

STAKEHOLDER FACT SHEET | JUNE 2026

The Trump Administration's Extreme Federal Grants Rewrite

What every elected official, federal grantee, and private sector partner needs to know about the proposed overhaul of 2 CFR, and why you have 45 days to weigh in.

THE BOTTOM LINE

On May 29, 2026, the Office of Management and Budget (OMB) released a sweeping, partisan, and ideologically driven rewrite of Federal grants guidance that would, if finalized, overhaul and politicize the entire federal funding regime in America. The proposal would reshape and weaponize how the Federal government awards and administers all grants and other forms of financial assistance, touching over \$1 trillion in annual Federal awards. **The provisions touch every state**, every Tribe, local governments, most major universities and hospitals, and tens of thousands of nonprofits, community organizations, and private companies.

Key takeaways:

- 1. Putting politicians in charge of nonpartisan, Congressionally-mandated Federal spending.** Senior political appointees from the Executive Branch must sign off on every discretionary grant award while peer review by independent experts is demoted to advisory status only, which will significantly weaken the quality of federally funded scientific research. Agencies gain explicit authority to cancel any discretionary grant mid-stream if it "no longer effectuates ... agency priorities or the national interest," and the existing administrative-hearing right is removed for these terminations.
- 2. Violating First Amendment and Equal Protection rights by codifying viewpoint discrimination into Federal programs.** New provisions condition Federal funding on a recipient's non-engagement with broad and ill-defined types of free speech that the Trump Administration disagrees with, such as "unlawful DEI" and "gender ideology," and a prohibition on perceived "religious discrimination" - all without legal justification.
- 3. Immediate Effect.** These changes have the potential to impact/halt billions of dollars that every state, local government, Tribal entities, schools, etc. are currently relying on to support critical health, public education, scientific research, public safety, and economic development projects.
- 4. Massive increase in red tape and compliance burden.** All recipients and subrecipients must enroll in DHS E-Verify. States must run pre-payment checks through the Treasury's Do Not Pay system before disbursing pass-through funds. Every payment request must come with a written justification. Buy America-style domestic preferences are extended beyond infrastructure to all awards. Many earlier changes to reduce administrative burden are reversed - despite claims by OMB that this will make applying for and performing work under federal grants, the effect would be the exact opposite.

Next steps. Comments are due July 13, 2026 (45 days after publication). The Administration aims to make the rule effective October 1, 2026. Register [here](#) for our comment training and to stay updated. Then submit your comments at www.regulations.gov, searching for docket **OMB-2026-0034**.

Comment deadline	Target effective date	Agencies affected	Impacted funding
July 13, 2026	October 1, 2026	40 +	>\$1 trillion

Background: What is 2 CFR 200?

Title 2 of the Code of Federal Regulations, Part 200 ("2 CFR 200") sets the government-wide guidance for almost every form of federal funding other than direct contracts or tax credits. It would apply to grants; cooperative agreements; formula payments; and certain loans across health, education, research, infrastructure, environmental protection, public safety, housing, agriculture, and foreign assistance. The federal government makes approximately \$1.3-\$1.5 trillion in awards each year, governed by 2 CFR 200, and the practical indirect effect of compliance with these regulations could be

Example Federal grant programs governed by 2 CFR 200:

- **National Institute of Health & National Science Foundation research grants and awards:** ~\$42 billion (universities, hospitals, research institutes for things like chronic disease in low-income areas)
- **Department of Energy Office of Science research and Advanced Research Project Agency-Energy:** ~\$8 billion (national labs, universities, companies)
- **Head Start (early childhood education):** ~\$12 billion (local nonprofit and school districts)
- **Department of Education discretionary grants — TRIO, Gaining Early Awareness and Readiness for Undergraduate Programs, Charter Schools Program, Magnet Schools:** ~\$2 billion (colleges, K-12 districts, education nonprofits)
- **Substance Abuse and Mental Health Services Administration and Health Resources and Services Administration Community Health and mental health grants:** ~\$5 billion (states, community health centers, nonprofits, teaching hospitals, training programs)
- **Housing and Urban Development Continuum of Care homelessness grants:** ~\$3.5 billion (nonprofits, public housing agencies, local Continuums of Care)
- **Department of Transportation base discretionary infrastructure grants — Better Utilizing Investments to Leverage Development/Rebuilding American Infrastructure with Sustainability and Equity, Nationally Significant Multimodal Freight and Highways Projects, Consolidated Infrastructure and Rail Safety Improvements, Federal Aviation Administration airport grants:** ~\$3 billion (state DOTs, transit agencies, airports, cities, ports)
- **Community Oriented Policing Service Hiring Program and Department of Justice Office on Violence Against Women grants:** ~\$900 million (local police departments, Tribal governments, domestic-violence service nonprofits)
- **National Endowment for the Humanities, National Endowment for the Arts, and Institute of Museum and Library Sciences grants:** ~\$700 million (museums, libraries, scholars, artists)
- **Environmental Protection Agency discretionary environmental grants — Brownfields, Diesel Emissions Reduction Act, Targeted Airshed:** ~\$500 million (cities, school districts, Tribes, community organizations)

The above are examples only. Any equity program supported by the 42 federal agencies covered by the proposed regulations would run afoul of the proposed regulations and likely be terminated.

In 2024, OMB finalized a comprehensive revision of 2 CFR 200 that streamlined administration and reduced burden on recipients. The May 2026 proposal reverses many of those changes and adds

significant new restrictions, conditions, and enforcement mechanisms tied to a series of 2025 Trump Administration Executive Orders and driven by the regressive values espoused in Project 2025.

What the rule changes

OMB packages the proposal as transparency and burden reduction. In practice, [the most consequential changes](#) cluster around five shifts that flow downstream to every grantee.

1. Political appointees gain explicit authority over award selection and termination, ignoring scientific peer review.

A new pre-issuance review (§ 200.205) requires senior political appointees to sign off on every discretionary award based on alignment with "Presidential policy priorities" and "the national interest." Peer review is reduced to advisory status, and deference to scientific expertise is explicitly prohibited despite the importance of independent analysis of the merit of research proposals in the selection process. A companion termination provision (§ 200.340) authorizes agencies to cancel any discretionary grant mid-stream if it "no longer effectuates program goals, Federal agency priorities, or the national interest." Hearing rights that currently apply when grants are terminated for cause are expressly removed for these discretionary terminations (§ 200.342). This change would give political appointees additional discretionary authority over Congressionally-mandated funds, challenging the separation of powers and Congress' constitutional power of the purse.

2. Ideological strings are attached to nearly every Federal dollar; significantly weakens civil rights and equal protection.

Several of these conditions would violate the First Amendment and Fifth Amendment Equal Protection concerns by making Federal funding dependent upon recipient viewpoints and preventing the disparate-impact analysis under existing civil rights law. New national-policy provisions in § 200.300 prohibit using Federal funds in ways that support what the Administration labels "unlawful DEI," "gender ideology," or gender-affirming care for transgender minors. A separate new section (§ 200.218) bars funding tied to disparate-impact liability theories. Another (§ 200.219) imposes vague "viewpoint-neutrality" requirements on event services hosted by recipients. The lobbying rule (§ 200.450) is expanded to bar voter-registration drives and to bar "issue advocacy" unrelated to a grant's narrow statutory purpose. A new cost principle (§ 200.477) codifies the Hyde Amendment as a permanent restriction on elective abortion-related costs. The regulations also remove the 2024 commentary on the Supreme Court's *Bostock* decision related to workplace discrimination. Indian Self-Determination and Education Assistance Act (ISDEAA) contracts, Tribal trust and treaty obligations, and Tribal employment preferences protected under *Morton v. Mancari* also may be put at risk by the new DEI and discretionary-termination provisions, particularly absent the formal Tribal consultation OMB has committed to but not yet completed.

3. OMB upgrades itself from "guidance" to binding regulation.

The proposal removes the long-standing statement that 2 CFR Subtitle A is "guidance, not regulation" and asserts a binding regulatory effect across 42 agencies. Future OMB amendments would bind agencies and recipients on the OMB-set effective date with no further agency notice-and-comment (§ 200.110). Combined with an express severability clause (§ 1.231) designed to insulate the rule against legal challenge, the structural changes concentrate substantial authority over Federal grants in OMB, which is part of the Executive Office of the President.

4. Massive new compliance burdens on every recipient and state.

All recipients and subrecipients, including universities, hospitals, Tribal entities, private industry, and nonprofits, must enroll in DHS E-Verify for any employee or contractor performing work under a Federal award (§ 200.303(f)). Recipients (other than States) must submit a written justification with every payment request (§ 200.305), and States receiving Federal pass-through dollars must run pre-payment checks through Treasury's Do Not Pay system before disbursing those funds (§ 200.303(g)), a federalism intrusion that raises anti-commandeering questions. OMB eliminates fixed-amount awards and subawards (§§ 200.201, 200.333) that minimize administrative burdens for relatively small amounts of funding, narrows the nonprofit cost-principles exemption by removing Appendix VIII (§ 200.401(c)), tightens allowability rules for advertising, conferences, fundraising, memberships, and publication, discourages cost-reimbursement contracts (§ 200.320), and extends Buy America-style domestic preferences beyond statutorily required mandates for infrastructure to all awards (§ 200.322), which will make many projects impossible to complete. Pass-through entities can be required to terminate subawards over vague "reputational damage" concerns (§ 200.332(i)). Many of these provisions reverse positions OMB defended at length only two years ago, a sharp policy U-turn that itself raises Administrative Procedure Act concerns and hurts industry by introducing massive uncertainty and risk.

5. Weakened audit, oversight, and civil-rights protections.

For an Administration fixated on fraud, waste, and abuse, it's alarming to see how much these regulations would weaken audit and oversight protections from objective reviewers. References to GAO's Green Book and the COSO internal-control framework are stripped from the audit rules, and agency, Inspector General, and GAO audits are limited to those expressly authorized by statute (§§ 200.303(a), 200.503, 200.514). The proposal codifies a faith-based eligibility framework (§ 200.300(c)).

What this means for you

<p>STATE & LOCAL ELECTED OFFICIALS</p> <ul style="list-style-type: none"> • States must enroll in Treasury Do Not Pay before disbursing pass-through dollars • Pass-through entities can be required to terminate sub-awards over vague "reputational" concerns • Mid-stream termination authority adds instability to long-term capital and infrastructure projects • Expanded Buy America may raise project costs and timelines • States may have difficulty implementing their own equity and disparate impact-related laws. 	<p>UNIVERSITIES & RESEARCH INSTITUTIONS</p> <ul style="list-style-type: none"> • Senior political review of every discretionary award; peer review demoted to advisory • Undefined "Gold Standard Science" criteria layered onto research selection • New scrutiny of "affiliations" and Section 117 HEA foreign-disclosure compliance • Restrictions on disparate-impact research and on international research collaborations • Risk of mid-grant termination for long-term research as priorities shift
<p>HEALTHCARE PROVIDERS</p> <ul style="list-style-type: none"> • New cost-principle restriction on elective abortion-related costs (§ 200.477) • Funding for gender-affirming care for minors is expressly disfavored • Health equity work at heightened risk of termination 	<p>TRIBES & TRIBAL ORGANIZATIONS</p> <ul style="list-style-type: none"> • Tribal employment preferences may be misclassified under the new DEI rule • Pass-through pre-payment verification implicates Tribal sovereignty • Cross-border Tribal arrangements may be swept in by foreign collaboration rules

<ul style="list-style-type: none"> • E-Verify mandate reaches clinical staff and contractors • Pre-payment verification adds cash-flow risk for safety-net providers 	<ul style="list-style-type: none"> • Limitations on the use of grant funds for conference attendance reduces opportunities for peer-to-peer training for Tribal personnel.
<p>NONPROFITS & COMMUNITY ORGS</p> <ul style="list-style-type: none"> • Loss of fixed-amount awards and subawards eliminates a flexible tool for nonprofits • Loss of nonprofit cost-principle exemption increases compliance burden • Each payment request requires a written justification • Mid-grant termination authority makes long-horizon community work harder to plan • Subrecipients exposed to termination on "reputational damage" theory 	<p>PRIVATE SECTOR & INDUSTRY</p> <ul style="list-style-type: none"> • Buy America-style domestic preferences extended without statutory authorization beyond infrastructure to all awards • Mid-stream termination risk reduces predictability for capital-intensive R&D and manufacturing • Federally funded construction faces increased compliance burdens • Confidential business information protections weakened in public-records provisions • Cost-reimbursement contracts strongly discouraged

What you can do

Join the L4GG-EPN comment training, then submit a public comment (Important!)

OMB must respond to comments on the proposal in any final rule. Substantive comments from affected stakeholders, especially those documenting concrete operational harms and reliance interests, are the single most effective input into the process.

1. Register [here](#) for our comment training on Tuesday, June 23 at 2:00pm ET
2. Begin identifying and quantifying specific operational, financial, scientific, or service-delivery impacts on your organization or constituency. Concrete examples, hours of new compliance burden, and dollar figures carry much more weight than generalized opposition.
3. Following guidance that will be provided in the comment training, submit your comments at www.regulations.gov, searching for docket **OMB-2026-0034**. Submit before the 45-day window closes (July 13, 2026). Late comments are considered "only to the extent practicable."

Talking points for coalition use

- This is not a streamlining rule. It is a partisan, ideologically driven structural push to grant unilateral power over Federal grants to OMB and Trump Administration political appointees. It directly undermines Congressional power of the purse and violates the separation of powers in the Constitution.
- It reaches well over \$1 trillion in annual Federal grants and cooperative agreements, and affects every State, every Tribe, and most major nonprofits, universities, hospitals, and federally funded private industry.
- It conditions Federal funding on ideological positions that run counter to existing law, raising First Amendment and equal-protection concerns under *AID v. AOSI II*, *Pennhurst*, and the Spending Clause framework in *South Dakota v. Dole*.
- It imposes new immigration and payment-verification burdens on States without clear statutory authority, raising anti-commandeering questions under *Printz and Murphy v. NCAA*.

- It weakens the GAO and Inspector General audit framework that has anchored Federal grant accountability for decades.

ABOUT THIS FACT SHEET

Prepared jointly by Lawyers for Good Government (L4GG) and the Environmental Protection Network (EPN). This document summarizes a proposed rule and is not legal advice. Stakeholders are encouraged to consult counsel before relying on any specific characterization or before filing comments. For coalition coordination or to flag organizational impacts that should inform future comment work, contact your L4GG or EPN program lead.