

Publications

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Proposed Rule to Centralize the Federal Grant Process and Give Political Appointees More Power Over Awards

Key Takeaways

- The Office of Management and Budget (OMB) is proposing to replace agency-by-agency interpretation of the Uniform Guidance with a more centralized, binding federal grants regulation. The rule would create a single government-wide framework for federal awards made in fiscal year 2027.
- The proposed rule could materially affect nonprofit and tax-exempt organizations that receive, administer or subaward federal funds.
- Comments are due no later than July 13 through the Federal Register site. Nonprofit recipients and pass-through entities should review funding portfolios, subrecipient and contractor classifications, cost allocation practices, federally funded communications and related-entity arrangements to identify potential exposure under the proposed rule.

On May 29, the Office of Management and Budget (OMB) published a proposed rule in the *Federal Register* that would substantially revise 2 CFR 200, commonly referred to as the “Uniform Guidance” – a government-wide framework governing the management of federal grants, cooperative agreements and other forms of federal financial assistance. By clarifying the Uniform Guidance’s status as binding OMB regulations, the proposed rule would reduce agency-by-agency variation in the interpretation and implementation of federal grant requirements. Rather than allowing agencies flexibility to tailor requirements to their specific missions or programs, a single uniform regulatory framework would apply across all federal agencies and funding streams.

OMB proposes that any final rule become effective by **Oct. 1**, so that a single set of government-wide requirements would apply to federal awards made during fiscal year 2027.

Key Proposed Changes to Federal Grant Requirements

OMB’s proposed rule, Regulation for Federal Financial Assistance (91 Fed. Reg. 32198), would convert the Uniform Guidance into a more formal government-wide “Uniform Grants Regulation,” imposing several new or revised requirements affecting federal grants,

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cooperative agreements, pass-through funding, subrecipient monitoring, cost allowability and award termination rights.

Some of the rule's provisions include:

- **Expanded pre-award review and policy alignment.** Federal agencies would conduct heightened review of discretionary awards, including examining whether awards align with agency priorities, program goals, the national interest and, where applicable, presidential policy priorities. This could lengthen the award process and increase the role of administration policies and priorities in award decisions.
- **Broader termination and suspension authority.** Agencies and pass-through entities would have clearer “discretionary” authority to suspend or terminate certain awards where they no longer advance program goals, agency priorities or the national interest, which could impact cash-flow for specific projects or for the organization more broadly.
- **Additional restrictions on federally funded activities.** The proposal includes restrictions relating to certain DEI/DEIA activities, disparate-impact work, gender-identity-related activities, voter registration, issue advocacy, public messaging and certain activities involving state executive branch influence.
- **Increased scrutiny of subawards and related-entity transfers.** Transfers to affiliates, subsidiaries, chapters, fiscally sponsored projects or other related entities that are separate legal persons could need to be classified as subawards or contracts, rather than treated as internal allocations. This would cause fiscal sponsors, national nonprofit networks, federated organizations and chapter-based structures to reevaluate internal funding arrangements.
- **Expanded pass-through entity obligations.** Nonprofits serving as intermediaries, coalition leads, fiscal sponsors or grantmaking pass-through entities may face increased SAM.gov reporting, audit verification, monitoring, site visit and enforcement obligations as part of an overall increased scrutiny of subrecipients. This would require pass-through entities to monitor whether subrecipients engage in activities that could significantly damage the reputation of the pass-through entity, federal agency or federal government.
- **Elimination of fixed amount awards and subawards.** The proposal would generally eliminate the use of fixed amount awards and fixed amount subawards for most agencies unless separately authorized by federal statute, potentially increasing cost documentation and administrative burdens. Nonprofit recipients have often relied on these award structures to reduce administrative burden and simplify compliance. Requiring cost-based reimbursement structures could increase documentation, accounting and audit requirements, particularly for smaller organizations with limited grants-management infrastructure.
- **Tightened cost allowability rules.** The proposal would narrow, condition or restrict allowability for several common nonprofit cost categories, including advertising, public relations, conference attendance, fundraising, investment management, memberships, subscriptions, publications, selling and marketing, lobbying or political activities and certain health-related costs. These changes could have significant effects on nonprofits whose federally funded activities rely on conferences, publications, public outreach, education campaigns, coalition-building or stakeholder engagement, particularly because several of these categories would require advance approval or become presumptively unallowable.
- **Faith-based organization provisions.** The proposal includes express language regarding nondiscrimination against faith-based organizations in federal financial assistance programs.
- **Foreign collaboration and procurement restrictions.** The proposal includes new or revised restrictions affecting certain foreign collaborations and prohibiting the use or procurement of covered telecommunications and video surveillance equipment or

services, as well as certain unmanned aircraft systems procured or operated with federal program funds.

Practical Next Steps for Federal Grant Recipients

Nonprofit recipients and pass-through entities should consider reviewing their federal funding portfolios, subrecipient and contractor classifications, cost allocation practices, federally funded communications and advocacy activities, and related-entity funding arrangements to assess potential exposure under the proposed rule. Organizations that rely heavily on federal funds may also wish to evaluate whether to submit comments before the July 13 deadline.

Federal Grants Face Uncertainty as Congress Advances Future Funding Decisions

The proposed rule arrives amid broader disruption and uncertainty in the federal grants ecosystem. Across several programs, recipients have faced delays, pauses or uncertainty in the obligation or disbursement of federal funds, complicating planning for organizations that rely on consistent federal support. For instance, reports of delays affecting National Institutes of Health (NIH) grants have contributed to uncertainty for research institutions and other recipients dependent on federal funding. These dynamics have made long-term planning more difficult for programs reliant on consistent federal support. Some grant recipients sought relief in the courts, with varying levels of success.

Even with these funding delays, Congress is already advancing FY 2027 appropriations. House committees are actively marking up spending bills, with leadership aiming for floor consideration before the August recess. This creates a layered funding environment in which future allocations are being determined while current and prior-year funds remain unreleased.

This disconnect raises an important question: how can policymakers and agencies be asked to accurately evaluate program performance and make forward-looking funding decisions when appropriated dollars have yet to be fully deployed? Congress routinely evaluates programs based on outcomes, utilization rates and measurable results. Yet those metrics become increasingly difficult to assess when funding delays prevent agencies and grantees from carrying out grant activities. Without timely obligation and distribution of funds, policymakers risk evaluating programs based on incomplete implementation rather than actual performance.

What the Proposed Rule Signals About Federal Grants Policy

The proposed rule also points to broader administrative and policy shifts that could reshape federal grantmaking beyond the specific compliance changes outlined above.

First, the administration has sought, through directives, regulations and legislation, to consolidate and centralize federal spending policy across the executive branch. For example, in April 2025, the administration issued Executive Order 14275, "Restoring Common Sense to Federal Procurement," directing a government-wide Federal Acquisition Regulation (FAR) overhaul for federal procurements and requiring agencies to align their individual supplemental procurement regulations with the revised FAR. OMB's proposed regulation may be a continuation of that process for federal grants programs.

Second, the proposed rule is silent on congressionally directed spending to specific recipients or projects, also known as earmarks. Such spending would appear to be outside the scope of the proposed rule; however, the administration will likely need to determine a limiting principle that distinguishes congressionally earmarked funds from

non-earmarked funds.

Third, the President's recently signed Executive Order 14317, "Implementing Schedule Policy/Career in the Excepted Service"— which addresses federal personnel rules for certain policy-influencing positions — reflects a broader administrative focus on increasing executive oversight of policy implementation across the federal government. Viewed together, the proposed grants rule and related executive actions suggest continued efforts to centralize control over federal policy execution, including both personnel decisions and federal financial assistance.

Finally, the concept of centralizing the federal grant awarding process is likely to survive a change in administrations and parties in the White House. Future administrations may wish to maintain a standardized, government-wide process for administering grant awards versus perpetuating a patchwork of agency-specific requirements and guidance.

Polsinelli's Federal Policy team and Nonprofit Organizations group are resources to help your organization navigate how these shifting dynamics impact federal grant funding compliance obligations and tax-exempt organizations more broadly. Should you have questions regarding the information discussed, please reach out to one of the authors or your preferred Polsinelli attorney. Summer intern Kevin Kuramoto contributed to this alert.