

DEMOCRACY2025

Proposed Rule on Federal Financial Assistance: Potential Implications for State and Local Governments & How To Push Back

July 2026

I. BACKGROUND: States, Counties, Cities, Municipalities, and Other Local Government Agencies Receiving Federal Funds Will Likely Be Adversely Impacted by the Proposed Regulation on Federal Financial Assistance.

On May 29, 2026, the Office of Management and Budget (OMB) and 41 other agencies jointly proposed [a rule](#) (“Notice of Proposed Rulemaking” or “NPRM”) that would rewrite the foundational requirements for federal **grantmaking. This would significantly impact federal funding recipients – including states, counties, cities, municipalities, and other localities.**

The proposed rule would likely significantly restrict state and local governmental agencies’ authority and operate federally-funded programs that support their communities while significantly increasing administrative burden. The proposed rule would apply to essentially all federally funded programs intended to benefit and support local communities, including housing, education, the environment, energy, science, health, public safety, and economic development.

State, county, city, municipal, and other local government agencies may wish to consider [submitting a comment](#) addressing the programmatic, administrative, and community harm that they expect would result if the proposed rule is finalized. Comments must be submitted by 11:59 p.m. EDT on Monday, July 13, 2026. OMB intends to finalize this rule by October 1, 2026, to ensure the new rules apply to federal awards made in fiscal year 2027.

II. IMPACT: The Likely Negative Impact on Local Government Agencies Receiving Federal Funds

The proposed rule would likely impose new substantive restrictions on state and local federally funded programs, and greatly increase state and local agencies’ administrative burden.

A. Some of the significant proposed substantive restrictions include:

- Establishing that all discretionary grants are subject to approval by a political appointee. ([91 Fed. Reg. 32198 \(proposed May 29, 2026\) \(to be codified at 2 C.F.R. § 200.205\(d\)\)](#));

- Imposing new policy requirements as to how state and local grant recipients may use discretionary federal awards, including restrictions related to “diversity, equity, and inclusion,” “gender ideology,” gender transition procedures, and “abortion services,” ([91 Fed. Reg. 32198 \(proposed May 29, 2026\) \(to be codified at 2 C.F.R. § 200.300\)](#));
- Expanding required “risk assessment” factors to include consideration of an applicant’s “history of questionable practices” and “memberships and affiliations.” ([91 Fed. Reg. 32198 \(proposed May 29, 2026\) \(to be codified at 2 C.F.R. § 200.206\(b\)\(2\)\(vii\) & \(viii\)\)](#));
- Creating substantial discretionary authority in federal agencies to terminate grants or subawards, except when prohibited by statute, if the award is no longer in the “national” interest *at the time the award is terminated*. ([91 Fed. Reg. 32198 \(proposed May 29, 2026\) \(to be codified at 2 C.F.R. § 200.340\)](#));
- Requiring grantees who make subgrants (known as “pass-through entities”), which are often state and local government agencies, to ensure their subrecipients do not take actions that could damage the reputation of the pass-through entity, the federal agency making the award, or the federal government as a whole, and authorizing the agency to terminate the prime award and/or order the termination of the subaward. ([91 Fed. Reg. 32198 \(proposed May 29, 2026\) \(to be codified at 2 C.F.R. § 200.332\)](#));
- Eliminating fixed amount awards and subawards. ([91 Fed. Reg. 32198 \(proposed May 29, 2026\) \(to be codified at 2 C.F.R. § 200.201 & 333\)](#));
- Clarifying that public entities (including as subrecipients) may not discriminate on the basis of the viewpoint, content or subject matter of speech — including on the basis of political, ideological or religious affiliation or perspective — in providing services for events, meetings or other expressive activities, regardless of whether those activities are federally funded. ([91 Fed. Reg. 32198 \(proposed May 29, 2026\) \(to be codified at 2 C.F.R. § 200.219\)](#)); and
- Imposing new restrictions on spending associated with voter registration, memberships, conferences, advertising, and public relations. ([91 Fed. Reg. 32198 \(proposed May 29, 2026\) \(to be codified at 2 C.F.R. §§ 200.421, 432, 450 & 454\)](#)).

B. Some of the proposed administrative restrictions include:

- Requiring enrollment in the Treasury Department’s Do Not Pay System and the Department of Homeland Security’s E-verify system. ([91 Fed. Reg. 32198 \(proposed May 29, 2026\) \(to be codified at 2 C.F.R. § 200.305 & 203.303\(f\)\)](#)).
- Requiring subgrantee reporting in [sam.gov](#). ([91 Fed. Reg. 32198 \(proposed May 29, 2026\) \(to be codified at 2 C.F.R. §200.324\)](#));
- Eliminating fixed amount subawards. ([91 Fed. Reg. 32198 \(proposed May 29, 2026\) \(to be codified at 2 C.F.R. §200.201 & 333\)](#));
- Requiring that all recipients and subrecipients (except for states) provide a written justification for each payment request regardless if requesting

reimbursement or an advance. ([91 Fed. Reg. 32198 \(proposed May 29, 2026\) \(to be codified at 2 C.F.R. §200.201 & 305\(c\)\)](#));

- Allowing for the addition and removal of grant conditions when an award is made and *throughout the duration of the award*. ([91 Fed. Reg. 32198 \(proposed May 29, 2026\) \(to be codified at 2 C.F.R. §200.208\)](#)).
- Requiring that pass-through entities make subrecipient and contractor determinations for all downstream entities, including affiliates. ([91 Fed. Reg. 32198 \(proposed May 29, 2026\) \(to be codified at 2 C.F.R. §200.332\(h\)\)](#)).

III. PUSHING BACK: State, county, city, municipal, and other local government agencies can push back against this through the regulatory comment process

State and local governments and agencies that would be affected by this rule may [submit a written comment](#) to the federal government opposing this proposed rule. Submitting a written comment is a nonpartisan activity and is not lobbying. **The deadline is 11:59 p.m. EST on Monday, July 13, 2026.**

State and local governments and agencies should consult with their counsel to determine if they are authorized to submit a comment to the proposed rule (rather than through their state Attorney General’s office, for example). If authorized, state and local agencies can submit comments that demonstrate the harm that would result for those agencies and the communities they serve if the proposed rule were to be adopted. These comments are an essential component of the federal rulemaking process: the federal agencies promulgating this rule are required to review, consider, and respond to comments in issuing a final rule.

IV. RESOURCES

The following resources might be valuable to you as you consider drafting a comment:

1. **Comment Templates** (Lawyers for Good Government) – To receive access to comment templates for state and local governments to use when drafting comments, please register with [this link](#) (note that the webinar has passed, but this link is being used to manage access requests for these materials)
2. **Messaging Toolkit:** [OMB Grant-Making Proposed Rule on “Uniform Guidance”](#) (Democracy 2025)
3. **Explainers and analysis designed specifically for public entities entities:**
 - [New OMB Rules for Grantees Could Override Local Authority](#) (Dante Moreno, Michael Wallace, National League of Cities – June 17, 2026)

- [45-Day Extension Request for Response to Federal Register Notice, OMB-2026-0034, Regulation of Federal Financial Assistance](#) (National Conference of State Legislatures – June 18, 2026)
- [OMB Proposed Rule: 2 CFR Part 200 County Resource Hub](#) (National Association of Counties)
 - [OMB Proposes Major Overhaul of Federal Grant Rules](#) (Jeffrey Horsby, National Association of Counties – May 29, 2026)
 - [OMB proposes major change to federal grant administration](#) (Charlie Ban, National Association of Counties – June 11, 2026)
- [OMB Proposes Dramatic New Rules to Govern Federal Assistance](#) (The United States Conference of Mayors – June 13, 2026)
- [Understanding the Proposed Rewrite of 2CFR: What the OMB Uniform Guidance Proposed Rule Means for Local Governments](#) (ICMA – July 1, 2026)
- [Sweeping Changes to Uniform Guidance Proposed by OMB](#) (Government Finance Officers Association – July 1, 2026)
- [OMB Proposed Rule Would Revise Federal Award Regulations](#), (National Association of Development Organizations – June 17, 2026)

Please feel free to reach out to democracy2025@democracyforward.org if we can be of further assistance, and [see all of our resources on federal funding](#).