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2026
GUIDE to
LAW



SEVEN EMERGING LEGAL TRENDS SHAPING ARIZONA BUSINESS IN 2026

As Arizona enters a fast-moving business and regulatory landscape, companies face new and changing legal challenges driven by technology, economic pressures, and evolving policy.

This 2026 Legal Guide highlights key issues and trends business leaders should be prepared to navigate—from AI-driven employment practices to insurance coverage, investor rights, franchising, public procurement, real estate development, and water policy.

1. AI, PAY PRACTICES & POLICY PITFALLS

AI-driven tools are transforming recruiting and performance management, but employers remain responsible for decisions. If automated systems screen out certain groups of candidates, businesses may face discrimination claims without clear insight into how decisions were made. Transparency, vendor due diligence, and regular audits are essential.

Wage-and-hour compliance also demands close attention, as legal disputes involving employee classification, bonus and incentive pay, and time-tracking practices remain common, particularly as remote and hybrid work arrangements persist. Arizona's requirements are more protective than federal law, making regular policy and payroll reviews crucial.

2. AI-RELATED INSURANCE COVERAGE

AI adoption brings new risks and questions about coverage. AI tools capable of generating deepfakes, automating decisions, or handling sensitive data can expose companies to losses not covered by traditional policies. Companies should examine their policies providing general liability, professional liability, cyber, property, D&O or E&O, and business interruption coverage to identify gaps.

Some insurers are introducing AI-specific exclusions, policy endorsements, or specialty products.

Premiums may rise when coverage extends to AI-related claims, and courts will increasingly decide, e.g., who bears responsibility when AI causes harm—the user or the developer? And as insurers adopt AI in their underwriting and claims processes, businesses may see more automated decisions, and those may lead to more bad-faith allegations when claims are denied.

3. FRANCHISING ACROSS STATE LINES

California's longtime ban on non-compete has long challenged Arizona franchisors seeking growth opportunities across our western border. A recent federal decision offers hope that reasonably tailored non-compete clauses may still be enforceable against California-based franchisees when another state's laws apply. After the decision, post-termination restrictions in commercial contracts, including franchise agreements, are not automatically void, but evaluated under the "rule of reason" that weighs the specific facts and business interests.

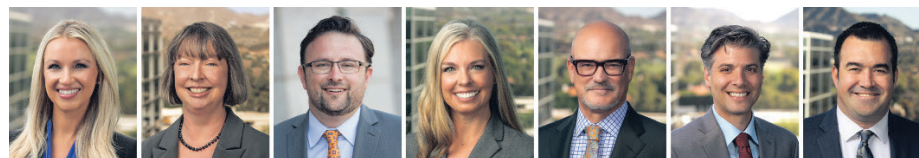
By upholding reasonable restrictive covenants, the Court created a viable pathway for out-of-state franchisors to preserve confidential information and system integrity when a California franchisee leaves the network.

4. GROWTH IN GOVERNMENT CONTRACTS

With economic growth projected in 2026, government agencies at all levels are expected to increase purchasing for technology, infrastructure, professional services, and community development projects. For Arizona businesses, that means more growth opportunities.

Expect procurement offices to adopt and integrate AI and other digital solutions to streamline the government's provision of goods and services. Companies seeking to do business with the government should prepare for digital-first bidding processes, stricter data security requirements, and increased transparency as procurement offices

Contributing authors in order of sections: Haley Harrigan, Karin Aldama, Joshua Becker, Kiersten Murphy, Stephen Boatwright, Joseph Perotti, and Stuart Kimball



rely more on automated compliance checks.

5. EXPANDING INVESTOR RIGHTS IN PRIVATE MARKETS

The federal administration has signaled a clear shift toward broader investor participation, prioritizing investor access and market inclusion. Current rules limit private investments to high-net-worth individuals, but potential changes to the "accredited investor" criteria in 2026 could expand opportunities for everyday investors. While crowdfunding platforms allowed anyone to back early-stage startups, high-profile private companies like SpaceX and other billion-dollar ventures remain accessible only to large institutions and private equity funds.

New SEC rules may allow individuals, not just high-net-worth investors, to invest in promising private companies, creating fresh opportunities for both businesses and investors.

6. REAL ESTATE CONVERSION PROJECTS

With a reduced demand for traditional office space, there is a push to convert unused or underused commercial real estate into residential use. But these projects are rarely straightforward: zoning, building codes, infrastructure upgrades, parking requirements, and community support are crucial in determining whether a conversion is feasible.

Further, the cost of retrofitting a commercial structure to meet residential safety standards and design needs can outweigh projected rental income. Every parcel carries unique constraints,

and developers must assess feasibility, navigate zoning procedures, secure necessary variances, negotiate with municipalities, and manage regulatory risks—turning a complex idea into a viable, revenue-generating project.

7. FAIR WATER POLICIES = ECONOMIC GROWTH

From early federal reclamation projects to the Central Arizona Project, sound water policies have been critical to Arizona's growth. Because Arizonans and business leaders worked together on fair and reasonable water policy, Arizona uses the same amount of water today as in the 1950s, despite explosive growth.

Given that excessive regulatory hurdles can stifle economic growth, Arizona's policymakers will need to ensure sound regulatory policies to sustain Arizona's economic expansion. As to water solutions, policymakers must work with key stakeholders—including mining companies, agricultural interests, and developers—to shape the most responsible and cost-effective solutions.

Maintaining balanced regulatory policies in 2026 will ensure Arizona's economic and water future and continue to attract businesses leaving highly regulated states.

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