the state budget.

Use cases are organized into two categories.

1. **Create less friction in the economy:** Ways for states to encourage dynamism in the economy, be less disruptive, and allow people to more easily work with agencies. Good state policies spur economic growth, and these AI use cases can help.
2. **Be a better steward of taxpayer dollars:** Smarter use of agency resources to achieve better outcomes. This includes changes to operations, less spending in some cases, allowing strategic attrition (i.e fewer backfills over time), or improving research and decision-making. It does not include lay-offs.

10 AI Use Cases States Should Develop

Help governments create less friction in the economy	Development of AI Use Cases ↑ Thus Far	Help governments be better stewards of taxpayer dollars
• **Regulations:** AI can cut through the build-up of rules and help us simplify them • **Constituent communications:** well designed chatbots make agencies and programs more understandable for the constituents they serve • **Tax administration and revenue collection:** tax agencies should use AI to make it easier for taxpayers to pay taxes • **Permits:** along with local governments beginning to streamline permit processing for housing, states can leverage AI for environmental permitting • **Business creation:** AI can assist people navigating the labyrinth of government agencies to start a company and improve agency operations		• **Safety-net benefit programs:** creative AI applications could change implementation of programs, improve Medicaid operations and reduce SNAP error rates • **Fraud and Mispayments:** equip agencies with AI powers to tighten leaky programs for fewer mispayments • **Transportation:** AI tools can review, connect and analyze information to support agencies with roadway planning and detect safety issues • **Procurement:** with AI, agencies could make smarter and faster purchases from the private sector • **Grants management:** AI solutions make competitive grant processes less bureaucratic for both applicants and agencies

These use cases are ordered by how much states have developed them thus far. For example, the use cases streamlining regulations and other rules are already somewhat developed whereas use cases that make processes easier for starting a business are the least developed thus far. All need to be further developed and expanded. Even though states started these AI use cases, within that same area they should still:

- **Find more ways to use AI.** Transforming what an agency does instead of just doing the same thing more efficiently is often a continuum, not a light switch being turned on.
- **Disclose more information about the AI tool being used**. This includes basics about which tool or application the state uses, whether it was mostly developed internally or bought commercially, and any partners. Governments should learn more easily from each other and from the private sector.
- **Share results**. Doing so can build interest in a use case, make it less intimidating, and help everyone learn more. It can enhance cost-benefit thinking. Other states should learn what works in different ways, not just generically, and what a state might need in a particular situation.

Analysis of AI Use Cases

All use cases in this white paper are based on available public information. For these purposes AI is defined broadly. First the analysis describes the general area in context and how AI could help further public policy goals in a transformative way. It then highlights three aspects:

- **Scale of opportunity**: size of situations that AI can help address?
- **Where use cases started**: where can we learn more as use cases are expanded?
- **Potential outcomes**: how use cases should be evaluated?

Help governments create less friction in the economy

Regulations and rules

Governments regulate many aspects of our lives. Over decades, state regulations, occupational licenses, vendor standards and statutory reporting requirements within the agencies themselves have piled up. An expert sifting through them called it, “policy sludge.” AI tools can combine together a review of the requirements, then determine existing language that may be out-of-date, duplicative, hard to understand, conflicting, or outside national norms. In some instances, even the originating federal or state law a regulation implements may have been repealed or amended by the Legislature. The tools can recommend changes—deletions or new language—that agency staff then consider. Importantly, changes to laws or regulations go through the pre-existing process in that state for public input and action by elected officials. Going forward, agencies promulgating new regulations could also use an AI tool to research what they plan to do.

- **Scale of opportunity**: The Mercatus Center scanned state administrative codes in 2023 and counted regulatory restrictions for each state. They found a national average of each state imposing 124,000 restrictions. This reflects volume and does not judge the types of restrictions or their impact. Figure 1 shows the 10 states with the most restrictions. Much economic research indicates regulatory accumulation can worsen economic conditions, complicate daily lives, raise prices, and harm anti-poverty and employment efforts. For example. economists found states requiring occupational licenses may shrink the pool of workers by as much as 27 percent. While licenses vary by state, generally more than one out of five jobs requires a license.

Figure 1: States with Most Regulatory Restrictions

1st	California
2nd	New York
3rd	New Jersey
4th	Illinois
5th	Texas
6th	Ohio
7th	Oregon
8th	Washington
9th	Massachusetts
10th	Louisiana

Source: Mercatus State RegData 2023

- **Where use cases started:** Ohio and Virginia used AI to reduce their regulatory and economic burden. Ohio found 17.4 million words of regulation, which its AI program reduced by 12.6 percent. They also found inherent problems, such as state building and fire codes that differed from national standards and unneeded mandates requiring in-person interaction with government agencies. The state estimates cleaning regulations will save 60,000 hours of labor over the next decade. New York recently announced a similar effort with its regulations. Oklahoma employed AI to comb through energy and environment rules. Texas is using AI to make occupational licenses more understandable for workers and streamline agency regulations. All these actions occurred after the Mercatus Center research. San Francisco pruned old city code leveraging a similar technique with an AI tool developed by Stanford University. They sifted through rules that required agencies to compile reports, often annually, and identified 528 reports strewn across city codes amounting to 16 million words. Many of the reports were out-of-date and no longer used by officials or the public. The AI tool, in concert with attorneys, recommended deletion or consolidation of 174 agency requirements, 36 percent of all alterable reporting obligations. Stanford now makes the tool available publicly for all states to evaluate reporting requirements in their laws.
- **Potential outcomes**: The intent is to make the myriad regulations and rules easier to understand and follow for individuals and businesses. Deregulation may still be needed in some areas, but using AI to clean-up existing policies can be done within existing law. It can also mean reducing the time agency staff spend combing through old requirements, answering questions, and rectifying issues.

Oklahoma employed AI to comb through energy and environment rules.

Constituent communications

The general public can find government challenging to navigate and communicate with for a variety of needs. Taxes, driver's licenses, safety-net benefits, unemployment insurance, parks, schools, courts—the list goes on. The COVID-19 pandemic drove states to develop a digital experience with all residents; however, much of this was without AI. AI can improve constituent communications by simplifying letters and forms, making outreach more effective, and making various transactions more understandable. An AI-powered chatbot has become one way. Increasingly we see a little icon on company websites—perhaps annoyingly—on the right side of a webpage. Depending how it's crafted, metrics have shown that the chatbot can be quite helpful. State government agencies should learn from the private sector and from each other. Chatbots are not singular, can be developed in many different ways, and change over

time. They will at least pull public information from agencies to reduce the time it takes for people to interact with the site. Chatbots might actually help guide constituents to complete a required task on the site. Without states providing good chatbots, constituents may increasingly try to use a GenAI app on their own to understand an issue and what they need.

State government agencies should learn from the private sector and from each other.

Key features of well-designed chatbots:

- Conversational with common, every-day language. Older chatbots are often not AI-assisted, require key terms, and provide limited answers. They essentially operate as search engines.
- Cover a breadth of topics and provide the ability to access greater detail, not just providing hyperlinks or references for call centers.
- Confined only to information from their agencies and tested to not give wrong information.

Chatbots can be experts, understand spoken or written inputs, and offer useful and accurate responses to broad or narrow requests. They might be statewide, across multiple agencies, or just serve a particular program or service.

- **Scale of opportunity**: Everyone needs to interact at some point in some way with the state government where they reside. In total, 258 million adults reside in the United States according to the last Decennial Census. So this is the AI use case with the greatest scale.
- **Where use cases started:** A few states have launched AI-powered statewide chatbots on their main websites—including Indiana, Kansas, Mississippi, Nebraska, North Dakota, and South Carolina—to broadly cover all agencies and needs. States can use chatbots just for certain agencies, such as Medicaid, unemployment benefits, or tax issues. Occasionally one must provide personal contact information to use the chatbot tied to an existing contact center. All chatbots need to be improved. Also, this is another AI use case where states may learn—what is done well and less well—from federal agencies using external chatbots in transactional work with constituents. These include a workforce recruitment program at the Labor Department, the Transportation Security Administration, and Grants.gov leveraged by many agencies. A chatbot across all federal agencies was launched with a new America.gov website in September 2026.
- **Potential outcomes**: State agencies and programs that communicate well with constituents can mean a more dynamic state. They can use AI in different ways. Better and more chatbots might mean fewer people being frustrated that they cannot find something, are confused, or do not know what to do. Chatbots are available 24/7 in multiple languages. Traditional call centers should be much smaller, through attrition, but will still be needed for constituents who have particular issues and questions.

Tax administration and revenue collection

Taxes and fees fund programs, roads, parks, law enforcement, economic development, and much more. Administering agencies (often a department of revenue) struggle with processing the volume and diversity of taxes and fees policymakers impose. On the flip side, taxpayers often struggle with understanding the myriad of rules, and sometimes with the agencies themselves. This can be especially true for individuals and small businesses that can't afford to pay tax attorneys or accountants to help figure things out. Good tax policies can be undermined by taxpayers dealing with the difficulty of tax agencies.

Here are three examples of how AI might help:

1. Chatbots: the private sector and a few government agencies have begun to provide AI-powered chatbots on their websites to help users navigate their needs. Quality chatbots should be conversational, cover a wide array of issues, source only government information, and continue to be improved over time. They could also help users search the tax code, regulations, and decisions. Without providing tax advice, chatbots can answer questions, provide direction, and be available 24/7 in multiple languages.
2. Read taxpayer documents: agencies do not require everything to be electronically submitted but are challenged with reading paper documents quickly and accurately. As demonstrated in a variety of fields, an AI tool in the agency can read the documents and then populate an electronic system.
3. Agency processing and review: some states already use machine learning and data analytics for tax return processing. AI can probably do more for internal research, call centers, and technology systems.

Nevada incorporated an AI-assisted workflow into their operations to make taxpayer letters more understandable to those with less technical knowledge.

One of the challenges will be to use AI appropriately to detect potential fraud without being invasive or overwhelming taxpayers with more audits. Well-designed AI tools should lead to better targeted audits rather than just more audits.

- **Scale of opportunity**: States impose taxes in many ways, so tax administration agencies touch a wide array of people and entities. Nationwide state agencies collected $1.5 trillion in 2024 according to the Census Bureau. They collect taxes and fees for individual and corporate income, unemployment, payroll, occupation licenses, sales, motor fuel, excise, real estate, natural resources, and many others. Agencies even interact with nonprofits. For perspective, the IRS reported processing 271 million federal tax returns during FY2025. People and corporations usually file both federal and state returns.
- **Where use cases started**: California, Colorado, Georgia, Massachusetts, Utah, and others have begun to use AI in their operations, call centers, or website chatbots. Call center AI add-ons merge into operations, such as the status of a particular caller's tax issue or refund. All need to be developed further, especially the chatbots. Nevada incorporated an AI-assisted workflow into their operations to make taxpayer letters more understandable to those with less technical knowledge. They explain why general-question call volume to their call center fell 52 percent in two years. Wisconsin uses an AI tool to read paper form submissions, which has improved speed, accuracy and reduced the burden on staff. At the federal level, the Internal Revenue Service disclosed 126 use cases in 2025. Of those, 50 were active or in development, 65 were not public or in research, and 11 had been retired. In 2026, the IRS testified they had fewer employees and enforcement revenue was up largely due to their use of AI.
- **Potential outcomes**: Tax administrators should use AI in various ways to be more taxpayer friendly. An agency that is easier to understand and work with can help foster a more dynamic economy. Taxpayers might spend less time and make fewer mistakes, increasing compliance and perhaps opportunities for more revenue. AI can also mean leaner tax administrators. For example, call centers should become smaller as 1) AI applications for call centers make them faster and more effective, 2) AI tools are developed for agency operations, and 3) chatbots on websites improve and taxpayers become comfortable using them. Agencies can downsize by strategically leveraging natural attrition—not backflying all departures—rather than layoffs.

Permits

Permits are official permissions from government agencies to do things in certain ways. Tied to particular actions by people or entities, permits can be a key way agencies enforce laws and regulations. However, the volume and complexity of permits can make for a cumbersome process that constrains what should be produced. One area is housing supply. Local governments issue permits for housing changes in their communities. A few have begun to find ways AI can streamline their process and reduce costly wait times. State governments also issue permits in areas where better use of AI might help cut down on transaction costs, such as:

- Environment, wetlands, and water;
- Agriculture and natural resources; and
- State road right-of-way or curb cuts.

For example, re-developing land for new housing usually goes through several environmental approvals that are governed by state agencies such as verification of past soil testing, new testing, and other steps. Additionally, AI tools could help the public access and understand a myriad of applications, public comments, and final decisions in processes for environmental permits and certifications.

- **Scale of opportunity**: Shortages in housing supply have been a challenge in many regions for decades and have come to a forefront as it affects prices, the affordability to live in an area, jobs, transportation, and the overall economy in a state. Housing supply means single-family homes, townhouses, condominiums, apartments, and multifamily buildings. Although estimates of shortages vary by location, type, and time, the Brookings Institution found that the U.S. housing market was short 4.9 million units at the end of 2023. In this context, a shortage refers to the inability of supply to meet demand at affordable prices. Permit processes—whether for construction rules at the local level or environmental rules at the state level—are only part of the challenge. Many states need to reform other policies. Within permitting, AI can help streamline processes, especially when coupled with policy and administrative changes.
- **Where use cases started**: The Virginia environmental agency developed AI tools that allow permit applicants or agency staff to use AI to upload documents and review them for missing information and other issues to quicken the process. Separately, the agency reports a pilot reduced "complex permit review" time to 2.5 hours. They plan to expand the tools and their features, including giving external users more direct access. Georgia integrates AI-powered assistants to streamline permitting reviews to make them easier for applicants and agency employees. South Carolina uses AI in a variety of ways, such as trying a tool to compile the first draft of an environmental permit based on the application, other documents, existing policies, and any audits. They report drafting time reduced from 100 hours to 15 minutes. North Carolina uses AI to gather the permit history of a site under consideration. New York, Ohio, and other states use specialized external chatbots to help people with questions about permits and give directions or to help them submit and track permits. At the local level, in the past year cities such as Austin, Boston, Denver, Jacksonville, Louisville, and San Jose announced they are using AI to streamline their housing permit processes. After wildfires in the Los Angeles area in 2025, the California state government provided a new AI platform local governments could adopt for their permitting to help rebuild real estate. Lebanon, NH has shown how smaller towns might use AI to help residents make sense of zoning rules. The U.S. Department of Housing and Urban Development recently announced new grants for states, cities and tribal governments to apply and learn AI tools.

The Virginia environmental agency developed AI tools that allow permit applicants or agency staff to use AI to upload documents and review them for missing information and other issues to quicken the process.

- **Potential outcomes**: Too often inefficient state and local permitting unintentionally harm the economy and affordability in a region. Housing development is tied up. This AI use case could reduce backlogs, save staff time, and speed up service for applicants. It would not eliminate protections. Rather it could help agency employees and the permits focus on actual work. Like other use cases, AI tools cannot do this on its own but creative use can help transform the process. Streamlined permitting processes do not substitute for needed policy changes implemented at the federal, state and local levels.

Business creation

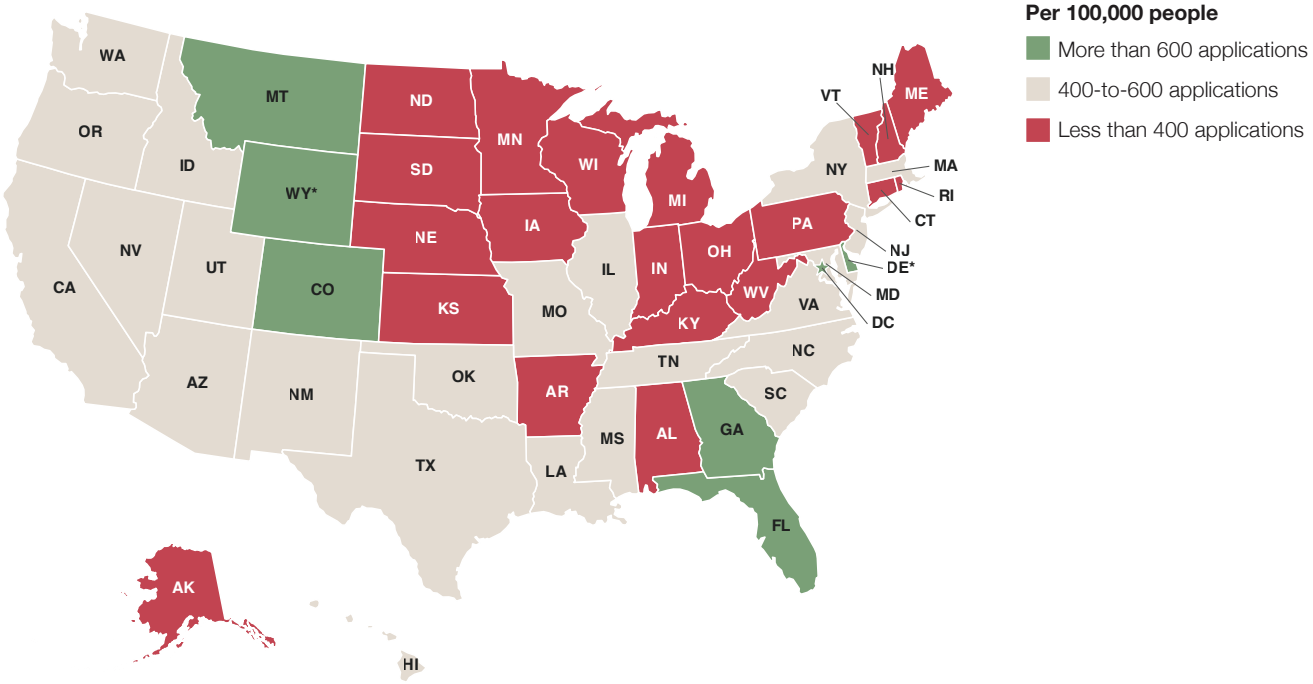
Starting a business is always hard. It requires seeing the opportunity and what customers will pay for, setting up operations, choosing which employees to hire, and how to compete with others. All states need better economic policies yet governments make it even harder in other ways. New businesses need to decipher registration and reporting rules, fees, taxes, requirements for employees that may include leave and health insurance, occupational licenses, and more. Policies are set at the federal, state, and local levels of government. For example, a 2022 study by the Institute for Justice found that opening a restaurant in Boston required:

- Working with 9 different agencies;
- Tasked with completing 92 steps, with 17 of them in person; and
- Filling out 22 forms and applications, including paying 12 fees.

All these steps were required only by the city government—just one layer of the bureaucracy. Within state governments, new businesses must also navigate different agencies, each with their own jurisdictions. This can be especially challenging for small businesses and start-ups without their own tax attorneys or operating staff. We begin to see how using AI may help in at least three ways: a well crafted AI-powered chatbot on a state's website, an AI tool that guides new businesses voluntarily to fill-out forms with required information they already need to submit, and agencies using AI internally to improve their review of what new businesses provide them.

- **Scale of opportunity**: Applying at the IRS for an Employer Identification Number (EIN) is one of many steps to become a new business. The Census Bureau tracks applications with certain criteria they deem likely turning into a business with payroll, known as a High-Propensity Business Application (HBA). In 2025, 1.7M people nationwide started businesses by taking this step. Figure 2 shows HBAs per capita by state. All states need easier, understandable processes for establishing businesses, especially those depicted in gray or red where the data shows the economy in the state needs more business applications.
- **Where use cases started**: Indiana, West Virginia, New Jersey, Massachusetts, and a few other states have launched limited AI-powered chatbots. All the chatbots need to be further developed and connect with more requirements and opportunities. Each chatbot covers only a portion of what a new business likely needs. Some are broad while others are quite small for a certain task. Many need to be more conversational. States could also use AI to improve their internal processes.
- **Potential outcomes**: A process that's more understandable could lead to a more vibrant economy with businesses that are easier to start and less likely to get in trouble with the government. Fewer government workers may be needed to answer questions and process forms. A stronger economy also means more businesses, jobs and tax revenue.

Figure 2: Business applications



* Some companies incorporate in Delaware and Wyoming due to different rules.
Source: 2025 High-Propensity Business Applications, Census Bureau

Help governments be better stewards of taxpayer dollars

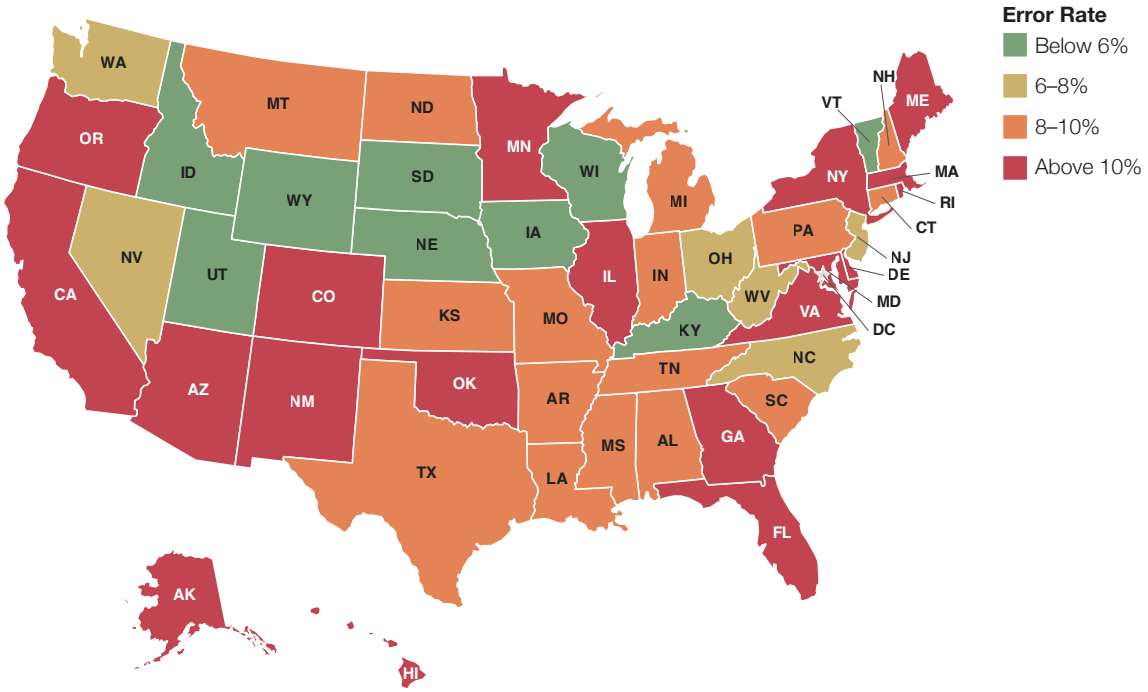
Safety-net benefit programs

The federal government governs and partly funds safety-net programs for low-income individuals. States administer these programs—especially Medicaid and the Children's Health Insurance Programs (CHIP), Supplemental Nutrition Assistance Program (SNAP), Temporary Assistance for Needy Families (TANF), and child welfare programs—which are ripe for AI use cases. These programs focus on the working poor, families with children, disabled individuals, and senior citizens. Administratively, the programs generate much data, which AI tools can automate and analyze. Medicaid, by far the largest of the programs, requires state funding and is difficult to implement. It serves 68 million people. Essentially 50 states administer their own health insurance company. Medicaid is not just the largest and most complex program, but states administer it through the private sector more than any other. So states should learn how to incorporate AI from those companies. Opportunities for AI in Medicaid operations include sifting complicated rules, eligibility procedures, partnering with health plans, and various claims-paying processes with beneficiaries and health care providers. States are also preparing several administrative changes in Medicaid and SNAP, especially new work requirements, enacted in 2025 as part of the Big Beautiful Bill (BBB).

- **Scale of opportunity**: The federal government only partly funds Medicaid benefits. The National Association of State Budget Officers reports program costs comprise an average of 31 percent of state budgets, the largest function for each state. However, states may initially have a greater incentive to try AI tools in SNAP. Starting October 1, 2027, most states will for the first time need to pay a portion of SNAP benefit costs, rather than just a portion of administrative costs. The U.S. Department of Agriculture (USDA) annually publishes payment error rates based on audits that are shown in

Figure 3. Payments might be higher or lower than rules prescribe and do not always mean fraud. BBB then sets benefit costs on a sliding scale. A state will need to pay 5 percent of benefits if their payment error rate is 6–8 percent, 10 percent of benefits if their error rate is 8–10 percent, and pay 15 percent of benefits if their error rate is more than 10 percent. One estimate suggests the new cost-share calculation could cost states $9 billion annually based on FY2025 error rates.

Figure 3: SNAP Payment Error Rates



Source: USDA 2025.

- **Where use cases started**: In the past year an assortment of states developed pilot tests or launched active AI tools for different aspects of safety-net program operations. Like other use cases, government agencies should be open about evaluations and learn from each other. For example, Maryland appears the most proactive and creative in experimenting with AI use in both Medicaid and SNAP. Arkansas, California, Missouri, New Mexico, and Oklahoma report to the Kaiser Family Foundation using AI to assist with implementing Medicaid work requirements. North Carolina, New Hampshire, Nevada, Michigan, Mississippi, Oregon, Wisconsin, and other states are trying AI in SNAP, especially parts of the program that interface with potential recipients. Child welfare agencies in Arizona and Virginia are learning responsible ways for different AI applications. In May 2026 Code for America, a civic tech non-profit group active across states, announced a new partnership with Anthropic to create the SNAP Policy Navigator. In the announcement, the group explained the application as a "Claude-powered integration that allows caseworkers to seamlessly access accurate, reliable, and real-time SNAP information across federal, state, and county policies." Sometimes states can also learn from federal agencies. The U.S. Health & Human Services Department reported 447 use cases for last year,the most of any federal department. Also, state Medicaid agencies that must often work with health care providers in a government setting can learn from new AI use cases in the U.S. Veterans Administration.

- **Potential outcomes**: Make the operations of these programs more effective at helping those who need it the most, which includes implementing changes to federal programs administered by states. The desire should not just be making workers more efficient, but to transform aspects of the programs for better outcomes. Over time not all employees should be backfilled when they voluntarily depart. This does not require lay-offs.

Fraud and mispayments

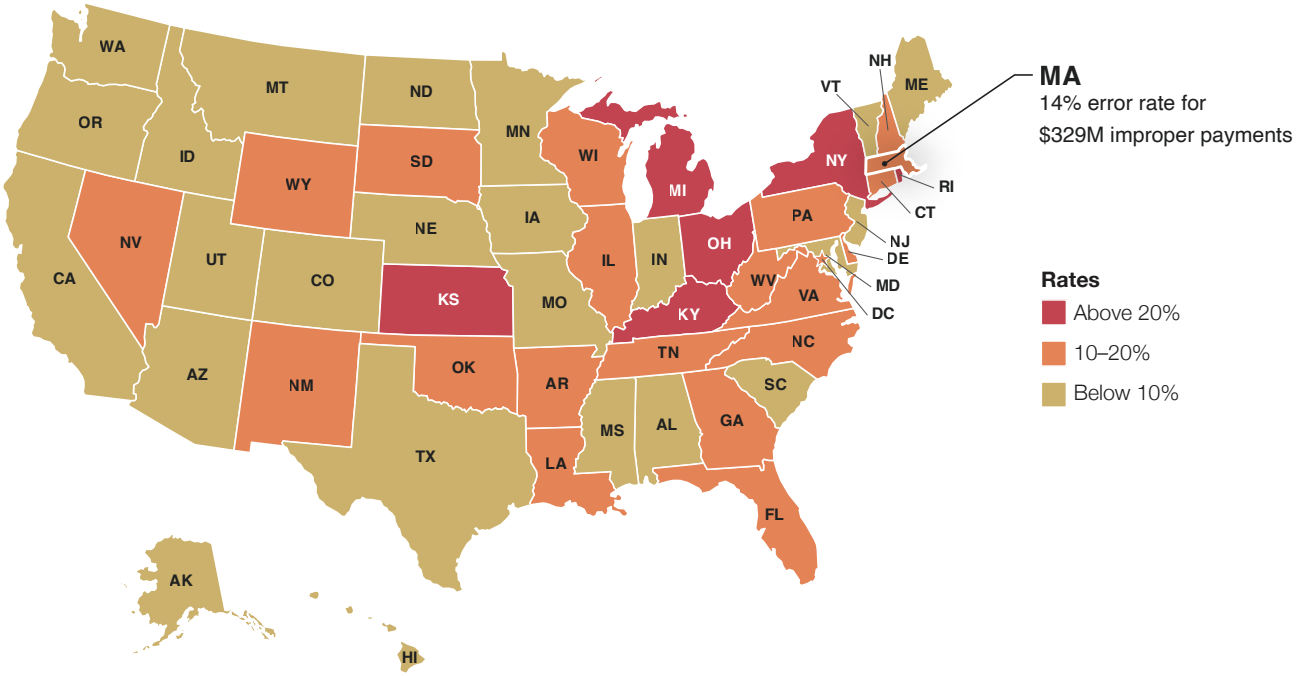
While various forms of fraud have been in the news lately, sometimes the problems are mispayments due to poor documentation, bad codes, or the wrong recipients. Mispayments from a leaky system are still a preventable loss of hard-earned tax dollars and dilute what the government tries to do. To help prevent fraud and waste, government agencies should consider using AI in procurement, grants, taxes, benefit programs, unemployment insurance, and many other areas. An advantage is that well designed AI applications can connect together and analyze large amounts of documents and data much faster than traditional methods. Early pilots suggest AI tools achieve higher detection rates. Importantly, AI tools flag issues for staff, who then need to verify findings and decide how to act. AI can help agencies themselves or be used by auditors and inspectors general.

- **Scale of opportunity**: Many functions can be misunderstood by the public at times, poorly administered programs vulnerable to being leaky (i.e. mispayments), or people committing actual fraud. So whenever money is involved—which means taxes, operations, procurement, grants, or benefits. In total, states spend $3.1 trillion per year from own-source revenue and from federal funds. Often people focus just on federal benefits, like Medicaid. But fraud and mispayments happen in a variety of state operations and programs. While the federal government oversees Unemployment Insurance (UI) programs, for example, states administer the programs funded by employers in that state. The U.S. Department of Labor annually reports improper payments from state programs. Nationwide in 2025 they found states improperly paid $5.6B, or 15 percent, according to the states' own rules. Figure 4 shows the improper payment rates by state. Due to how the data are compiled, precise state-to-state comparisons should be avoided. Instead, the figure shows states with rates below 10 percent, between 10 percent and 20 percent, and above 20 percent. All should be much lower.
- **Where use cases started**: Although governors, state Legislatures, and media often reference AI when combatting fraud, this is another area in which governments should learn from the private sector when it comes to exploring different ways to use AI. Also, while data analytics continue to evolve, those use cases may not always be considered AI. For example, California applies AI in at least two ways in this area. First, they use an AI tool in the UI program that does a cross-match of claims with third-party data sources to produce risk scores, profiles, and identity checks that can support investigations. Second, the welfare program has experimented with predictive AI to analyze data and predict illegal transactions. Arizona uses AI in its Medicaid program to flag high-risk claims for employee reviews before making payments to providers. Similarly in SNAP, Nevada uses an AI application to analyze data, make risk scores, and identify patterns indicative of potentially fraudulent activity. After a fraud scandal, Minnesota announced in January 2026 that agencies were developing AI experiments to flag payment anomalies to Medicaid providers. At the federal level, the Centers for Medicare and Medicaid reported their AI application can "pinpoint bad actors" with existing information and label them as potentially "high risk" when submitting claims. Staff then use AI for further analysis. They also employ an AI application to prevent contract duplication, which may be less about fraud and more to tighten a leaking program.

California applies AI in at least two ways in this area. First, they use an AI tool in the UI program that does a cross-match of claims with third-party data sources to produce risk scores, profiles, and identity checks that can support investigations. Second, the welfare program has experimented with predictive AI to analyze data and predict illegal transactions.

- **Potential outcomes**: AI to help prevent fraud and stop mispayments should mean less spending, but perhaps more importantly, governments spending tax dollars in ways they intend. Programs that help people who are truly in need.

Figure 4: Unemployment Insurance program improper payment rates in CY2025



Source: Benefit Accuracy Measurement, U.S. Department of Labor.

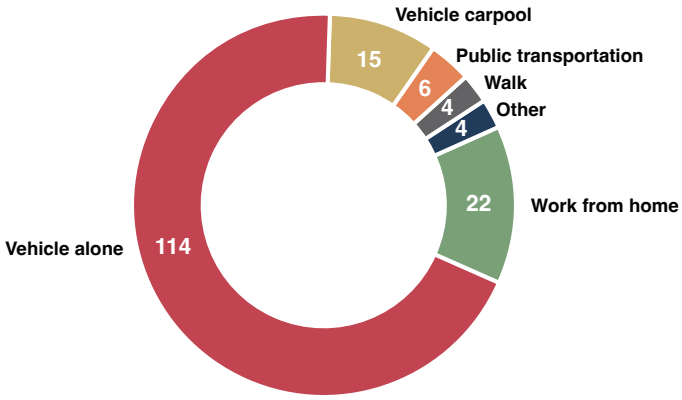
Transportation

State departments of transportation (DOTs) are rich in data and may be more comfortable using it than other parts of the public sector. In recent years they started structuring data differently and trying machine learning techniques. They may be interested in AI use cases in planning, technical issues, internal operations, and public services. A few states have begun exploring the use of AI to:

1. Perform data analysis and research—to assist planning and designing of transportation modes, specifically roadways, which might also help set priorities;
2. Improve traffic management (more in urban settings)—reduce congestion, improve traffic signal timing and overall system performance through real-time controls; or
3. Spot safety and incident detection issues—analysis of data (traditional data, LIDAR, images, video, qualitative inspections) for road, bridge, facilities, storms, vehicles, with a few also piloting predictive AI.

- **Scale of opportunity:** Transportation plays a central role in our lives, for businesses, jobs, housing, and more. State governments plan, often with the federal government, the best ways to transport people and goods. While rail and other modes are important, road transportation remains the key. State governments nationwide maintain 770,000 miles of roads, the arteries for communities. According to survey data from the Census Bureau, 165 million people in the country travel to work (including 22 million working from home). The average commute time is 27 minutes one way. Figure 5 breaks down their means of transportation and nearly all rely on roads.

Figure 5: 165 Million People Commuting to Work



Source: American Community Survey 2024, Census Bureau.

- **Where use cases started:** California appears to be developing AI tools across several use cases in transportation. Among other things, they report using AI to speed up analysis, generate cost estimates and then link data together for project prioritization. Connecticut and Texas have AI tools that help them review data in multiple systems: crashes, pavement scores, maintenance, finances, and project development and planning. Oregon deploys an application to compile and analyze inventories of bicycle and pedestrian transportation assets. Massachusetts and New Hampshire developed ways for AI to help engineers research their construction projects. Maryland and Virginia use AI to help analyze pavement maintenance data; Oklahoma uses it for bridge inspections; Utah and Vermont for inspections of commercial motor vehicles.
- **Potential outcomes:** Used creatively, AI can help governments improve the transport of people and goods. So better use of the infrastructure we have today and nimbly planning for the future. This can also mean safer roads, less pollution and smarter decisions with taxpayer funds.

Procurement

Much of government works by buying things from the private sector. We should encourage them to buy more. Many times, this is better than the government creating the goods or services itself. Procurement has rules and processes to understandably curb bias, favoritism, or even corruption, but these can also lead to cumbersome bureaucracy. Creative use of AI, combined with changes to state practices, can lead to smarter and faster purchases that are good for both agencies and potential vendors. Responsible AI tools could help the process while maintaining, maybe even improving, existing protections. Steps with AI could include:

1. To inform procurement strategy, research products and services in the market, potential vendors, and performance data;
2. Assist in drafting Requests for Proposals (RFPs) and reviewing submissions;
3. Speed up drafting of winning contracts, evaluation and award times; and
4. Help monitor contract implementation and trigger any discrepancies for further staff evaluation.

- **Scale of opportunity:** Procurement in state government cuts across many different agencies and potential vendors. While procurement often happens in operational programs, agencies also need to buy services. They buy goods, equipment, engineering and construction, human services, consulting, software, technology design

Creative use of AI, combined with changes to state practices, can lead to smarter and faster purchases that are good for both agencies and potential vendors.

and support, and many others. The range also applies to potential vendors: larger national companies, smaller local businesses, and nonprofits. State governments spent approximately $1.4 trillion on supplies, materials, and contractual services in 2024, based on calculations of data from the Census Bureau and Bureau of Labor Statistics.

- **Where use cases started:** Several states have started trying AI in different aspects of procurement. For example Massachusetts provides agency staff with an internal chatbot to more easily answer their questions and determine if their needs are already met in an existing state contract so they do not need to issue a new Request for Proposal (RFP). Oklahoma used AI to review statutory exempt purchases by agencies and purchase order lines. They now make an AI assistant available 24/7 to agencies with guidance on purchasing policies and procedures, similar to Massachusetts. Michigan has developed AI applications to make price comparisons across proposals, analyze spending for awarded contracts, and automate forms. New Hampshire has AI tools to streamline the internal documentation process for new contracts. Iowa is piloting a chatbot for the public and for vendors to answer questions about active contracts and requirements.
- **Potential outcomes:** AI can be a way for state governments to conduct procurement more intelligently, buy more and different things, and become easier to deal with for potential vendors. This is another area where governments may be tempted to help employees be a little more efficient rather than aim for more transformational change. Fewer employees and less time should be devoted to procurement and instead increasing their ability to manage spends to deliver higher value to taxpayers.

Grants management

Grants are a common way for policymakers to award money to advance a certain objective. This tool in the public policy toolbox is different than other programs, subsidies, tax policies, or regulations. Policymakers may recognize they do not have all the answers or the ability to achieve what they desire. And unlike a loan, a grant does not need to be repaid, provided the recipient complies with grant rules. Generally, public sector grants are either distributed based on a statutory formula (e.g. population) or competitively awarded (discretionary) based on merit and program objectives. With competitive grants the winners do not receive funding automatically via formula but instead show a need or opportunity, a capacity to implement the grant, and good timing. It might be a chance for innovation. But increasingly grants have also become one of the ways bureaucracies talk to each other. Although competitive grantmaking can be good, it can also become too administrative. Used wisely, and with learnings along the way, AI can help. To be clear, this use case does not envision AI issuing and receiving grants.

Increasingly grants have also become one of the ways bureaucracies talk to each other.

State government agencies play two basic roles: 1) as grantors, often to local governments, academia or the private sector; and 2) as grantees, usually from the federal government and occasionally from nonprofits.

As grantors, AI tools could help state agencies be faster and more objective. Agencies could use AI to research ideas, design the grant, and market it. Then when receiving applications, agencies could use AI as part of the review process to help assess proposal criteria, such as: need, opportunity, setup and capacity, and quality of matching funds. Humans would always be involved—using AI for just certain parts of reviews—and make decisions. Agencies could also use AI to assist in guarding against fraud and monitoring the implementation of grants.

As potential recipients, AI could flag opportunities for state agencies. Some federal grant programs are already well known by state agencies, but there are a myriad of programs that change and can be harder for smaller agencies to always be aware of.

Plus, nonprofit grants may not be on their radar. An AI tool can help people understand a grant program, eligibility, and how to apply for the grant. It could also alert states of requirements in federal grants that might be inconsistent with the underlying federal law that created the grant program or with state policies. Then AI could help draft portions of the grant application without fully writing and submitting it.

- **Scale of opportunity**: Most large grants from federal agencies to state governments are based on policy decisions, formulas, standard qualifications, and processes in laws and regulations. Competitive grants, and those better suited for AI, tend to be smaller amounts spread among more programs. Federal and state programs provide competitive grants across a variety of fields, such as environment, energy, agriculture, transportation, housing, economic development, health care and education. Depending on state grant programs, applications might be from local governments, nonprofits, academia, start-up businesses, or individuals. Additionally, other grant funders in nonprofits and research fields, for which states may vie, employ competitive processes.
- **Where use cases started:** This use case appears less piloted in state governments and more often tried by federal agencies, local governments, higher education, and research fields. Here are a couple of examples that show the beginnings. Missouri and Massachusetts use AI for different functions in grants management. Missouri includes AI to help them review submitted grant applications, reducing employee time from 3,367 hours to just 70 hours. Massachusetts offers a tool to help local governments find federal and state grants, understand them, and guide submissions. A large civic tech nonprofit, the U.S. Digital Response, shows how local governments could use off-the-shelf GenAI applications to apply for grants. States may also begin to incorporate AI features into existing systems. At the federal level, agencies reported 3,611 total use cases in 2025 with only 62 referenced to grant management in some way. Agencies of the Department of Health & Human Services disclosed the most use cases, often in development or pilot phases and not fully live yet. A few federal agencies reported using AI to help assign incoming grant applications, summarize what they receive, and find anomalies or trends. On the flipside, agencies can be a little restrictive about how AI might be used in generating and writing applications.
- **Potential outcomes:** To use AI in a way that lessens favoritism in an agency's process and puts more on the merits of grant submissions. The process for competitive grants can be harder for smaller organizations without staff to know about grants and how to apply for them. Agencies should be careful that the drafting of submissions, interviews, and waiting can deflate the value of the grant. Time costs money. Consider a small organization waiting months or years for an answer for a $100,000 grant proposal. Too much bureaucracy slows money stuck in Washington, D.C. or state capitals. The goals should be the better use of funds and for agencies to make good decisions faster.

Case study: Massachusetts

With a focus on the same use cases, this analysis provides a closer look at Massachusetts state government. Despite fanfare earlier this year to provide ChatGPT to all executive branch employees, Massachusetts has shared few details about how agencies actually use AI. Broad usage by employees of a GenAI application may make them a little more efficient. It often does not, however, transform programs for better outcomes. Massachusetts stands out in a couple areas, which should be further developed, and then appears absent for many other use cases. Further, it does not disclose an annual inventory of use cases like all federal agencies and some states provide.

Here are a few use cases to learn from and encourage more development.

Despite fanfare earlier this year to provide ChatGPT to all executive branch employees, Massachusetts has shared few details about how agencies actually use AI.

Constituent communications: In 2025, Massachusetts launched an external chatbot at the RMV, partly for a surge of questions related to the REAL ID deadline for identifications. Known as the Virtual Assistant, they report over 200,000 customers were helped. Since then the chatbot has been slowly applied to other agencies and constituent needs, including:

- Paid family and medical leave,
- SNAP,
- Taxes and child support, and
- Unemployment benefits.

The Virtual Assistant is good quality compared to many governments and should continue to be developed. They have also implemented a few "call center add-ons" where an AI tool can help employees decipher program issues, answer caller questions, and provide the agency a post-call summary. Taken together, agency call centers should be smaller in the future by not backfilling all employee departures.

Grantwell: Massachusetts leads in this area. In partnership with Northeastern University students, Massachusetts designed and now provides local governments with an AI tool that helps them find federal and state grants, and understand the programs. It then guides applications. Competitive grants can sometimes be better than automatic grants based on formulas. Grants can be one way to get taxpayer dollars out of Washington, D.C. or state capitals back to communities. The processes for competitive grants have become very cumbersome, however, especially for smaller towns that are less likely to know about grants and how to apply for them. So a plethora of difficult competitive grants indirectly incentivizes state and local governments to hire employees to do it. Instead, Grantwell shows how the smart use of AI can help. Also noteworthy is the last feature of Grantwell. When local governments voluntarily provide information, the AI tool helps them with a grant application, such as drafting a project narrative. This concept should be developed for other applications and forms the government requires people to complete, particularly for new businesses. Grantwell could be expanded beyond local governments and to include more state grant programs. We also do not know whether and how MA agencies use AI to help find and apply for grants.

Procurement: The Operational Services Division (OSD) in the executive branch governs procurement across agencies. They started two AI tools—the Assistive Buyers Engine (ABE) and OneL—and both garnered industry awards. ABE is an internal chatbot that agency staff can use to answer procurement questions rather than searching for information or trying to call or email OSD. The chatbot is trained only on information from OSD, such as policies, handbooks, and statewide contracts. OneL is a large language model that agency attorneys can use to review draft vendor contracts and flag differences with the originating RFP and standard Terms & Conditions required for most contracts. AI tools like these mean employees must spend less time on procurement paperwork. Procurement functions in agencies could be smaller.

Conversely, there are many areas where Massachusetts appears behind in their use of AI. What Massachusetts is doing remains unclear. Two examples:

1. Governor Maura Healey and MassHealth officials lament the type and volume of paperwork from new Medicaid eligibility and work requirements. They launched an outreach and operations initiative, but unlike other leading states, they have not included new AI features in MassHealth to help grapple with the paperwork and upcoming deadlines.

There are many areas where Massachusetts appears behind in their use of AI.

2. The Executive Office of Energy and Environmental Affairs appears to have explored, but later discontinued, a pilot of an AI-powered "permitting navigator" for external users to navigate environmental permit applications. Finding ways AI might quicken the process could help ease the housing shortage in Massachusetts.

State government shares little information about improving agency operations with AI. They advertise a few use cases in Transportation and Health & Human Services agencies that could be explained more. Nothing has been disclosed about using AI to curb fraud and improper payments. Learn more about what Governor Healey and her administration have announced thus far by reading this white paper at Pioneer Institute: https://pioneerinstitute.org/massachusetts-has-taken-an-important-step-on-government-ai-but-the-commonwealth-must-do-more-to-improve-services-transparency-and-save-taxpayer-dollars/

Recommendations for Massachusetts

The Commonwealth should set at least three priorities for hows agencies use AI.

1. **Streamline existing state rules to reduce complexity in living and working here**. A bipartisan trend has started recently of state and local governments using AI to comb through their existing regulations, licenses, and agency requirements to find outdated or conflicting provisions and suggest changes. They recognize how much is not workable or even understandable. In 2023 the Mercatus Center counted the regulatory restrictions in each state. They found 182,758 in Massachusetts, the 9th most of any state. Three states—New York, Texas, and Ohio—were found in the study to have more regulatory restrictions at the time, but they are now using AI tools to streamline the burden. Complicated occupational licenses are a good example. Massachusetts currently issues 329 types and could learn from a project in Texas how to perhaps use an AI application to make them more understandable without sacrificing protections. The Archbridge Institute reports Massachusetts in 2026 as having the 10th most barriers to entry for occupations among the states. Some have also called for Massachusetts to employ the Stanford Reglab AI tool to find and eliminate unneeded agency reporting requirements, similar to what the San Francisco has done. This is needed but AI should be used for much more. Also read this short Pioneer Institute analysis: https://pioneerinstitute.org/using-ai-to-reduce-state-regulations
2. **Reduce SNAP payment errors to help save $394 million**. USDA annually evaluates payment errors made by states. In June 2026, they reported Massachusetts with a payment error rate of 12.49 percent in FY2025. One of the highest in the country. Starting in 2027, states with payment error rates above 10 percent will need to pay 15 percent of benefits costs. The Department of Transitional Assistance administers SNAP in Massachusetts and estimates the change could cost up to $394 million per year. Unless corrected, the governor and Legislature will need to create a new line item in the state budget next year and substitute other spending. A few states and nonprofit groups have announced efforts in the past year to use AI in new ways in the program to help correct payment error rates. Massachusetts has not. Learn more by reading this short Pioneer Institue analysis: https://pioneerinstitute.org/snap-reform-poised-to-wreak-havoc-on-state-budgets-due-to-high-error-rates/
3. **Make it easier to start a business**: Business formation rates in Massachusetts collapsed to the bottom after historically ranking in the top five states in the country. Economic and tax policies drive much of this downturn. Administrative hurdles for new businesses can make the Commonwealth even less competitive. State government created a "Starting a Business" Virtual Assistant in the past year. This

chatbot on a few websites can be helpful for people navigating some of the rules and requirements. The Secretary of Commonwealth, Department of Revenue, and Economic Development Office are linked together in the chatbot, which can help people be less confused by agency jurisdictions and what they need to do. However, there is a big miss. Not included are the Health Connector for employee insurance, occupational licenses, and other employee programs. These should be better connected and explained, given the state expects employers to provide these things and comply with rules. They still rely on too many terms, different forms, and programs. Massachusetts should also provide an AI tool to potential businesses that guides them in completing forms like Grantwell guides local governments in applications for federal and state grants. Pioneer Institute published an white paper on low business formation in Massachusetts and impacts on a slowing the economy. https://pioneerinstitute.org/new-study-finds-massachusetts-business-formation-has-plummeted-despite-national-surge/

Conclusion

How states use AI has unintentionally been bipartisan so far and should continue to be as they learn and develop use cases. Democratic and Republican administrations across the country have launched various AI use cases. We see diverse experiences—from states deep in the technology industry and from rural states with broad economies.

These use cases are in their infancy. AI comes in many ways and use cases should develop over time. Mistakes will be made. Agencies should share more information. We need to evaluate results and consider the costs and benefits of using AI in different ways.

Consider these next steps:

1. **Be open about costs**.

   AI is often not easy. Costs might manifest in budgets, IT infrastructure and time, or cultural changes. Sometimes the more transformative a use case, the harder implementation may be for an agency. Many agencies struggle with governance issues or how to develop an AI tool, which can depend on the use case and agency. Decision makers consider whether to buy or build internally with open-source code and their own technology team. What applications to buy off-the-shelf from larger technology companies or specific tools from smaller start-ups.

2. **Think differently about benefits.**

   When analyzing potential benefits of AI use cases, state governments should look at what matters to constituents the most rather than just surveying employee time saved. They can think about goals from the perspective of constituents, evaluate both direct and indirect benefits, and consider time horizons. Measuring the current state is a necessary step that can be confused or ignored.

3. **Publish inventories.**

   Publishing annual state inventories of AI use cases would help agencies learn from each other, be more transparent to the public, and make good AI use cases less scary. In the past few years about a quarter of states started sharing some information about their use cases. Fewer states actually publish annual inventories. All federal agencies are required to do so. State inventories usually include short descriptions of use cases, status and launch dates, vendors or partners, and how guardrails and policies may apply. The federal inventories also note applications the agencies retired, which can be helpful. Inventories would help agencies be better

developers, buyers, and users of AI tools. Everyone needs more data points about how AI is actually used.

The opportunity is to transform what agencies do rather than employees just being more efficient. States that adopt this approach can be more competitive with other states.

Note: *author consulted several experts and sometimes employed ChatGPT for research.*

About the author

Gary Blank is Pioneer Institute's Senior Fellow for Government Effectiveness. He offers a practical perspective grounded in work across the public and private sectors, federal and state governments, and the intersection of policy and operations. Gary's career spans Massachusetts state government, management consulting, Fidelity Investments, the White House, and the U.S. Congress.

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