NCGFOA

North Carolina Government Finance Officers Association

July 13, 2026

Andrew Reisig and Joel Savary
Office of Federal Financial Management
Office of Management and Budget
725 17th Street, NW
Washington, DC 20503

RE: OMB-2026-0034 Regulation for Federal Financial Assistance

Dear Mr. Reisig and Mr. Savary:

On behalf of North Carolina Government Finance Officers Association, thank you for the opportunity to provide comments to OMB-2026-0034. We represent almost 1,000 government finance professionals in North Carolina that serve over 600 local municipalities, counties and other governing units such as utilities, health and housing authorities. We serve our members through education and connections to support their successful grant administration with strong internal controls, documented policies and procedures, audits and reporting.

Our membership appreciates the Office of Management and Budget's (OMB's) goal to improve Federal grantmaking transparency, accountability, and oversight, however our members have significant concerns regarding a number of proposed changes as well as the reclassification of title 2 of the Code of Federal Regulations from Uniform Guidance to Uniform Grants Regulation.

The proposed changes, as discussed in greater detail below, would impose significant additional administrative burdens on local government entities while introducing greater uncertainty throughout both the grant award and implementation processes. Collectively, these changes would diminish North Carolina local governments' ability to efficiently administer congressionally authorized grant programs and, ultimately, reduce their capacity to deliver critical services to the residents, businesses, nonprofit organizations, and visitors these programs are intended to benefit.

At the same time, local government budgets are already operating under significant fiscal constraints and cannot absorb additional administrative expenses or assume costs that Congress intended to be supported through federal funding. Accordingly, we respectfully **request** that the final rule reflect the operational realities facing local governments and preserve their ability to effectively administer and implement federally funded programs in accordance with congressional intent.

[200.205] Our members are concerned that the creation of a new pre-issuance review will insert an unnecessary additional step in the review process, delaying the issuance of discretionary grant awards to qualified recipients and subjecting award decisions to non-merit factors. By adding the pre-issuance review, senior political appointees or their designees can unilaterally reject qualified projects that otherwise meet all other merit-based requirements, upending the existing objective selection process.

Our members have also expressed concerns that pre-issuance review principle (2)(iv) does not adequately define "initiatives that compromise public safety or promote anti-American values," giving senior political appointees and their designees wide discretion on how this criterion will be applied in pre-issuance reviews. Additionally, the proposed preference for institutions with lower indirect cost rates will systematically disadvantage local government entities, as indirect cost rates from municipalities often reflect the legitimate overhead cost of complex operations serving large populations. Together, these provisions will delay awards and disincentivize local government entities from allocating staff time and resources to pursue Federal discretionary grant awards, yet these entities offer the best opportunity to efficiently execute the policy for which the grants were designed. Our members **request** that these provisions for pre-issuance review be removed from the revisions.

[200.218] Our members are concerned that the elimination of disparate-impact liability and its use in Federal grant awards under this proposed section will contradict existing Federal statute as well as program regulations and undermine local work to ensure continued compliance. The legal framework for disparate-impact liability is embedded within Title VII of the Civil Rights Act, the Equal Credit Opportunity Act (ECOA), the Fair Housing Act (FHA), and the Americans with Disabilities Act (ADA), requiring grant recipients to regularly evaluate whether existing policies result in differential outcomes among protected classes.

The proposed section as written does not provide additional guidance on how this text will interact with existing statutory obligations listed above, resulting in opposing provisions that both require and restrict evaluations using age and race data despite the need for this work (e.g. Clean Air Act implementation). For this reason, our members **request** that any final rule explicitly clarifies that equitable program administration obligations under Title VII, ECOA, FHA, and ADA, including internal program monitoring and outcome data analysis, not be constituted as "promoting or supporting theories of disparate-impact liability."

[200.219] Our members are concerned that the proposed rule would impose new viewpoint-neutrality requirements for event services on property under a public entity's control, regardless of whether any federal funds support the event itself. Local governments would also bear responsibility for ensuring subrecipient compliance with these requirements. Our members have serious concerns about both the scope and workability of this provision.

North Carolina local governments manage convention centers, fairgrounds, parks and public meeting spaces that host, in total, thousands of events annually. Applying federal grant conditions to all activities on local government-owned property – irrespective of federal funding – would require governments to monitor, regulate and potentially restrict constitutionally protected activities on public property, creating significant legal and administrative exposure.

Our members **request** that OMB limit event-services requirements to events that are themselves supported with federal funds, remove pass-through entity liability for subrecipient event activities on non-federally-funded local government property, and provide clear safe-harbor guidance that local governments can implement without legal risk.

[200.300(b); 200.403] Our members are concerned that the proposed rule would establish sweeping new government-wide prohibitions on how federal award funds may be used without defining the key terms that determine whether a recipient is in compliance. Local governments cannot reliably determine in advance whether a given program activity meets or violates the new standard – making good-faith compliance planning impossible and exposing local governments to significant legal and fiscal risk.

Under the proposed rule, the prohibition's critical terms are undefined. Local governments administering health, workforce, transportation, utilities, housing and human services programs need clear, objective definitions before we can assess program-by-program compliance, update subrecipient agreements or train staff. Without defined terms, local governments face a difficult compliance standard – and face it immediately upon the rule's effective date.

Compounding this concern, § 200.403 converts any violation of § 200.300(b) into an unallowable cost, meaning local governments may be required to repay federal funds already spent on programs that were operating in good faith. This transforms what might otherwise be a forward-looking compliance adjustment into a retroactive financial liability with no clear ceiling.

Our members **request** that OMB provide clear, objective definitions of all operative terms in § 200.300(b) before these prohibitions take effect, sufficient for local governments to assess compliance program by program, establish an explicit safe harbor for recipients acting in good faith under state law, existing court orders or consent decrees at the time of expenditure, clarify that § 200.403 cost disallowance applies only to expenditures made after a specific, individualized finding of noncompliance — not retroactively to prior good-faith spending, and confirm that pass-through entity liability does not extend to subrecipient activities beyond the direct scope of the federally funded award.

[200.329-332] Our members are concerned that the proposed requirements for pass-through entities will impart undue administrative burden on local government entities that often suballocate awards to community organizations and compel municipalities to police subgrantee organizations beyond existing grant terms and conditions for compliance. In particular, subsection (i) requires pass-through entities to "ensure that [a] subrecipient… does not take actions that could significantly damage the reputation of… the Federal agency making the award or the Federal Government" and directs Federal agencies to terminate the entire award to the pass-through entity if they "[determine] that significant reputational harm has occurred."

Subrecipient organizations are independent legal entities with their own governance, staff, and advocacy priorities. The proposed provision above, however, would impose a subjective, undefined standard for local governments to hold subgrantees accountable, giving Federal agencies unbridled discretion to determine reputational harm while tasking pass-through entities to monitor sub-awardees even if these organizations are performing in compliance with grant terms and conditions. Because of this, our members **request** OMB revise and limit the scope of subsection (i) by defining "significant reputational harm" and specifying that a subrecipient organization's advocacy, speech, or organizational activities cannot be utilized as grounds for termination of a pass-through entity's grant award. Our members request that any final rule explicitly clarify how subrecipients are classified, what monitoring responsibilities are required, and how reporting errors can be corrected before termination consequences are subsequently applied.

[200.340] Our members are concerned that the proposed subsection (a)(2) will enable Federal agencies to suspend or terminate discretionary grant awards with little notice and without sufficient justification, eroding local government trust in and adding unnecessary uncertainty to the Federal grantmaking process. Our members are particularly alarmed by the proposed provision under this subsection that will allow Federal agencies to terminate existing awards if they do not "effectuate program goals, Federal agency priorities, or the national interest as they exist at the time of [their] termination," as this will allow Federal agencies unchecked discretion to cancel ongoing multi-year grant awards abruptly even if they are compliant with award terms and conditions or were selected under a previous Administration with differing sets of program goals or Federal agency priorities.

A sudden award termination will have devastating effects on local government operations and ability to serve their populations, as grant awards are commonly utilized for staff hiring, service contracts, and program delivery for beneficiaries. By law, North Carolina local government budgets must balance, and the prospect of award termination at any point based on shifting federal policy priorities creates an untenable level of fiscal risk. As such, our members **request** that any final rule include updated provisions that:

(1) Require fact-based reasoning and written notice prior to a grant termination;

(2) Provide a 90-day wind-down period following a grant termination to ensure that allowable costs incurred in good-faith remain reimbursable;
(3) Establish an appeals process with definitive standards of review; and
(4) State that changes in Administration priorities cannot be the sole reason for a grant termination.

[200.432] Our members are concerned that requiring express Federal agency approval within grant award terms for conference costs would add unnecessary administrative burden, including cost justifications and reporting paperwork. For example, existing guidance lists conferences and related items as allowable costs that do not require additional approval unless restricted by specific Federal award terms and conditions. Our members **request** that the proposed revision be rescinded and the existing §§200.432 as written remains unchanged.

Implementation Date: Our members believe that October 1, 2026 is an unreasonable timeline for implementation of broad sweeping changes. These proposed expanded obligations – stacked on existing pass-through requirements – will require additional staff capacity and system investment. Small and mid-sized local governments lack the infrastructure to absorb these requirements without reducing program capacity or applying for fewer grants.

North Carolina local governments operate under a state-mandated fiscal year spanning July 1 through June 30. Balanced budgets for the fiscal year ending June 30, 2027, have been duly adopted, and property tax rates have been established by locally elected governing boards. Implementing significant regulatory changes during an active budget cycle—particularly changes that introduce the risk of reductions in previously awarded grant funding and require additional professional staff resources for implementation—would impose substantial financial and administrative burdens on local governments. Because these budgets have already been adopted, local governments have limited ability to absorb unanticipated costs or offset potential funding shortfalls without adversely affecting essential public services or other budgeted priorities. Our members **request** implementation guidance and technical assistance before new pass-through requirements take effect with adequate transition time – at least 12 months from the final rule's effective date – for local governments to update subaward agreements, monitoring procedures and reporting systems.

Additional Fiscal Impacts: On July 10, 2026, *The Bond Buyer* reported that Moody's Investors Service stated that the proposed regulation "could be a credit negative for public entities." If the financial risks identified throughout this letter were to adversely affect the credit ratings of public entities, borrowing costs for state and local governments would likely increase through higher interest rates on public debt issuances. This would directly increase the cost of financing, constructing, maintaining, and improving the public infrastructure and essential services upon which communities depend.

Higher debt service costs would ultimately be borne by taxpayers through increased revenue requirements, reductions in public services, or a combination of both. In addition, higher borrowing costs could render certain debt-financed capital projects financially infeasible, delaying or preventing investments in critical infrastructure and public facilities necessary to serve residents, businesses, and visitors.

Given the potentially significant and far-reaching fiscal consequences of these proposed regulatory changes, our members **request** that these impacts be carefully evaluated and fully considered during the development of the final rule. Thank you for the opportunity to provide comments on OMB-2026-0034 and for your consideration of NCGFOA's requests. Our membership believes that the intergovernmental system works because North Carolina local governments take federal stewardship seriously. Our members **request** that the final rule be calibrated to the full range of local government grant administrators – not only those with documented compliance failures – and that it not impose uniform new burdens that disadvantage well-managed governments.

Sincerely,

Zachary Hewett
NCGFOA President