AI & AFFORDABILITY IN CALIFORNIA

Land of Opportunity or Hardship?

In partnership with Economic Security California

Affordability has come to dominate the national conversation and emerged as a decisive issue in several high-salience races last year in Virginia, New Jersey, and New York City. In contests shaped by national polarization and economic anxiety, successful campaigns framed rising costs not as isolated consumer problems but as the result of concentrated corporate power shaping prices, access, and quality of life. The undertold part of that story is tech, and specifically AI's role in driving our affordability crisis.

Today, working families feel the squeeze everywhere—from rent and utility costs to groceries. In each instance, the tech sector is a behind-the-scenes player in driving up the cost of these goods. Utility rates are creeping higher because of how AI saps energy supply. Corporate actors from Delta Airlines to Kroger grocery stores are using pricing technology to set "personalized" prices and to coordinate with each other to constrain consumer choices. Landlords are using rent-setting technologies to coordinate higher rents while skirting and undermining traditional anti-collusion laws.

Businesses that once competed against each other are working together to limit competition and drive up prices—and AI is making it faster, more widespread, and easier to hide. Instead of creating better products or lowering prices, corporations now compete with you, the customer, to find what you're willing to pay based on how desperate or vulnerable you are.

The existing guardrails against corporate overreach have not held, and California's working families are literally paying the price. With bold leadership, we can reclaim our reputation as a home for dreamers; to do so, our leaders must make California a state that works for everyone, not just corporate interests.

This memo identifies AI's role in California's affordability crisis, from algorithmic collusion on rents to data centers' inflationary impact on utility rates to surveillance pricing that drives up the costs of everyday essentials. It then identifies solutions. The policy prescriptions here can increase competition to drive down costs, stop AI companies from passing energy costs on to households, and give regular people control over their data. Together, they are the building blocks of a plan for a just economy in the AI age.

Harms and costs: What's at stake?

Unchecked use of AI drives inflation, harming California households

Far from its initial promise of connecting more people and democratizing information, the technology industry is increasingly fueling its growth by exploiting every opportunity to squeeze more out of Californians. While the sector advertises innovation, time-saving products, and services that create convenience, users are seeing their own data wielded against them to set discriminatory prices and increase costs across the economy.

Algorithmic price fixing is helping landlords drive up housing costs

Housing is typically a household's largest monthly expense. In California, housing costs relative to other expenses have long been out of balance. The state has the dubious distinction of having the second-lowest homeownership rate, and the second-highest rate of housing cost burden (renters spending more than 30% of their income on rent). Now, landlords are turning to technology to stack the deck even further.

Companies like RealPage, which sell rental pricing algorithms, facilitate landlords setting their rents together to maximize profit. Large property management companies and "mom-and-pop" rental owners alike—who would otherwise compete on price and quality—collude to keep rents high. By sharing information with RealPage that the public does not have, landlords were able to

increase their revenue by an additional 2-7% each year on top of regular market increases. In internal communications, these property owners even expressed a preference that their competitors use the software, as widespread use constrains renters' alternative options. Research shows that landlords who use the technology added $3.8 billion in costs for renters in 2023 alone. In California, pricing coordination added $110 a month to market rent for Riverside renters, $99 in San Diego, $62 in San Francisco, and $24 in Los Angeles.

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Pricing middlemen like RealPage acknowledge that their products are designed to extract the most through anticompetitive practices. RealPage has touted that its software "driv[es] every possible opportunity to increase price," while suggesting that among landlords, "there is greater good in everybody succeeding versus essentially trying to compete against one another in a way that actually keeps the entire industry down." One landlord even remarked, "I always liked this product because your algorithm uses proprietary data from other subscribers to suggest rents and terms. That's classic price fixing..."

Renters, meanwhile, are shouldering the cost created by this unaccountable technology while outdated laws struggle to keep up. Enforcement agencies like the FTC and state attorneys general are responsible for catching price fixing, but the introduction of AI-driven middlemen has made enforcement far more difficult. Traditional investigations look for communication between competitors, but algorithmic price fixing allows companies to coordinate through shared software without ever exchanging a word. Regulators only catch the most egregious instances of price fixing, and even then, enforcement is weak: The Department of Justice settled a lawsuit with RealPage in late 2025, requiring it to stop using competitors' data to set prices and accept a court-appointed compliance monitor, but notably did not exact any financial penalty or prevent the company from using competitor data as long as it is more than a year old.

AI data centers sap the utility grid as rates increase for consumers

Alongside housing and food, utilities account for one of the most inelastic elements of a family's budget. AI-driven data center expansion is now increasing these costs independent of consumer behavior. A recent Bloomberg News analysis found that, across the US, utility bills increased 267% over 5 years in areas near data centers, and California is already experiencing similar data center-fueled rate hikes.

The most comprehensive analysis of data center location and usage available to the public reveals that California has the second-highest electricity demand related to data centers of any state after Virginia. Pacific Gas and Electric Company (PG&E), California's largest electricity utility, saw a 40% increase in data centers requesting to hook up to the power supply in 2025. PG&E recently estimated that so much data center development is planned in San Jose that the city could increase its energy use nearly threefold above its current peak.

Santa Clara is a bellwether for how a few companies demanding outsized electrical power can affect a community. The city has the highest concentration of data centers in California, in large part because the rates Silicon Valley Power offers are consistently 40% lower than those of PG&E. As nearby AI companies looked to the town to meet their demands, the utility company increased its rates to fund the necessary infrastructure buildout. City residents, previously used to a consistent 2-3% rate increase each year, had to absorb an 8% increase in early 2023, another 5% increase in June of that year, and a 10% increase in 2024. Today, 60% of the city's energy is used to power data centers.

California data centers nearly doubled their electricity consumption between 2019 and 2023, from 5.5 to 10.8 terawatt-hours, and could reach the equivalent power use of 2.4 million homes by 2028. The California Public Utilities Commission's consumer watchdog, the Public Advocates Office, has warned that customers could end up paying for billions of dollars in grid upgrades if projects never materialize or use far less power than promised. With data center electricity demand projected to double or triple over the next three years, some California cities face the same pricing pressures that drove utility costs up by as much as 267% in other data center hubs.

AI-enabled data surveillance raises our prices and threatens privacy, autonomy, and economic stability

AI has made it easier for businesses to collude to raise prices, but even companies acting alone can use it to extract as much as possible from consumers.

The data broker industry is one of the most influential and least regulated sectors of the economy. Companies using data from data brokers can decouple the prices of goods and services from traditional supply-and-demand factors, such as the availability of goods or competitive forces, by instead leveraging immense troves of personal data against us. This widespread tracking is known as "surveillance capitalism," and the rates it sets are "surveillance pricing." Surveillance pricing pits customers against their data, diminishing their purchasing power in the process.

Companies now build profiles of potential buyers using data from apps, websites, and loyalty programs, and then use those profiles to charge each customer the most they are predicted to pay. Using a host of factors—demographics, location, purchase history—algorithms calculate individualized prices designed to extract maximum revenue from each customer. San Diego County's District Attorney fined Target $5 million for increasing the price of goods once a customer's location data showed they were near a store. Pricing algorithms showed Bay Area residents hotel rates $500 higher than those shown to people from Phoenix or Kansas City looking at the exact same room and dates. After recent public scrutiny, Instacart ended AI pricing experiments that charged different customers up to 23% more for identical items.

While California's Delete Act gives consumers the right to delete their data from data brokers, it does not prevent companies from setting discriminatory prices based on data they collect directly through apps, websites, and loyalty programs.

The push to extract more from consumers is driving companies to go beyond traditional sources of personal data. In 2025, advocates found that Wegmans supermarket was collecting biometric data on customers entering its retail locations. A notice posted outside the stores informed customers that their facial images, eye scans, and voice prints would be collected and used to identify them while they shopped. In 2023, Rite Aid agreed to a five-year ban on the use of facial recognition technology after the FTC found that the technology discriminated against customers of color.

How California can lead

The state can achieve wins on affordability by restricting surveillance pricing and enforcing competition laws

The current guardrails that could keep AI tools from raising prices and protect against concentrated economic power and anticompetitive corporate behavior are inadequate. Intense tech industry lobbying efforts to stop policymaking and enforcement—coupled with underresourced regulators and the inherently opaque systems that power these tools—have resulted in an anemic governmental response to these cost-driving technologies. Antitrust law, rent stabilization, privacy regulations, and antidiscrimination protections are all failing to hold the line against predatory uses of technology to raise prices for Californians.

California can course correct. The state can and must act swiftly to rein in AI's impact on distorted markets and runaway prices. California's leaders must take bold action to ensure competition, fair markets, and consumer choice, ultimately making the state an affordable place to live.

Drive competition to strengthen the economy

Consumer prices are creeping up in part because big businesses are working together, with a major assist from AI, to exploit their customers. As discussed in more detail in our other memo, *Beyond Big Tech: An alternative vision for California's tech economy*, to restore market equilibrium, California needs real competition that drives choice and enables countervailing consumer power. California's leaders must:

- **Update California's Cartwright Act to address "single-firm conduct" and anticompetitive conduct:** Modernize state antitrust law to clearly prohibit conduct that allows a single company to use its size and power to illegally crush competition, also known as "single-firm conduct." Most states already have antitrust laws on the books that regulate anticompetitive behavior by a single entity. California, which only regulates antitrust violations between two or more entities, does not. A change of this kind would include holding dominant AI platforms accountable when they block competitors, self-preference their own services, or leverage power in one market to squeeze out rivals.
- **Build on recent anti-collusion legislation:** Expand on AB 325, which passed in 2025, which prohibits algorithmic collusion, to strengthen

antitrust enforcement against pricing power abuse, corporate practices that undermine competition, and companies that control production, distribution, and sales.

- **Implement structural solutions that promote competition and innovation:** Require data portability so consumers are not locked into dominant platforms, mandate interoperability standards so smaller competitors can enter the market, and consider structural separation to prevent tech giants from leveraging dominance in one market to push out competition in others.
- **Invest in CalCompute and public AI infrastructure:** To reduce dependence on Big Tech infrastructure, driving up costs across the economy, California should fully fund CalCompute, established by SB 53 (2025), to provide affordable AI compute resources for small businesses, the public sector, researchers, and startups.

Stop AI from passing energy costs onto households

Across the country, the buildout of data centers and associated energy infrastructure has driven up energy bills for households and small businesses. Despite committing to pay their fair share, the industry has fought prohibitions on passing its costs along to ratepayers.

To prevent ratepayers from shouldering the cost burden for the AI data center buildout. California must:

- **Establish strong ratepayer protections.** To safeguard households and small businesses from absorbing any stranded costs of building data center infrastructure, the state should require that data centers pre-pay or frontload 100% of the costs to serve them (including transmission, generation, and capacity). Additionally, California can establish separate tariff structures for large-load customers and require protective contract terms, including a minimum contract length, minimum demand charges, early termination penalties, and exit fees.
- **Ensure the costs of data center expansion are not coming from the public purse.** The state should prohibit the use of tax incentives—whether that's through use tax exemptions, corporate income tax credits, property tax abatements, utility tax exemptions, or sales tax exemptions. In 2019, Illinois established a substantial tax incentive for data centers. Since then, 27 sites have been constructed, with an average of 22 workers per site. This extremely low job creation threshold qualified the companies to receive $983 million in tax breaks. Ultimately, costing Illinois taxpayers $1.7 million

dollars for every single job created (not including temporary, one-time hires of construction workers). At $1.7 million per job, this is not economic development—it is a direct wealth transfer from taxpayers to some of the world's most profitable corporations. To put that figure in perspective, $1.7 million per job would be enough to hire a teacher, a firefighter, and a nurse—and still have money left over. In early 2026, responding to public backlash over the economic and environmental impact of data centers, Gov. Pritzker of Illinois proposed a two-year break on any tax incentives for data centers. The experience is not isolated to Illinois, as many other states have offered similarly expensive tax breaks for very few jobs in return. California should learn from these cautionary tales rather than repeat them.

- **Require transparency from data center operators.** California should mandate public disclosure of energy consumption, water use, and emissions data, and ensure that data centers fund independent cost studies. This would build on previous efforts such as the policies in SB 57 (2025), which directed CPUC to study the impacts of data centers on households, or AB 93 (vetoed by Gov. Newsom in 2025), which sought to require data center operators to report information about their water use and energy consumption.

Communities across the country have begun to stand up forcefully against the unfettered expansion of data centers and their impact on the public. AI Now Institute developed a comprehensive policy report and toolkit for state and local policymakers that includes a variety of policy proposals, ranging from data center moratoriums to specific policy proposals to ensure economic burdens are not placed on our communities, which California should evaluate and consider implementing.

Modernize transparency and discrimination protections for the age of Big Data

With unequal access to data underpinning so much of how AI works, the prices Californians pay, and why it's so hard to hold bad actors accountable, public officials must modernize existing protections for how information flows today. California led when it enacted the California Consumer Privacy Act (CCPA) in 2018, but efforts by the tech industry and its business partners have intentionally slowed its implementation and effectiveness. Meanwhile, the tech industry has accelerated its development of AI and emerging technology as it uses its resources to stall regulation and oversight.

To ensure Californians do not pay the price for this toxic dynamic, our leaders must:

- **Expand civil rights laws for algorithmic discrimination.** The state can extend existing anti-discrimination protections to cover AI-driven decisions in housing, employment, lending, and insurance by requiring that individuals have some legal recourse, such as notice and the right to an explanation, the right to correct, and the right to alternative human review.
- **Strengthen enforcement and programs of CalPrivacy.** California's new Automated Decision-Making Technology (ADMT) regulations established limited consumer protections around AI decision-making in housing, lending, and employment, but will not take effect until 2027, and do not explicitly cover surveillance pricing. The state should ensure that our privacy regulations do not allow for the collection, use, or sale of our data to power harmful uses of AI technology. Additionally, California must invest in programs such as the DROP data deletion tool to ensure proactive enforcement of existing data rights.
- **Build up individual rights to control the flow of personal data.** Californians need the right to control how their information is used. In addition to expanding existing protections, new data rights must include prohibitions on the collection and use of location and other sensitive data, stopping the flow of data to entities that did not obtain express consent to access that information, and the right to remedy any violation of individual data rights.
- **Remedy the information asymmetries that allow privately-held data to be weaponized against consumers.** The RealPage case was exposed by investigative reporting, but with better public data on rental housing, the exploitative actions of landlords could have been caught sooner. The state should pursue the creation of a public repository of rental price and ownership data that would allow regulators and the public to see the same information that landlords can see about how prices are moving. This transparency would ensure accountability, allow renters to enforce their rights as consumers, and provide policymakers with better intelligence about the housing market. Legislation, including AB 1018 (2025), could also protect notice, consent, and appeal requirements in instances when a consequential decision is made using personal data. California must ensure that data and notice can also be used for the public benefit, not just for private profit.

Building a California for all

The public's mistrust of Big Tech, data centers, and AI is unmistakable—nearly 80% of voters across partisan lines say they have little or no faith that tech leaders will act in the best interest of the people of California, and 70% of Californians think we need strong laws to regulate AI.

These sentiments are driven by a sense that Big Tech is not on our side—new technology is being used to exploit and extract rather than to improve our quality of life and increase shared prosperity. Californians can see that, in the current economy, Silicon Valley and business executives profit while everyday households struggle.

This memo articulates a way to reverse these trends. Working households need a fair shot that includes prices based on actual market competition, ratepayer protections for utilities, civil rights shields against algorithmic discrimination, and, most importantly, courageous leaders invested in holding corporations accountable and making the state work for the many, not just the few. Any official who wants to show they are fighting for economic security for Californians must have a clear plan to address AI and tech's role in growing the affordability crisis.