

April 17, 2025

## ***In this week's issue...***

This week's Nonprofit Policy Update opens with details about nonprofit provisions in the NC Senate's state budget, which was unveiled Monday night and received final approval this morning. We also share information about new federal actions that could impact nonprofit's government grants and contracts and about new threats to the tax-exempt status of a few large 501(c)(3)s that have DEI practices and programs. We also provide updates on several other state legislation that could affect the work of nonprofit organizations. Note that Congress and the NC General Assembly are both taking the week off next week, so we will only publish a policy update next Friday if there are significant executive or judicial developments affecting nonprofits (which is fairly likely based on recent trends).

## **NC Senate Gives Initial Approval to State Budget for FY 2025-27 with Virtually No New Funding for Nonprofits**

This morning, the NC Senate gave final approval to the state budget for FY 2025-27 ([S.257](#)). The budget, which was first released on Monday night and was approved by three Senate committees on Tuesday, includes [661 pages of appropriations](#) and [458 pages of special provisions](#). The Senate budget would spend about \$32.6 billion from the General Fund in FY 2025-26 and about \$33.3 billion in FY 2026-27. That is about \$1 billion less per year than Governor Josh Stein recommended in [his budget proposal](#) last month. Several appropriations (or lack thereof) and provisions could affect the work of charitable nonprofits, including:

- Virtually no new funding for nonprofits. The state budget for FY 2023-25 included about [\\$1.5 billion in \(mostly one-time\) directed grants](#) to more than 640 nonprofits. This Senate budget includes about \$22.7 million in new funding to nine nonprofits. It also ends \$8.8 million in recurring funding for five nonprofits.
- A provision that would require NC Innovation, a relatively new 501(c)(3) nonprofit to return the \$500 million in state funds that were appropriated to it for FY 2023-24 and FY 2024-25 and instead provide \$50 million in funds to NC Innovation, half in FY 2025-26 and half in FY 2026-27.
- A provision that would give entities – including nonprofits – in counties in western North Carolina affected by Hurricane Helene preference in a variety of state competitive grant programs.
- A provision that would enable North Carolina to add work requirements for Medicaid recipients. While the budget doesn't specify the details of these work requirements, other work requirements for federal and state benefits have included "[mandatory volunteerism](#)" provisions that can create challenges for nonprofits by requiring some people to volunteer with nonprofits – often in a way that creates new costs, liabilities, and burdens for nonprofits – to maintain their government benefits.
- \$80 million in additional funding to increase child care subsidy rates.
- Funding for a new statewide electronic payment processing system with a limit of a 2% transaction fee on electronic payments. This system could address concerns that nonprofits have expressed about the inability of some state agencies to make electronic payments on their state grants and contracts.
- An increase in the maximum weekly unemployment benefits from \$350 per week to \$400 per week, beginning in July 2025. Earlier this year, the NC House of Representatives passed a bill ([H.B. 48](#)) that would increase maximum weekly benefits to \$450 per week.

- A \$15 million reduction in need-based scholarships for students attending nonprofit private colleges and universities in North Carolina and a provision excluding students attending Duke University, Wake Forest University, and Davidson College from receiving this financial assistance.
- A provision implementing the Division of Accountability, Value, and Efficiency (DAVE) Act (a semi-clever pun since the current State Auditor is Dave Boliek) to establish a division within the State Auditor's office to identify cost-cutting measures in state government. DAVE would be similar to the recently established federal Department of Government Efficiency (DOGE). The budget provides funding to hire 45 DAVE staff members. The Senate approved the DAVE Act in separate legislation ([S.474](#)) last week.
- A provision to repeal certificate of need (CON) laws on new healthcare facilities and equipment.
- Funding for a new state position to coordinate with nonprofits providing assistance to veterans.
- A provision establishing a \$10 paper filing fee for nonprofits and businesses that don't file documents with the NC Secretary of State electronically.
- A provision cutting individual income tax rates from 3.99% to 3.49% starting in 2027 and to 2.99% starting in 2028. The provision also would enable the income tax rate to drop to 2.49%, 2.24%, and 1.99% between 2029 and 2036 if state revenue exceeds specified thresholds. The initial income tax rate cut in 2027 is expected to reduce state revenue by about \$1.14 billion in FY 2026-27, and the future tax rate cuts would likely mean an even larger reduction in state revenue in future years. The reduced state revenue could increase pressure on future lawmakers to cut state grants and contracts with nonprofits or limit or eliminate nonprofit tax exemption.
- Cuts to franchise tax rates for for-profit businesses (nonprofits are already exempt from paying franchise tax). These cuts are expected to reduce state revenue by about \$90 million per year.
- An increase in the tax rate for sports wagering from 18% to 36%, which is expected to increase state revenue by about \$53 million in FY 2025-26 and about \$80 million in FY 2026-27.

The NC House of Representatives will begin its budget process later this spring. Once the House passes its budget, which will likely include a higher level of spending than the Senate's budget, the two chambers will work together to come up with a final legislative budget to send to Governor Stein, likely sometime in June.

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## DOGE Takes Control of [Grants.gov](#) Website

This week, the federal Department of Government Efficiency (DOGE) has [taken over the Grants.gov website](#) that enables nonprofits to learn about and apply for federal grants. Some nonprofits have reported difficulties accessing the [Grants.gov](#) website since the DOGE takeover. The DOGE action is in response to an Executive Order ([EO 14222](#)) issued by President Donald Trump last month that could lead to the termination or modification of a wide range of nonprofit grants and contracts with federal government agencies. The Executive Order:

1. Requires every federal agency to "build a centralized technological system within the agency to seamlessly record every payment issued by the agency pursuant to each of the agency's covered contracts and grants, along with a brief, written justification for each payment submitted by the agency employee who approved the payment";
2. Requires federal agencies to develop processes by which relevant employees will provide written justifications prior to the approval of any payments to grantees or contractors;
3. Requires the head of every federal agency, in consultation with their DOGE team, to review every grant and contract made by the agency and, "where appropriate and consistent with applicable law, terminate or modify (including through renegotiation) such covered contracts and grants to reduce overall Federal spending or reallocate spending to promote efficiency and advance the policies of my Administration"; and

4. Requires the head of every federal agency, in consultation with their DOGE team, to review their agency's contracting policies, procedures, and personnel and then "issue guidance on signing new contracts or modifying existing contracts to promote Government efficiency and the policies of my Administration."

This week, [DOGE also reportedly tried to assign staff to a nonprofit](#) that had received federal grants, but changed course once it learned that the nonprofit was no longer receiving federal grants. The National Council of Nonprofits [issued a statement](#) today in response to DOGE's attempt to assign staff to a nonprofit, explaining: "This action by DOGE sets a dangerous precedent, leaving any recipient of federal funding — nonprofit, for-profit, and individuals alike — vulnerable to the whims of this destructive group. DOGE and The Trump Administration's professed commitment to free speech and financial efficiency falls flat when their actions selectively target and weaken groups whose missions they may oppose."

It remains possible that DOGE could seek access to other individual nonprofits with federal grants and could order the termination or modification of nonprofits' federal grants. It also remains possible that nonprofits could file litigation asking a federal court to stop the implementation of the Executive Order and/or prevent DOGE from having access to [Grants.gov](#) or individual nonprofits.

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## New Executive Order Seeks Major Changes to Federal Acquisition Regulation

On Monday, President Trump [issued an Executive Order](#) directing the Federal Acquisition Regulatory Council and the heads of federal agencies to make significant changes to the Federal Acquisition Regulation (FAR). FAR provides a wide variety of legal protections for nonprofits with federal grants, contracts, and cooperative agreements and sets forth a variety of rules that apply to nonprofits with federal funding. The Executive Order calls for revisions to FAR to ensure that it "contains only provisions that are required by statute or that are otherwise necessary to support simplicity and usability, strengthen the efficacy of the procurement system, or protect economic or national security interests." The review process would take place over the next 180 days. It is not yet clear how this Executive Order will affect parts of FAR that are applicable to nonprofits.

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## IRS Complaint Challenges Tax-Exempt Status of Three Foundations Due to DEI Practices

Earlier this month, an advocacy group filed [complaints to the Internal Revenue Service](#) alleging that three private foundations should lose their tax-exempt status under Section 501(c)(3) of the Internal Revenue Code (IRC) because of their race-based grantmaking programs. The complaint cites [Bob Jones v. United States](#), a 1983 U.S. Supreme Court ruling that held that nonprofits engaging in racial discrimination that violates public policy are not entitled to tax exemption under Section 501(c)(3) of the IRC. The complaint also notes that the Trump Administration's recent Executive Orders on DEI ([EO 14151](#) and [EO 14173](#)) establish that DEI programs and other race-based programs and initiatives are contrary to public policy. It is unclear whether the foundations may change their race-based grantmaking programs and if (or when) the IRS may take action in response to the complaints.

Separately, President Trump [posted on social media](#) on Monday that Harvard University, one of the nation's largest 501(c)(3) organizations, should lose its tax-exempt status if it does not follow federal policies prohibiting DEI practices in federal government. President Trump's threat is part of an [ongoing dispute](#) between the White House and Harvard about DEI practices and campus protests that led the Trump Administration to freezing about \$2 billion in federal grants to the university. After President Trump's social media posting, the [U.S. Treasury Department reportedly asked the IRS](#) to revoke Harvard's tax-exempt status.

The IRS complaints and President Trump's threats do not immediately jeopardize the tax-exempt status of most 501(c)(3) nonprofits, even nonprofits that have DEI programs or practices or use race-based criteria in providing services. If the IRS were to take action to revoke the tax-exempt status of the foundations, Harvard University, or other 501(c)(3) nonprofits because of their DEI practices, it is quite likely that the IRS's actions would be challenged in federal court.

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## NC House Delays Action on Two Bills Affecting Nonprofits

This week, the NC House of Representatives delayed action on two bills that, in their original forms, would have had significant implications for nonprofits receiving state funding.

1. The House State and Local Government Committee removed a bill ([H.B. 549](#)) from its agenda on Tuesday that would make a variety of "clarifying" changes regarding the powers of the NC State Auditor. Among other things, the original version of the bill, which was recommended by the State Auditor and approved by the House Judiciary 1 Committee last week, would expand the definition of "federal agency" and "state agency" under the statute governing the State Auditor to include nonprofits that receive federal or state funds, respectively. This change would make any nonprofit receiving federal or state funding (including some organizations that unknowingly receive sub-grants of federal or state grants) subject to a wide range of authority under the State Auditor to examine and access records and facilities of state agencies. If private nonprofits receiving *any* state funds are deemed state agencies, this authority would extend to these organizations, including to parts of their programs, activities, and operations that are funded exclusively through private funding. The Center has been working with legislators and the State Auditor's office on changes to the bill that would remove nonprofits from the definition of "federal agency" or "state agency," while clarifying the State Auditor's existing authority to audit state funds received by nonprofits.
2. The NC House of Representatives was scheduled to vote this Tuesday on a bill ([H.B. 171](#)) that seeks to eliminate diversity, equity, and inclusion (DEI) initiatives in state and local government in North Carolina. The bill was removed from the House calendar and has been sent back to the House Rules Committee. After a major revision to the bill two weeks ago, the legislation no longer applies to nonprofits receiving state or local funds. The original bill would have prohibited nonprofits from using state or local funds to support, fund, implement, or maintain DEI initiatives or programs and would have prohibited North Carolina nonprofits from applying for or accepting federal funds that require compliance with DEI policies, initiatives, or mandates. The original bill also would have required nonprofits with state funds to report annually to the State Auditor on their DEI compliance and would have imposed criminal and civil penalties on nonprofits that used state or local funds for DEI programs or initiatives.

The House could take up both bills later this month, but it appears likely that the most problematic provisions of both bills for nonprofits will not be included in future versions.

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## Law Students Challenge EEOC Investigations into Law Firm DEI Practices and Policies

On Tuesday, three anonymous law students [filed a lawsuit](#) in a federal court in the District of Columbia seeking to stop the U.S. Equal Employment Opportunity Commission (EEOC) from investigating the diversity, equity, and inclusion (DEI) policies of [20 major law firms](#). EEOC has expressed concerns that the firms' DEI policies and practices may violate Title VII of the Civil Rights Act of 1964 because they may demonstrate disparate treatment of some employees, prospective employees, interns, and clients based on race or sex. Last month, EEOC sent letters to the 20 firms requiring them to answer a wide range of questions about their employment practices, internship programs, leadership and staffing demographics and trends, and the DEI practices of their clients. The law students allege that EEOC does not have statutory authority to conduct the investigations

and are asking the court to order EEOC to end its investigation into these 20 law firms and to issue an injunction stopping EEOC from investigating the DEI practices of other law firms.

While the EEOC investigation of law firms doesn't directly affect nonprofits,

1. Some North Carolina nonprofits may be clients of these firms. The letters request that the law firms "fully identify all clients that have 'diversity requirements,' 'diversity preferences,' or any demographic-related requirements for matters, including but not limited to race or sex requirements for the employees staffed on their matters."
2. The letters give strong hints about the types of race-based and sex-based preferences in employment practices, internships, and provision of services that EEOC and other federal agencies believe is impermissible under Title VII and recent Executive Orders. Shortly after launching its investigations of the 20 law firms last month, EEOC published two fact sheets on its new interpretation of the ways that DEI initiatives, policies, programs, and practices may be impermissible discrimination under Title VII. [One of the fact sheets](#) provides answers to 11 common questions about the EEOC's position on DEI and Title VII discrimination, noting (among other things) that "[t]he EEOC's position is that there is no such thing as 'reverse' discrimination, there is only discrimination." The [other fact sheet](#) provides tips for how employees can identify DEI-related workplace discrimination and the steps they can take to initiate legal action against their employers. Small nonprofits should be aware that Title VII generally does not apply to organizations with fewer than 15 employees.
3. The US. Department of Justice has directed federal agencies to review DEI practices and policies of private sector employers, including nonprofits, foundations, and businesses. It is quite possible that large nonprofits and foundations may soon receive similar letters from the EEOC or other federal agencies requesting information about their race-based and sex-based policies and practices.

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## Nonprofit Sues OMB for Shutting Down Federal Spending Tracker

On Monday, a nonprofit [filed a lawsuit](#) in a federal court in the District of Columbia alleging that the Office of Management and Budget (OMB) violated a federal statute when it took down a website providing information on federal spending. The nonprofit had created "a user-friendly website known as 'OpenOMB' that displayed the apportionment information in an interactive format to help the public track and understand the government's spending activities." OMB's apportionment website and the nonprofit's OpenOMB website were the public's main sources of information on how federal funds were being spent and on DOGE activities. The nonprofit is asking the court to issue an injunction requiring OMB to re-open its website with information on federal spending.

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## NC House Committee Approves Bill to Explore Medicaid Sustainability

On Tuesday, the NC House Health Committee approved a bill ([H.B. 113](#)) that would establish a joint legislative committee to explore Medicaid sustainability in North Carolina. This could be particularly important if Congress makes changes to the federal Medicaid payment structure that reduces the federal funding states receive for Medicaid and other healthcare programs. The bill now goes to the House Rules Committee.

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## NC House Committee Approves Bill to Require Monthly Verification of Eligibility for Public Benefits

On Tuesday, the NC House Judiciary 2 Committee approved a bill ([H.B. 640](#)) that would require state agencies to verify that individuals are eligible for the Supplemental Nutrition Assistance Program, Temporary Assistance for Needy Families and Children, and Medicaid on a monthly basis. Several legislators and the NC Department of Health and Human Services expressed concern that the



proposed verification process would be burdensome for state agencies and for many individuals receiving public benefits, particularly for people experiencing homelessness. Two more House committees would need to approve the bill before the full House votes on it.

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## **FEMA Denies Request to Extend 100% Cost Sharing for Hurricane Helene Recovery**

Last Friday, the Federal Emergency Management Agency (FEMA) [sent a letter to Governor Stein](#) declining his request to extend FEMA's 100% match of state funds for Hurricane Helene recovery for an additional 90 or 180 days. FEMA's decision means that the state of North Carolina will need to use state funds for a greater share of the cost of Hurricane Helene recovery. The NC Senate did not account for these costs in the version of the state budget that it passed this week, but these additional expenses could reduce the revenue that is available to fund other state programs in the final version of the state budget.

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## **Federal Court Issues Injunction Stopping Funding Freeze of IIJA and IRA Grants**

On Tuesday, a federal judge in Rhode Island [issued an injunction](#) directing several federal agencies to resume processing and payments of a variety of already-awarded federal grants that were made pursuant to the 2021 Infrastructure Investment and Jobs Act (IIJA) and the 2022 Inflation Reduction Act (IRA). Despite multiple federal orders stopping the [Office of Management and Budget's broad federal funding freeze](#) from earlier this year, several federal agencies have frozen IIJA and IRA funding to nonprofits and to state and local governments.

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## **NC House Approves Bill to Allow for Legislative Review of Some State Regulations**

Yesterday, the NC House of Representatives approved a bill ([H.B. 402](#)) that would require the NC General Assembly to approve of any state regulations with an aggregate annual economic impact of more than \$1 million if more than 10 people submit written objections to the rule. The bill also would change the way that "aggregate annual economic impact" is calculated so that more rules would be covered. The bill now goes to the Senate for consideration.

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## **NC General Assembly to Take Spring Break Next Week**

This morning, the NC Senate unanimously approved a resolution ([H.J.R. 1007](#)) that temporarily adjourns the NC General Assembly from today through noon on Monday, April 28. The House approved the resolution unanimously yesterday. That means that the NC General Assembly won't have sessions or committee meetings next week.

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## **Join a Nonprofit Policy Conversation Next Month**

The Center is hosting a pair of [Nonprofit Policy Conversations](#) in May:

- Monday, May 5 in Fayetteville in collaboration with the Cumberland Community Foundation; and
- Monday, May 19 in Charlotte in collaboration with Foundation For The Carolinas.

At each event, the Center will provide a public policy briefing that will include the latest information about recent federal executive actions that could affect nonprofits, a preview of what nonprofits can expect from Congress this year, and highlights from the first few months of the state legislative session. We'll also have a discussion for participants to share their insights about important state and federal policy issues for 2025. [Register today!](#)

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## First Quarterly Lobbying Reports Due Next Monday (April 21)

Nonprofits that are registered as lobbyist principals (and their staff or contractors who were registered as lobbyists) must file their first quarterly reports of 2025 with the [Secretary of State Lobbying Compliance Division](#) by Monday, April 21. To help you understand the basics of state lobbying laws affecting nonprofits, check out the Center's [summary of NC lobbying laws for nonprofits](#).



*Nonprofit Policy Update* is the North Carolina Center for Nonprofits' weekly newsletter of state and federal policy issues that affect all 501(c)(3) nonprofits. Learn about the Center's [public policy agenda](#) or contact [David Heinen](#), Vice President for Public Policy and Advocacy, for more information.

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