



**TO:** National Special Districts Association Members

**DATE:** June 3, 2026

## OMB Proposed Rule: Regulation for Federal Financial Assistance (91 FR 32198)

Presented as part of the NSDA Grants program, this memo highlights a proposed federal rule that could affect how special districts pursue, manage, and administer federal grant funding. On May 29, 2026, the Office of Management and Budget (OMB) published a [proposed rule \(91 FR 32198\)](#) that would significantly revise the government-wide regulations governing federal grants and cooperative agreements ([2 CFR Part 200](#)). These regulations apply to virtually all federal financial assistance programs, including transportation, water, housing, energy, and public safety grants that special districts access. The rule is not yet final and remains under review as part of the federal rulemaking process. OMB is accepting public comments through July 13, 2026, and is targeting an effective date of October 1, 2026. Special districts may want to consider whether these proposed changes could affect their grant administration, compliance obligations, or funding strategies and, if so, whether to provide comments during the rulemaking period.

This memo summarizes the proposed changes most relevant to special districts in plain language. It is not a comprehensive analysis, as the proposed rule includes many additional changes beyond those covered here. Special districts are encouraged to review the proposed rule in full and assess any operational, compliance, or administrative implications before deciding to submit comments.

### Key Proposed Changes that May Impact Special Districts

#### Administrative Policy Alignment Requirement (§ 200.202) & Restrictions on Advocacy (§ 200.450)

The proposed rule would require that all federally funded programs and activities align with "administration policies and priorities." Programs must avoid even the appearance of supporting political advocacy, lobbying, or attempts to influence legislation, elections, or government officials. A new pre-award review by a senior political appointee would be required before any discretionary grant is issued. Grant funds may not pay for voter registration drives, issue advocacy or public messaging unrelated to the grant's statutory objectives, or efforts to influence state executive agencies outside the award's scope. Membership dues in organizations whose primary purpose is lobbying or issue advocacy, and subscriptions to professional, trade, or academic periodicals, would also be unallowable. Any dues that remain allowable would require prior written agency approval.

**WHAT THIS MEANS:** Special districts pursuing discretionary funding may want to plan for a less predictable award environment, including the possibility of increased political review during the pre-award process. Districts should also be aware that activities, programs, or organizational affiliations, including those of employees and subrecipients, that could be characterized as policy advocacy may draw additional scrutiny.

### Expanded Grant Cancellation Authority (§ 200.340)

The proposed rule explicitly codifies the authority of federal agencies to terminate active discretionary grants "when the award no longer advances Federal agency priorities or the national interest." This type of termination would carry limited appeal rights for recipients. A companion provision would also allow agencies to temporarily suspend grants (halt work and spending) while conducting a review.

- Cancellation notices must include a written reason, a stop-work order, and instructions to terminate all subgrants and contracts.
- Costs incurred after termination are generally not reimbursable unless expressly authorized by the agency.
- Formula-based grants, block grants, and disaster recovery grants with statutory entitlements are exempt from this provision.

**WHAT THIS MEANS:** Grant programs and awards could be terminated if they conflict with a new administration's policies and priorities. This includes Executive Orders in conflict with a grant program's goals. Recipients with active discretionary grants may want to ensure that program activities, milestones, and costs are consistently documented throughout the life of the award. If a grant is terminated for policy reasons, cost recovery may depend on clear documentation of work completed before termination.

### Reputation Harm Standard (§ 200.322)

The proposed rule would require pass-through entities to ensure their subrecipients do not take actions that "could significantly damage the reputation of the pass-through entity, the Federal agency making the award, or the Federal Government." If a subrecipient's public statements are deemed "reputationally harmful", the federal agency may direct the pass-through to terminate the subaward, or terminate the prime award to the pass-through entity entirely.

**WHAT THIS MEANS:** Pass-through entities may want to review how subrecipient conduct, communications, and public-facing activities are addressed in their monitoring and oversight practices. Public statements, advocacy, or conduct outside the grant scope could create risk under this provision.

### Revised Standards for Specific Conditions and New 15-Day Adjustment Rule (§ 200.208)

The proposed rule allows agencies to add or remove specific conditions throughout the period of performance based on enumerated risk factors that may be at the individual or program level, as well as pre-award risk factors that carry into post-award condition authority. Any such adjustments based on the risk factors must occur within 15 calendar days after the agency's determination. Examples of specific conditions expanded include financial integrity-related site visits and requirements for information on payments to contractors and vendors.

**WHAT THIS MEANS:** Because conditions could be added or removed quickly based on agency risk assessments, recipients may want to review internal processes for monitoring award correspondence. Districts should be aware that there is no requirement for proof of delivery.

### Loss of Fixed-Fee Awards (§ 200.201(b), § 200.333)

Unless a specific federal statute authorizes them, the proposed rule would entirely eliminate "fixed amount awards" where a recipient receives a set dollar amount regardless of actual costs, rather than getting reimbursed for project costs expended. Fixed-fee subawards (where a prime recipient passes funds to a subrecipient on a fixed-fee basis) would also be prohibited.

**WHAT THIS MEANS:** Districts that currently rely on fixed-fee structures may want to begin evaluating the financial and administrative implications of a potential shift to cost-reimbursement awards, including cash flow needs and expenditure tracking requirements.

## Cost-Reimbursement Contracts with Vendors Now Discouraged (§ 200.320)

The proposed rule discourages cost-reimbursement contracts between recipients and their vendors or contractors. Under this change, any local government, special district, or utility that uses a cost-reimbursement arrangement with an engineering firm, consultant, or other service provider under a federal grant would be required to notify the federal agency in writing and maintain a written justification on file. Federal agencies could also add a prior-approval requirement in grant terms.

**WHAT THIS MEANS:** Special districts that use cost-reimbursement arrangements with engineering firms, consultants, or other service providers may want to review those contracts now to determine whether additional documentation or prior agency approval could be required. Districts may also want to consider whether procurement and contracting practices would need to be adjusted if fixed-fee structures are expected at the outset of the grant term.

## Domestic Cloud Storage for Grant Records Encouraged (§ 200.336)

The proposed rule adds language to the federal grants regulations strongly encouraging recipients and subrecipients to use domestic storage capabilities for all electronic award records. The stated rationale is data security, reducing exposure to foreign data vulnerabilities, and ensuring federal award records remain accessible within U.S. jurisdiction. While the current proposal frames this as encouragement rather than a requirement, OMB has signaled it may convert this to a binding mandate in a future rulemaking.

**WHAT THIS MEANS:** Districts that maintain grant records in cloud-based systems may want to confirm where that data is physically hosted and whether current data storage practices align with emerging federal expectations. Platforms with foreign data centers or international data residency defaults may warrant closer review.

## Restrictions on Foreign Entity Partnerships (FEOC Changes) (§ 200.220)

The proposed rule would prohibit the use of any federal grant funds (including indirect costs) to support collaborations with "covered foreign countries" (including foreign adversaries and countries under national security sanctions) or "covered foreign entities."

**WHAT THIS MEANS:** Grantees with international partnerships, cross-border activities, or procurement arrangements involving foreign entities may want to review those relationships carefully to assess whether any could be affected by the proposed restrictions. Districts should also be aware that the restriction would extend to indirect costs.

## Public Comment Will be Accepted until July 13, 2026

OMB is accepting public comments through July 13, 2026, and input from special districts may help shape the final rule. OMB has specifically requested feedback on the real-world effects these changes could have on programs and operations, including the administrative costs and burdens they may create, such as staff time, consultant fees, and reporting system demands. Commenters may also wish to identify any provisions they believe exceed statutory authority. We strongly encourage districts submitting comments to include relevant data, metrics, and examples that illustrate how the proposed rule could affect operations, compliance, staffing, or administrative burden.

**TO COMMENT:** Go to [www.regulations.gov](http://www.regulations.gov) and search for docket number **OMB-2026-0034**. Begin each comment with the relevant section number in brackets (e.g., [200.340] for the termination provision), a format OMB requires. Remember all comments are public record, so do not include confidential information.

*TFG will continue to monitor this rulemaking process closely and provide updates as additional guidance becomes available. If you have questions about how the proposed changes may affect your district, please contact the NSDA Grants team at [NSDAGrants@tfgnet.com](mailto:NSDAGrants@tfgnet.com).*