



HOUSE BILL 171: Equality in State Agencies/Prohibition on DEI.

2025-2026 General Assembly

Committee: House State and Local Government. If **Date:** April 1, 2025
favorable, re-refer to Rules, Calendar, and
Operations of the House

Introduced by: Reps. B. Jones, N. Jackson, Lowery, Eddins **Prepared by:** Brad Krehely
Analysis of: PCS to Second Edition Committee Co-Counsel
H171-CSRN-5

OVERVIEW: *The Proposed Committee Substitute (PCS) for House Bill 171 would:*

- *Prohibit State agencies from promoting, supporting, implementing, or maintaining workplace DEI programs, policies or initiatives.*
- *Prohibit a State agency, unit of local government, or covered school from: (1) using State funds or public moneys to promote, fund, implement or maintain DEI initiatives or programs and (2) applying for, accepting, or utilizing federal funds, grants, or other assistance that require compliance with DEI policies, initiatives, or mandates.*
- *Modify the penalty provisions in the State Budget Act and Local Government Budget and Fiscal Control Act.*

The PCS does the following: deletes criminal penalties from the bill and substitutes civil penalties; allows the Attorney General to bring civil actions to collect the civil penalties and has those penalties placed in the Civil Fines and Forfeitures Fund; requires the State Auditor to report violations to the Attorney General; provides that G.S. 126-14.7 and G.S. 143-162.8 would not prohibit the celebration of any holiday, observance, or remembrance; would remove "non-State entities" from coverage under G.S. 143-162.8; defines which "covered schools" would be included under G.S. 143-162.8 and exclude private schools or charter schools; modifies the effective date; and makes other technical and organizational changes.

CURRENT LAW: The State Budget Act establishes the procedures for preparing the recommended State budget, enacting the State budget, and administering the State budget. Its provisions generally apply to every State agency, unless specifically exempted, and to every non-State entity that receives or expends any State funds. No State agency or non-State entity can expend any State funds except in accordance with an act of appropriation and the requirements of the State Budget Act. G.S. 143C-1-1.

The following penalties apply to violations of the State Budget Act:

- Class 1 misdemeanor to knowingly and willfully do one or more of the following:
 - Withdraw funds from the State treasury for any purpose not authorized by an act of appropriation.
 - Approve any fraudulent, erroneous, or otherwise invalid claim or bill to be paid from an appropriation.

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- Make a written statement, give a certificate, issue a report, or utter a document required by this Chapter, any portion of which is false.
- Fail or refuse to perform a duty imposed by this Chapter.
- Class A1 misdemeanor for a person to make a false statement regarding any overdue tax debts.
- Forfeiture of Office or Employment- An appointed officer or employee of the State or a political subdivision of the State forfeits his or her office or employment upon conviction of an offense. Elected officers are subject to impeachment.
- Civil Liability- A person who is convicted is liable in a civil action for any damages suffered by the State.

The Local Government Budget and Fiscal Control Act requires units of local government to conform to certain standards with respect to financial matters, with oversight being provided by the Local Government Commission. The standards cover all aspects of finance, from budget adoption to accounting practices to long-term debt issuance. The act applies to municipalities, counties, and public authorities.

The following violations of the Local Government Budget and Fiscal Control Act result in a Class 3 misdemeanor, a fine of not more than \$1000, forfeiting one's office or employment, and being personally liable for civil damages:

- Approving any claim or bill knowing it to be fraudulent, erroneous, or otherwise invalid.
- Making any written statement, giving any certificate, issuing any report, or uttering any other document knowing that any portion of it is false.
- Willfully failing or refusing to perform any duty imposed upon the person by this Chapter.

Embezzlement of funds may also result in forfeiture of one's office and being forever barred from holding any office or place of trust in North Carolina.

BILL ANALYSIS:

No DEI in State Government Workplaces

Section 1.1(a) would create G.S. 126-14.7 to prohibit State agencies from promoting, supporting, implementing, or maintaining diversity, equity, and inclusion (DEI). This would include: use of DEI in State government hirings and employment; maintaining DEI staff positions or offices and offering or requiring DEI training.

It would create definitions for "Differential Treatment," "Diversity, equity, and inclusion or DEI" and "Protected characteristic."

The State Auditor would be required to conduct periodic compliance audits to determine violations of this section and report those violations to the General Assembly, the Joint Legislative Commission on Governmental Operations, and the Attorney General.

The following penalties or remedies would apply:

- A State officer or employee is subject to removal from office or employment.
- A knowing and willful violation is subject to a civil penalty not to exceed \$5,000 for each violation. The Attorney General may bring an action in superior court to collect the penalty which would be placed in the Civil Fines and Forfeitures fund.

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- An employee of a State agency may bring a civil action for damages to the employee. That action would be brought in the county where the employee resides or in which all or a substantial part of the acts or omissions occurred.
- Any person may bring a civil action seeking injunctive relief and attorneys' fees and costs. The action would be brought in the county in which all or a substantial part of the acts or omissions occurred.

It would provide that nothing in this section is construed to: (1) restrict free speech under the First Amendment, (2) prohibit compliance with applicable State and federal laws, (3) alter the relationship between the State and an American Indian tribe; (4) apply to the North Carolina Commission on Indian Affairs and Indian education services and positions; and (5) prohibit the celebration of any holiday, observance, or remembrance.

This section also has a severability clause.

Section 1.1(b) would provide that newly created G.S. 126-14.7 would apply to nonexempt State employees in the executive branch (including nonexempt UNC employees and nonexempt employees of the Community College System Office) and community college employees.

No Public Funds for DEI

Section 1.2 would create G.S. 143-162.8 to prohibit a State agency, unit of local government, or covered school from doing the following:

- Using State funds or public moneys to promote, fund, implement, or maintain DEI initiatives or programs.
- Applying for, accepting, or utilizing federal funds, grants, or other assistance that require compliance with DEI policies, initiatives, or mandates. Existing programs funded in these ways would be discontinued unless federal law required continued participation.

These prohibitions would include using State funds or public monies to: utilize DEI in hirings, employment, admissions, or the awarding of contracts; offer or require DEI training; and maintain DEI offices or dedicated staff positions.

Nothing in this section would be construed to: (1) restrict free speech under the First Amendment, (2) prohibit compliance with applicable State and federal laws, and (3) alter the relationship between the State and an American Indian tribe.

This section would not be construed to apply to the following:

- Academic course instruction.
- An institution of higher education's research or creative work from students, faculty or other personnel.
- An activity of a student organization recognized by an institution of higher education.
- Guest speakers or performers.
- A policy, practice, program, or activity to enhance student academic achievement or postgraduate outcomes designed or implemented without regard to race, sex, color, or ethnicity.
- Data collection.

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- Qualifications based on sex reasonably necessary to the operation of public higher education, including sports teams organized by sex, single-sex bathrooms and locker rooms, requiring maintenance employees assigned to a single sex locker room to be a member of that sex, fraternities and sororities, and single sex housing options for students.
- The North Carolina State Commission on Indian Affairs.
- Indian education services and positions.
- The celebration of any holiday, observance, or remembrance.

The following penalties would apply and would be in addition to liability under any other law:

- Knowing and willful violations would be subject to a civil penalty not to exceed \$10,000 per violation. The Attorney General may bring a civil action to collect the penalty in civil court, and it would be placed in the Civil Fines and Forfeitures Fund.
- The civil penalty provisions of the State Budget Act and the Local Government Finance Act.
- Any person may bring a civil action for injunctive relief and attorneys' fees and costs in the county in which all or a substantial part of the acts or omissions occurred.
- An employee of a State agency, unit of local government, or covered school may bring a civil action for damages to the employee. The action would be brought in the county where the employee resides or in which all or a substantial part of the acts or omissions occurred.

Beginning February 1, 2026, and annually thereafter, each State agency, unit of local government, and covered school would be required to prepare a report detailing efforts to comply with these provisions and identify when policies were revised or prohibited because they conflict with these provisions. The report would be posted to the entity's website and submitted to the State Auditor. The State Auditor would then report this information to the General Assembly and Gov Ops annually.

The State Auditor would be required to conduct periodic compliance audits to determine violations. The State Auditor would report any violation to Attorney General for civil enforcement action, would report all violations to Gov Ops, and if appropriate, report an individual violation to the Local Government Commission.

This section also has a severability clause.

Section 1.3(a) would amend the State Budget Act to provide that a State agency must attempt to recoup the misspent funds by all lawful means available, including filing a civil action. It also would require the Governor to report the facts leading to the suspension of a State Officer or employee of the Executive Branch to the district attorney for the county in which all or a substantial part of the violation occurred and the Attorney General.

Section 1.3(b) would provide that the Local Government Commission, after suspending a local officer or employee for refusing to comply with the Local Government Finance Act, must report the circumstances to the Attorney General and the district attorney for the county in which all or a substantial part of the noncompliance occurred.

Section 1.3(c) would describe the consequences of violating G.S.143-162.8: a civil penalty not to exceed \$10,000 per violation and offending officers and employees would be subject to removal from office or employment and be liable for damages. The local government or entity receiving public funds also would have a duty to recoup the misspent funds.

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EFFECTIVE DATE: The act would become effective December 1, 2025, and would apply to acts or omissions occurring on or after that date.