

GENERAL ASSEMBLY OF NORTH CAROLINA
SESSION 2025

H.B. 1161
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HOUSE PRINCIPAL CLERK

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HOUSE BILL DRH30547-LRae-208

Short Title: Omnibus Artificial Intelligence Protections. (Public)

Sponsors: Representative Logan.

Referred to:

1 A BILL TO BE ENTITLED
2 AN ACT ENACTING PROTECTIONS CONCERNING DEPLOYMENT OF ARTIFICIAL
3 INTELLIGENCE AND RELATED TECHNOLOGIES IN ELECTIONS, EDUCATION,
4 EMPLOYMENT, THE COURTS, AND THE INSURANCE INDUSTRY IN THIS STATE
5 AND APPROPRIATING FUNDS FOR IMPLEMENTATION.

6 The General Assembly of North Carolina enacts:

7
8 **PART I. ELECTIONS**

9
10 **PROHIBIT USE OF ARTIFICIAL INTELLIGENCE IN POLITICAL**
11 **ADVERTISEMENTS**

12 **SECTION 1.1.** Article 22A of Chapter 163 of the General Statutes is amended by
13 adding a new section to read:

14 **"§ 163-278.18A. Prohibit use of artificial intelligence in political advertisements.**

15 (a) For purposes of this section, the following definitions shall apply:

16 (1) Artificial intelligence. – The capability of computer systems or algorithms to
17 imitate intelligent human behavior. The term includes generative artificial
18 intelligence.

19 (2) Political advertisement. – An advertisement as defined under
20 G.S. 163-278.38Z(1), including communications sent by email, text, or
21 appearing on a website or social media platforms.

22 (b) No candidate, candidate campaign committee, political party organization, political
23 action committee, referendum committee, individual, or other sponsor shall use artificial
24 intelligence in any form of political advertisement, including, but not limited to, images, videos,
25 voices, or writings.

26 (c) A person convicted of violating subsection (b) of this section shall be guilty of a Class
27 1 misdemeanor and pay a fine to the State Board based on the cost to produce and distribute the
28 artificial intelligence-generated political advertisement multiplied by 10. In addition, the
29 following shall apply:

30 (1) If a candidate's campaign committee is convicted for a violation under this
31 section, the campaign committee is prohibited from soliciting donations or
32 making contributions for two years from the date of conviction, regardless of
33 whether an election is occurring.

34 (2) If a political action committee is convicted for a violation under this section,
35 the political action committee shall have its bank account frozen and shall not
36 solicit donations or make contributions. The chair or director of the political



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1 action committee is prohibited from (i) soliciting donations or making
2 contributions for five years from the date of conviction and (ii) establishing,
3 participating in, or working for any other political action committee during
4 that five-year period.

5 (d) Any person not affiliated with a candidate's campaign or political action committee
6 creating an artificial intelligence-generated video, writing, voice, or image of a candidate or a
7 candidate's campaign with the intent to confuse or interfere with a candidate's campaign shall be
8 subject to conviction of fraud or election interference in accordance with Article 22 of this
9 Chapter. This subsection shall not apply to (i) artificial intelligence that clearly depicts or
10 explicitly states that it is artificial intelligence or (ii) parody laws, so long as neither would qualify
11 as any form of harassment, including sexual harassment."

12 SECTION 1.2. This Part is effective when it becomes law and applies to political
13 advertisements using artificial intelligence on or after that date.

14 PART II. EDUCATION

15 ALLOW PUBLIC SCHOOL UNITS TO RESTRICT STUDENT USE OF ARTIFICIAL 16 INTELLIGENCE

17 SECTION 2.1.(a) Part 3A of Article 8 of Chapter 115C of the General Statutes is
18 amended by adding a new section to read:

19 "§ 115C-102.13. Policy for student use of artificial intelligence.

20 (a) For the purposes of this section, "artificial intelligence (AI) tool" means any
21 algorithm, product, software, or system that uses artificial intelligence to perform tasks.

22 (b) A local board of education may adopt a policy for student use of artificial intelligence.
23 If a local board of education adopts a policy pursuant to this section, the policy may include any
24 of the following:

25 (1) Allow schools to block access to AI tools on student electronic devices.

26 (2) Allow schools to block access to AI tools on internet connections available to
27 students.

28 (3) Disciplinary actions for unauthorized use of artificial intelligence, up to
29 retaining the student in the current grade for repeated violations.

30 (c) Any policy adopted pursuant to this section shall include exceptions for student use
31 of artificial intelligence if the use is authorized by a teacher for educational purposes or is
32 required by the student's individualized education program or section 504 (29 U.S.C. § 794) plan.
33 If a student will be using artificial intelligence under an exception in this subsection, the parent
34 of the student and the principal of the school shall be notified prior to the use."

35 SECTION 2.1.(b) G.S. 115C-150.12C is amended by adding a new subdivision to
36 read:

37 "(39) Artificial intelligence. – The board of trustees may adopt a policy for student
38 use of artificial intelligence so long as the policy is consistent with the
39 requirements of G.S. 115C-102.13."

40 SECTION 2.1.(c) G.S. 115C-218.33 is amended by adding a new subsection to read:

41 "(c) A charter school may adopt a policy for student use of artificial intelligence so long
42 as the policy is consistent with the requirements of G.S. 115C-102.13."

43 SECTION 2.1.(d) G.S. 115C-238.66(1) is amended by adding a new
44 sub-subdivision to read:

45 "h. The board of directors may adopt a policy for student use of artificial
46 intelligence so long as the policy is consistent with the requirements
47 of G.S. 115C-102.13."

48 SECTION 2.1.(e) G.S. 116-239.8(b) is amended by adding a new subdivision to
49 read:

1 "(26) Artificial Intelligence. – A laboratory school may adopt a policy for student
2 use of artificial intelligence so long as the policy is consistent with the
3 requirements of G.S. 115C-102.13."

4 **SECTION 2.1.(f)** This section is effective when it becomes law and applies
5 beginning with the 2026-2027 school year.

6
7 **INSTRUCTION ON CRITICAL THINKING, CIVICS, AND TECHNOLOGY**
8 **AWARENESS, INCLUDING ARTIFICIAL INTELLIGENCE**

9 **SECTION 2.2.(a)** Part 1 of Article 8 of Chapter 115C of the General Statutes is
10 amended by adding a new section to read:

11 **"§ 115C-81.46. Middle school course on critical thinking and civics.**

12 The State Board of Education shall include instruction on critical thinking and civics in the
13 standard course of study for middle school students. The State Board shall develop standards for
14 this instruction to be offered in a semester course that may be extended to a yearlong course at
15 the discretion of the local board of education. The course shall include instruction in at least the
16 following areas:

- 17 (1) Components of the civic and citizenship standards adopted by the State Board
18 pursuant to G.S. 115C-81.45 that the State Board deems appropriate for this
19 course.
- 20 (2) Proper methods of research on topics related to civics and government,
21 including methods of identifying reputable sources of information.
- 22 (3) Identification of disinformation and misinformation.
- 23 (4) Basic structures of the United States government and the North Carolina
24 government at both the State and local levels.
- 25 (5) Beginner level introduction into philosophies of governance, including
26 instruction on at least the following writings:
 - 27 a. The Prince by Niccolo Machiavelli.
 - 28 b. The Republic by Plato."

29 **SECTION 2.2.(b)** G.S. 115C-81.90(b) reads as rewritten:

30 "(b) Introductory Course. – Each public school unit shall offer to middle school students
31 ~~an elective~~ a required introductory computer science course that surveys the field of computer
32 science. The State Board of Education, in consultation with the Department of Public Instruction,
33 shall adopt a list of approved courses that fulfill this requirement and make it publicly available
34 on the Department's website. The approved courses shall include instruction in at least the
35 following topics:

- 36 (1) Instruction on typing on a physical keyboard.
- 37 (2) Introduction to basic software design.
- 38 (3) Proper uses of artificial intelligence in an academic and professional setting.
- 39 (4) Instruction on identifying content generated using artificial intelligence.
- 40 (5) Introduction to basic cybersecurity.
- 41 (6) Instruction on the internet as a tool, including the benefits and dangers of its
42 use."

43 **SECTION 2.2.(c)** There is appropriated from the General Fund to the Department
44 of Public Instruction the sum of five hundred thousand dollars (\$500,000) in nonrecurring funds
45 for the 2026-2027 fiscal year to implement the provisions of this section.

46 **SECTION 2.2.(d)** This section is effective when it becomes law and applies
47 beginning with the 2026-2027 school year.

48
49 **REQUIRE UNIVERSITIES AND COMMUNITY COLLEGES TO DEVELOP**
50 **STANDARDS FOR CLASSROOM USE OF ARTIFICIAL INTELLIGENCE**

51 **SECTION 2.3.(a)** G.S. 116-11 is amended by adding a new subdivision to read:

- 1 (1) Automated employment decision tool or AEDT. – Any computational
2 process, or any technology that incorporates such a process, derived in whole
3 or in material part from machine learning, statistical modeling, data analytics,
4 or artificial intelligence, that issues a simplified output, including a score,
5 classification, ranking, or recommendation, that is used to substantially assist
6 or replace the exercise of discretionary judgment by an employer or
7 employment agency in making a covered employment decision. A tool does
8 not qualify as an AEDT solely because it translates or transcribes text,
9 performs arithmetic computation on manually entered data without
10 autonomous parameter adjustment, or conducts background checks governed
11 exclusively by the federal Fair Credit Reporting Act, 15 U.S.C. § 1681, et seq.
- 12 (2) Bias audit. – An impartial evaluation by an independent auditor that at a
13 minimum: (i) calculates the selection rate and scoring rate for each race and
14 ethnicity category, each sex category, and each intersectional race-and-sex
15 category assessed by the AEDT; (ii) calculates the impact ratio for each such
16 category relative to the most-selected or highest-scoring category; (iii)
17 identifies the source and scope of the historical or test data used in the audit;
18 and (iv) states whether the AEDT was found to have a statistically significant
19 adverse impact on any protected category.
- 20 (3) Covered employment decision. – A decision to hire an individual for, or to
21 promote an employee to, a position within this State, including a remote
22 position performed primarily by an individual who resides within this State.
- 23 (4) Deployer. – Any employer or employment agency that uses an AEDT to make
24 or substantially influence a covered employment decision, regardless of
25 whether the AEDT was developed by the deployer or by a third party.
- 26 (5) Employer. – A public or private employer.
- 27 (6) Employment agency. – Any person that regularly undertakes, with or without
28 compensation, to procure employees for an employer or to procure for
29 employees opportunities to work for an employer.
- 30 (7) Independent auditor. – A person that: (i) is not employed by and has no
31 financial interest in the deployer or any vendor of the AEDT being audited,
32 other than compensation for the audit itself; (ii) has demonstrated expertise in
33 the statistical or computational methods necessary to evaluate the AEDT; and
34 (iii) conducts the audit in accordance with the standards established by the
35 State Human Resources Commission for State employment or the
36 Commissioner of Labor as to private employers.
- 37 (8) Private employer. – As defined in G.S. 95-25.2, except that the term does not
38 include public employers.
- 39 (9) Public employer. – Any State agency, department, or institution; any
40 constituent institution of The University of North Carolina; the North Carolina
41 Community College System; and any local governmental employer that
42 receives State appropriations used in whole or in part to compensate
43 employees or that has any local employees subject to provisions of Chapter
44 126 of the General Statutes.
- 45 (10) Substantially assist or replace. – Where the output of an AEDT: (i) serves as
46 the sole basis for a covered employment decision; (ii) serves as a weighted
47 factor that overrides or supersedes other evaluation criteria; or (iii) is a
48 determinative threshold below or above which an individual is screened out
49 of further consideration without independent human review. A tool does not
50 substantially assist or replace discretionary judgment if the output is one of
51 multiple factors reviewed by a human decision maker who retains genuine

1 independent authority and who regularly departs from the tool's
2 recommendation.

3 **"§ 95A-3. Bias audit requirement.**

4 (a) No deployer shall use an AEDT to make a covered employment decision in this State
5 unless all of the following conditions are met:

6 (1) The AEDT has been subjected to a bias audit conducted by an independent
7 auditor within the 12-month period immediately preceding each use of the
8 AEDT.

9 (2) A summary of the results of the most recent bias audit is publicly accessible
10 as required by this Chapter.

11 (3) Advance notice of the AEDT's use has been provided as required by this
12 Chapter.

13 (b) A deployer may commission a bias audit of its own AEDT or may use a bias audit
14 commissioned by the vendor that developed or supplied the AEDT, provided that the auditor
15 meets the independence requirements of this Chapter and the audit was conducted within the
16 applicable 12-month period.

17 (c) Where the AEDT is used for the first time and no historical data from the deployer's
18 own use is available, the bias audit may be conducted using test data or historical data from
19 comparable deployers, provided that the audit summary discloses this limitation.

20 (d) The absence of statistically significant adverse impact findings in a bias audit does
21 not constitute a defense to a claim of employment discrimination under any other provision of
22 State or federal law.

23 **"§ 95A-4. Disclosure requirement.**

24 (a) Within 30 days of completing a bias audit required under G.S. 95A-3, and prior to
25 any use of the AEDT in a covered employment decision, a deployer shall publish on the
26 employment section of its publicly accessible website a summary of the bias audit results that
27 includes all of the following:

28 (1) The date of the bias audit and the name of the independent auditor.

29 (2) The AEDT's name or description and the date the deployer began using it.

30 (3) The source and scope of the data used in the audit, including whether historical
31 or test data was used and any limitations on the data.

32 (4) The selection and scoring rates and impact ratios for each required
33 demographic category.

34 (5) The auditor's findings regarding statistically significant adverse impact, if any.

35 (b) A deployer that does not maintain a public website shall make the required disclosure
36 available upon written request within five business days.

37 (c) Bias audit summaries shall remain publicly accessible for a minimum of three years
38 from the date of publication.

39 **"§ 95A-5. Advance notice requirement.**

40 (a) No later than 10 business days before using an AEDT to make a covered employment
41 decision with respect to a particular applicant or employee, a deployer shall provide written
42 notice to that individual indicating all of the following information:

43 (1) That an AEDT will be used in connection with the covered employment
44 decision.

45 (2) The qualifications, characteristics, or criteria that the AEDT is designed to
46 evaluate.

47 (3) A hyperlink (URL) to the bias audit summary required under G.S. 95-4 or, if
48 no website exists, instructions for requesting the summary.

49 (4) The right to request an alternative selection or evaluation process under
50 subsection (b) of this section.

1 (b) Upon a timely written request from an applicant or employee, a deployer shall provide
2 an alternative selection or evaluation process that does not rely upon the AEDT, unless the
3 deployer can demonstrate that no reasonable alternative process exists. A request is timely if
4 made within five business days of receiving the notice required under subsection (a) of this
5 section.

6 (c) For job applicants, the notice required by subsection (a) of this section may be
7 included in the job posting, provided that it is clear and conspicuous and not buried within general
8 terms and conditions.

9 **"§ 95A-6. Enforcement against private employers.**

10 (a) The Attorney General is authorized to investigate and bring a civil action against any
11 private employer or employment agency that violates this Chapter.

12 (b) Upon finding a violation, a court may impose a civil penalty of:

13 (1) Not less than five hundred dollars (\$500.00) and not more than one thousand
14 five hundred dollars (\$1,500) per violation per day for an initial violation; and

15 (2) Not less than one thousand dollars (\$1,000) and not more than five thousand
16 dollars (\$5,000) per violation per day for each subsequent violation by the
17 same deployer within any rolling three-year period.

18 (c) Any applicant or employee aggrieved by a violation of this Chapter by a private
19 employer may bring a civil action in the General Court of Justice within one year of the date the
20 plaintiff knew or reasonably should have known of the violation. A prevailing plaintiff may
21 recover one or more of the following remedies:

22 (1) Compensatory damages.

23 (2) Injunctive or declaratory relief.

24 (3) Reasonable attorneys' fees and costs.

25 (4) Such other relief as the court deems equitable.

26 (d) It shall be a complete defense that the deployer conducted a timely and conforming
27 bias audit; published a conforming audit summary; provided conforming advance notice; and
28 that the violation was a technical or inadvertent defect subsequently cured within 30 days of
29 notice from the complainant or the Attorney General.

30 (e) The clear proceeds of any civil penalties collected under this section shall be remitted
31 to the Civil Penalty and Forfeiture Fund pursuant to G.S. 115C-457.2.

32 **"§ 95A-7. Administration; enforcement against public employers.**

33 (a) For public employers that are State agencies, the State Human Resources Commission
34 (SHRC) shall, as part of its rulemaking authority under G.S. 126-4, incorporate the requirements
35 of this Chapter into the State Human Resources Act.

36 (b) Public employers that are not State agencies shall incorporate the requirements of this
37 Chapter into each entity's respective policies governing recruitment, selection, and promotion.

38 (c) Bias audit summaries required of public employers shall be posted on the relevant
39 agency's public website.

40 (d) The SHRC shall investigate and adjudicate complaints and referrals alleging violation
41 of this Chapter by a public employer. Any applicant or employee aggrieved by a violation of this
42 Chapter by a public employer may file a written complaint with the SHRC within one year of the
43 date the complainant knew or reasonably should have known of the violation. The SHRC shall
44 do all of the following:

45 (1) Conduct an investigation within 60 days of receipt of a complaint.

46 (2) Issue written findings.

47 (3) Where a violation is found, direct the public employer to remedy the violation
48 within 30 days and, if the violation resulted in an adverse covered employment
49 decision, afford the complainant priority consideration in any subsequent
50 non-AEDT selection process for the same or a comparable position.

1 (e) The OSHR may conduct compliance audits of public employer AEDT use on a
2 periodic basis, not less than biennially, and shall report findings to the General Assembly, the
3 Office of State Budget and Management (OSBM), and the Fiscal Research Division.

4 (f) Nothing in this section creates or is intended to create a waiver of sovereign immunity
5 beyond the administrative remedies provided herein. This section does not create a right of action
6 in the General Court of Justice against a public employer, except that an aggrieved party who has
7 exhausted the Commission's administrative process may seek judicial review of a final
8 Commission order pursuant to G.S. 150B-43.

9 (g) Following a finding by the SHRC that a public employer has violated this Chapter,
10 the Commission shall simultaneously transmit the finding to OSHR for initiation of personnel
11 disciplinary proceedings under Chapter 126 of the General Statutes against the employee
12 responsible for the violation, unless the Commission affirmatively determines that the violation
13 was caused solely by circumstances beyond the responsible employee's reasonable control.
14 Disciplinary proceedings initiated under this subsection shall be conducted in accordance with
15 G.S. 126-34.02 through G.S. 126-34.05. Sanctions commensurate with the severity and
16 willfulness of the violation may include written warning, demotion, suspension without pay, or
17 dismissal.

18 (h) Following a finding by the SHRC that a public employer subject to the State Budget
19 Act, Chapter 143C of the General Statutes, has violated the independent bias audit provisions of
20 this Chapter and has failed to cure the violation within 30 days, the SHRC shall certify the finding
21 and the agency's failure to cure to the OSBM. Upon receipt of the certification, the OSBM shall
22 withhold from the noncompliant agency's personnel services budget allotment an amount equal
23 to two times the reasonable cost of a conforming independent bias audit for the AEDT at issue,
24 as estimated by OSHR. However, the OSBM shall not withhold amounts from any program
25 services, capital, or other budget allotments of the agency. The withholding shall take effect no
26 later than 30 days after certification. The withheld amount shall be held in a reserve account by
27 OSBM and shall be credited back to the agency's personnel services allotment in full upon
28 OSHR's certification to OSBM that the agency has cured the violation. If the violation is not
29 cured within 180 days of the withholding, the withheld amount shall be transferred to the General
30 Fund as a nonrecurring credit.

31 (i) A single withholding action under this section shall not exceed fifty thousand dollars
32 (\$50,000) per violation finding. Where multiple violations are found simultaneously, the OSBM
33 shall sequence withholdings to avoid operational impairment of essential agency services, as
34 determined in OSBM's reasonable discretion in consultation with the agency head.

35 (j) The OSBM shall report each withholding action taken under this section to the
36 General Assembly and Fiscal Research Division within 30 days of taking the action and shall
37 include a summary of all withholding actions in its annual report.

38 **"§ 95A-8. Standards.**

39 The SHRC, in conjunction with the Attorney General and the Department of Administration,
40 shall develop and publish the following concerning employer use of AEDT:

41 (1) Minimum qualification standards for independent auditors.

42 (2) Methodological standards for bias audits, including approved statistical
43 methods and minimum sample size requirements.

44 (3) A standardized format for bias audit summaries.

45 (4) A standardized form for the required advance notice.

46 (5) The annual inventory reporting process for employer deployment of AEDT.

47 **"§ 95A-9. Government contractors; contract employees.**

48 (a) In addition to the provisions of G.S. 95A-2, the following definitions apply in this
49 section:

- 1 (1) Contract employee. – Any individual selected to perform work for a State
2 agency under a covered contract, whether provided by the prime contractor or
3 a subcontractor of a prime contractor.
- 4 (2) Covered contract. – A personal service contract with a total value exceeding
5 twenty-five thousand dollars (\$25,000), including all renewals and
6 amendments.
- 7 (3) Personal service. – Professional or technical expertise provided by a
8 consultant to accomplish a specific study, project, task, or other work
9 statement. The term does not include professional services procured using the
10 competitive selection requirements required by Chapter 143 of the General
11 Statutes.
- 12 (4) Personal service contract. – An agreement, or any amendment thereto, with a
13 consultant for the rendering of personal services.
- 14 (5) Prime contractor. – Any person that enters directly into a covered contract
15 with a State agency.
- 16 (6) Purchased services. – Services provided by a vendor to accomplish routine,
17 continuing, and necessary functions. The term includes, but is not limited to,
18 services for equipment maintenance and repair; operation of a physical plant;
19 security; computer hardware and software maintenance; data entry; key punch
20 services; and computer time-sharing, contract programming, and analysis.
- 21 (b) A prime contractor shall comply with the audit, disclosure, and notice requirements
22 of this Chapter with respect to any AEDT used to select contract employees under a covered
23 contract. Such use constitutes a covered employment decision for the purposes of this Chapter.
- 24 (c) The Department of Administration shall include in the standard terms and conditions
25 for all covered contracts a requirement that the prime contractor do all of the following:
- 26 (1) Certify at contract execution and at each annual renewal whether an automated
27 employment decision tool was used or will be used to select contract
28 employees performing work under the contract.
- 29 (2) Provide the contracting agency the bias audit summary required by
30 G.S. 95A-4 prior to such use.
- 31 (3) Acknowledge that material failure to comply with this section constitutes a
32 breach of contract entitling the State to withhold payment, terminate for cause,
33 or both, at the State's election.
- 34 (d) Any individual who applied for or performed work as a contract employee under a
35 covered contract and who was subjected to a nonconforming automated employment decision
36 tool may file a written complaint with the SHRC within one year of discovering the violation.
37 The SHRC shall investigate, issue written findings within 60 days, and upon finding a violation
38 shall do all of the following:
- 39 (1) Direct the contracting State agency to pursue available contract remedies
40 under subdivision (3) of subsection (c) of this section.
- 41 (2) Notify the Attorney General, who may bring a civil action against the prime
42 contractor under G.S. 95A-6.

43 **§ 95A-10. Exemptions.**

- 44 (a) This Chapter does not apply to any of the following:
- 45 (1) Tools used solely for the purpose of administering or scoring a standardized
46 test, the content of which was designed entirely by human experts without
47 autonomous algorithmic parameter adjustment.
- 48 (2) Tools used solely by employers with fewer than 15 employees.
- 49 (3) Tools used solely for recruiting outreach or advertising, where no individual
50 applicant's qualifications are evaluated.

- 1 (4) Background checks governed exclusively by the federal Fair Credit Reporting
- 2 Act.
- 3 (5) Tools used by an employer subject to an express federal regulatory
- 4 requirement governing the hiring process that is inconsistent with the
- 5 requirements of this Chapter, to the extent of the inconsistency.

6 (b) This Chapter does not apply to the judicial or legislative branches of government
7 except that the Chief Justice of the Supreme Court and the Legislative Services Officer may
8 establish substantially equivalent provisions and requirements concerning the deployment of
9 AEDT.

10 **"§ 95A-11. Miscellaneous.**

11 (a) This Chapter supplements and does not supplant any obligation under: Title VII of
12 the Civil Rights Act of 1964; the Age Discrimination in Employment Act; the Americans with
13 Disabilities Act; the North Carolina Equal Employment Practices Act, G.S. 143-422.1, et seq.;
14 or any other State or federal antidiscrimination law.

15 (b) This Chapter does not preempt any local ordinance, rule, or policy of a county,
16 municipality, or other local political subdivision of the State that imposes obligations on
17 automated employment decision tools equal to or greater than those imposed by this Chapter.

18 (c) If any provision of this Chapter or its application to any person or circumstance is
19 held invalid, the invalidity does not affect other provisions or applications that can be given effect
20 without the invalid provision or application and, to this end, the provisions of this Chapter are
21 severable."

22 **SECTION 3.1.(b)** Effective July 1, 2026, there is appropriated from the General
23 Fund to:

- 24 (1) The State Human Resources Commission, Office of State Human Resources,
- 25 the sum of two hundred fifty thousand dollars (\$250,000) for the 2026-2027
- 26 fiscal year for the purpose of implementing the rulemaking, compliance
- 27 auditing, and oversight functions required by this act.
- 28 (2) The Department of Justice the sum of two hundred fifty thousand dollars
- 29 (\$250,000) for the 2026-2027 fiscal year for implementing the provisions of
- 30 this act.
- 31 (3) The Department of Administration the sum of one hundred thousand dollars
- 32 (\$100,000) for the 2026-2027 fiscal year for implementing the provisions of
- 33 this act.

34
35 **PART IV. INSURANCE**

36
37 **LIMIT USE OF ARTIFICIAL INTELLIGENCE DURING INSURANCE CLAIM**
38 **PROCESSING**

39 **SECTION 4.1.(a)** G.S. 58-63-15 reads as rewritten:

40 **"§ 58-63-15. Unfair methods of competition and unfair or deceptive acts or practices**
41 **defined.**

42 The following are hereby defined as unfair methods of competition and unfair and deceptive
43 acts or practices in the business of insurance:

- 44 ...
- 45 (11) Unfair Claim Settlement Practices. – Committing or performing with such
- 46 frequency as to indicate a general business practice of any of the following:
- 47 Provided, however, that no violation of this subsection shall of itself create
- 48 any cause of action in favor of any person other than the Commissioner:
- 49 ...
- 50 m. Failing to promptly settle claims where liability has become
- 51 reasonably clear, under one portion of the insurance policy coverage

1 in order to influence settlements under other portions of the insurance
2 policy coverage;~~and~~

- 3 n. Failing to promptly provide a reasonable explanation of the basis in
4 the insurance policy in relation to the facts or applicable law for denial
5 of a claim or for the offer of a compromise ~~settlement~~.~~settlement~~; and
6 o. Using artificial intelligence as the primary method of processing a
7 claim. For purposes of this sub-subdivision, "artificial intelligence"
8 means any machine-based system that, for a given set of objectives,
9 generates predictions, recommendations, or decisions influencing
10 outcomes without direct human control.

11"

12 **SECTION 4.1.(b)** This Part becomes effective October 1, 2026, and applies to
13 policies issued or renewed on or after that date.

14 **PART V. COURTS**

15 **SECTION 5.1.(a)** Chapter 7A of the General Statutes is amended by adding a new
16 Article to read:

17 "Article 64.

18 "Use of Artificial Intelligence.

19 **§ 7A-810. Definitions.**

20 The following definitions apply in this Article:

- 21 (1) Artificial intelligence. – A machine-based system that can, for a given set of
22 human-defined objectives, make predictions, recommendations, or decisions
23 influencing real or virtual environments.
- 24 (2) Deepfake. – A type of media that uses a generative artificial intelligence
25 system to create or alter images, audio, or video in highly realistic ways,
26 including to falsely depict people making statements or completing actions.
27 This definition includes a person using the person's own likeness, image, or
28 voice in such media.
- 29 (3) Generative artificial intelligence. – Artificial intelligence technology that is
30 capable of creating content such as text, audio, image, or video based on
31 patterns learned from large volumes of data rather than being explicitly
32 programmed with rules. This definition does not include any form of artificial
33 intelligence used only for spell-check, grammar, or editing purposes.
- 34 (4) Hallucination. – Output from a generative artificial intelligence system that
35 appears plausible but is inaccurate, fabricated, or unsupported by the
36 underlying data or sources, including all of the following:
- 37 a. Invented statutes, regulations, cases, citations, quotes, or facts.
38 b. Misstatements of existing statutes, regulations, or case holdings.
39 c. Prerecorded videos or statements or live playback portraying a
40 nonexistent person or factual scenario.

41 **§ 7A-811. Judicial power to dismiss.**

42 If any party to a case in a trial court uses any form of generative artificial intelligence in a
43 court filing or appearance, regardless of whether a deepfake or hallucination is present, the trial
44 judge may dismiss the case without prejudice.

45 **§ 7A-812. Right to bring a new action or appeal; judicial discretion.**

46 The party against whom a case has been dismissed pursuant to G.S. 7A-811 may take either
47 of the following actions:

- 48 (1) Bring a new action based on the same claim in the same trial court, after the
49 party removes any and all forms of generative artificial intelligence from the
50 court filings and subject to the approval of the trial judge.

1 (2) Appeal the dismissal to the Court of Appeals if the party believes the dismissal
2 was in error. The Court of Appeals may reverse the trial judge's decision if it
3 finds the party in fact did not use any form of generative artificial intelligence.

4 **"§ 7A-813. Second use of generative artificial intelligence.**

5 (a) A party permitted to bring a new action or continue an initial case pursuant to
6 G.S. 7A-812 shall not use any form of generative artificial intelligence, including previously used
7 and newly created content.

8 (b) Upon the discovery of a violation of subsection (a) of this section, the trial judge may
9 dismiss the case with prejudice and take any of the following disciplinary actions:

10 (1) Impose monetary sanctions, including payment of a fine to the court and
11 reasonable attorneys' fees.

12 (2) Refer the party to the North Carolina State Bar for disciplinary proceedings,
13 if the party is an attorney.

14 (3) Hold the party in contempt of court."

15 **SECTION 5.1.(b)** This Part becomes effective July 1, 2026, and applies to all court
16 documents filed and proceedings initiated on or after that date.

17
18 **PART VI. APPROPRIATION**

19 **SECTION 6.1.** Effective July 1, 2026, there is appropriated from the General Fund
20 to the Office of State Budget and Management the sum of one million dollars (\$1,000,000) in the
21 2026-2027 fiscal year to be allocated for implementation of this act upon application made by
22 the affected State agency, department, or institution. These funds are not subject to reversion
23 under the State Budget Act.

24
25 **PART VII. EFFECTIVE DATE**

26 **SECTION 7.1.** Except as otherwise provided, this act is effective when it becomes
27 law.