July 13, 2026

Russell T. Vought
Director, Office of Management and Budget
725 17th Street, NW
Washington, DC 20503

Re: Comments on Proposed Rule – Regulation for Federal Financial Assistance; 2 CFR Part 200 (Docket OMB-2026-0034)

Dear Director Vought:

The California State Association of Counties (CSAC), Rural County Representatives of California (RCRC), Urban Counties of California (UCC), County Health Executives Association of California (CHEAC), County Welfare Directors Association of California (CWDA), County Engineers Association of California (CEAC), California Association of County Veterans Service Officers (CACVSO), California Public Defenders Association (CPDA), and California Agricultural Commissioners and Sealers Association (CACASA), (together, "California Counties") representing California's 58 counties and the diverse projects, programs and services they deliver to all Californians, respectfully submit these comments on the Office of Management and Budget's proposed revisions to 2 CFR Part 200, the Uniform Guidance.

California Counties apply for and receive significant federal grant funding that support essential programs and services, including homelessness prevention and response, disaster mitigation and recovery, public health programs, public safety, elections administration, safety net services, public works, and more. Counties are the primary systems administrators for many of these programs and serve as a pass-through for many others, representing the backbone of the federal-state-local partnership.

Accountability and transparency are important goals, and ones that California Counties share. Yet we are deeply concerned that the proposed rule would undermine funding certainty, subject core county programs to political considerations unrelated to statutory purposes, and create significant new administrative and fiscal burdens. Collectively, these changes risk disrupting projects and services that are critical to Californians in all parts of the state.

Funding Certainty and Expanded Termination Authority

[§§ 200.339; 200.340; 200.341]

The proposed expansion of federal termination authority presents acute risks for California Counties, which operate large-scale, multi-year programs dependent on predictable funding streams.

California Counties are required by state law to adopt balanced budgets (Cal. Constit., art. XVI, § 18) and are often required to make long-term commitments based on anticipated federal funding. The proposed ability for federal agencies to terminate or suspend awards based on shifting federal priorities—rather than programmatic noncompliance—would make essential projects, programs and services subject to uncertainty unrelated to performance or statutory intent.

In California, this could have immediate and far-reaching consequences. Examples include:

- Homelessness programs, including those financed through federal housing and supportive services grants, are structured as multi-year interventions. Unanticipated termination would destabilize housing placements and increase unsheltered populations.
- Wildfire mitigation and resilience efforts, including vegetation management and community hardening projects, require long planning horizons. Funding interruptions would undermine preparedness and increase risk to life and property.
- Educational institutions support workforce development, enhance local economies, and serve as conveners require funding certainty, particularly in rural areas. Funding interruptions or grant terminations would undermine long-term strategic and implementation efforts, potentially eliminating programs that enhance education and wages, and address workforce gaps.
- Public health programs including communicable disease prevention and control activities, emergency preparedness and response, and maternal and child health services. Sudden termination or interruption of federal funding could result in workforce layoffs, disruption of disease surveillance and prevention activities,

reduced emergency response capacity, and diminished access to essential public health services, jeopardizing the health and safety of communities across California.

- Competitively awarded Flood Hazard Mitigation Grants such as Building Resilient Infrastructure and Communities (BRIC) and Flood Mitigation Assistance (FMA), and EPA/USACE cooperative agreements are not exempt from this requirement. These grants support multi-year projects often extending from design through construction. Mid-project termination without a right to be heard beforehand, or a guarantee that reasonably incurred costs and contractual commitments will be covered, exposes local governments to open-ended financial liability for infrastructure that may be partially built and could itself create a public safety hazard if abandoned.
- Pest detection, exclusion, eradication, and emergency response programs depend on continuous field operations, including trapping networks, inspections, surveillance, diagnostics, and rapid response. California County Agricultural Commissioners participate in these federal-state-local cooperative programs. Interruptions in federal cooperative agreement funding can create gaps in biological safeguarding systems that cannot simply be restarted when funding resumes. Invasive pests and diseases do not pause during administrative reviews or changes in federal priorities, and delayed detection or response can result in significantly greater eradication costs, agricultural losses, and trade disruptions.

When abrupt and unpredictable federal funding termination of this nature has recently occurred, the consequences have been immediate and substantial. For example, the March 2025 termination of Epidemiology and Laboratory Capacity (ELC) funding threatened nearly $300 million supporting California local health departments and put at risk epidemiologists, laboratory personnel, disease investigators, public health communications staff, workforce development initiatives, infectious disease infrastructure, and direct community health services. The court issued an injunction against this termination, based in part on inconsistency with statutory intent.[1] These proposed regulations similarly purport to authorize grant terminations for reasons that are unrelated to or inconsistent with legislative intent will only invite litigation and uncertainty. The result is not improved accountability, but significant disruption to essential public programs and services, workforce instability, and diminished preparedness for future threats.

This level of uncertainty would force California Counties to scale back participation in federal programs, delay implementation, or divert local resources to hedge against federal risk.

---

[1] *Colorado ex rel. Beshear v. United States HHS* (D.R.I. May 16, 2025) 788 F. Supp. 3d 277.

OMB should withdraw this section of the proposal or substantially revise it to:

- Limit termination authority to clear statutory and performance-based grounds
- Prohibit termination based on policy preferences unrelated to program purpose
- Establish mandatory notice, cure periods, and reasonable wind-down processes and timelines
- Provide a mechanism for administrative appeal by recipients subject to potential enforcement action and/or termination

Risk of Politicization of Federal Funding Decisions

[§§ 200.332; 200.340]

Across multiple provisions, the proposed rule introduces mechanisms that could make grant awards and continuing funding subject to discretionary political influence rather than objective program criteria. The proposal uses standards that are subject to a wide range of interpretations, such as “damage to reputation,” and “national interest,” which are likely to vary considerably depending on which individual or party controls the Administration.

California Counties administer projects, programs and services governed by complex statutory, regulatory, and court-ordered obligations. Introducing political discretion into grant awards, continuity or administration undermines consistent implementation of federally funded programs that are intended to be based upon legislatively-adopted statutory requirements. It creates inequities, where the politics of one jurisdiction is disfavored by one administration but then favored by the next. It would also force counties to navigate conflicting legal obligations and shifting federal expectations.

Moreover, the addition of a pre-issuance review process by a senior political appointee within each agency may introduce political influence into federal financial assistance (§ 200.205). As currently written, the rule does not specify which grant awards will be reviewed or the criteria by which political appointees will conduct their review.

Federal financial assistance must remain grounded in statutory purposes and transparent, objective criteria. California Counties cannot effectively administer programs if funding decisions are perceived as unpredictable or influenced by factors unrelated to program outcomes.

Administrative Burden and Pre-Award Requirements

[§§ 200.205; 200.206]

The proposed pre-award review and risk evaluation requirements would impose significant new administrative burdens across California Counties, which already operate under extensive federal and state oversight, including Single Audits, state monitoring, and program-specific compliance regimes.

The addition of new pre-award layers would:

- Delay implementation of critical programs, including public health responses and disaster recovery efforts
- Increase administrative costs at a time when California Counties face workforce constraints and budget shortfalls
- Disproportionately impact small and rural counties, reducing access to federal funding

These requirements risk diverting resources from direct service delivery to compliance infrastructure, without a commensurate improvement in outcomes. OMB should withdraw this section of the proposal or substantially revise it to:

- Establish clear, objective risk and review criteria
- Provide firm timelines for review
- Create safe harbors for counties with strong audit and compliance records
- Avoid duplication of existing accountability mechanisms
- Scale administrative requirements to the nature of the federally supported activity, particularly where federal financial assistance supports ongoing governmental, regulatory, public health, emergency response, and other operational functions that depend on continuity

Expanded Pass-Through Responsibilities and Liability

California Counties serve as pass-through entities for a broad network of community-based organizations, health providers, and local partners delivering critical projects, programs and services. The proposed expansion of pass-through responsibilities—including heightened monitoring, reporting obligations, and responsibility for implementing vague standards such as reputational harm—would create substantial operational and legal challenges. Such challenges include the need to invest in new compliance systems and staffing, the potential for liability to extend beyond a county's control, exposing counties to risk for independent third-party actions, and exclusion of smaller providers – often essential in rural or underserved communities – due to compliance complexity.

Examples of proposed requirements that are likely to significantly increase administrative burden and expenses on California Counties include:

- The requirement of recipients to participate in the Department of Homeland Security's E-verify program (§ 200.303(f))
- The requirement to utilize the Department of the Treasury's Do Not Pay (DNP) system or similar system and to provide justification for each payment request (§ 200.305).
- The requirement to report all subawards on SAM.gov without any cure process or period (§ 200.329(h))
- The requirement to classify transfers of federal funds to affiliates, subsidiaries, related organizations as subawards or contracts (§ 200.331(c); § 200.332(h))
- The prohibition of fixed amount subawards (§ 200.333)

For instance, the requirement that counties use Treasury's Do Not Pay (DNP) system before making federal payments to subrecipients could create delays, false matches, denials, or extra burdens for recipients and beneficiaries. This impact would extend far beyond discretionary grants to include vital formula-funded and mandatory programs that county health and human services agencies administer in cooperation with local partners to serve low-income and at-risk children and families, such as the Temporary Assistance for Needy Families block grant and the Promoting Safe and Stable Families Program. Delayed payments within these programs, with no clear guidance on the process for disputing an incorrect DNP match, could mean the difference between an at-risk family staying safely together or a child entering the foster care system.

These changes would reduce project and program reach and efficacy, undermining the purposes underlying the grant programs.

OMB should withdraw this section of the proposal or substantially revise it to:

- Limit liability to activities within the scope of the federally funded program
- Remove or clearly define subjective standards

- Provide at least 12 months for implementation and system adjustments, as the proposed October 1, 2026 implementation date is simply unworkable and sets California Counties up for failure

Undefined Policy Conditions and Cost Disallowance

[§ 200.300(b); § 200.403]

The proposed rule's broad, undefined policy restrictions combined with an automatic cost disallowance pose significant fiscal and legal risk for California Counties. California's counties are responsible for implementing a wide range of public services, from infrastructure development and public health to emergency management and economic development. California's counties play a vital role in governance, serving as political subdivisions of the state to provide essential services to residents. Counties administer complex projects and programs and must make real-time operational decisions. Without clear definitions, California Counties cannot determine compliance in advance but are subject to potential retroactive repayment of funds spent in good faith.

This creates unbounded fiscal exposure, disruption to contracted services and workforce stability, and increased reluctance to participate in innovative or high-need programs.

OMB should withdraw this section of the proposal or substantially revise it to:

- Provide clear, objective definitions before implementation
- Limit enforcement to prospective application only
- Establish safe harbors for good-faith compliance, including where counties are implementing state mandates or court orders

Outreach and Communications

[§ 200.421]

California Counties are concerned that the proposed limitations on advertising and public relations costs could create uncertainty regarding the allowability of essential public health outreach, education, and community engagement activities. Local health departments, for instance, rely on public awareness campaigns, risk communications, multilingual outreach, and targeted engagement efforts to inform residents about disease prevention, emergency preparedness, immunizations, and other federally supported public health programs.

Because public outreach is often a core programmatic function—not merely an administrative activity—any ambiguity in the scope of allowable outreach costs could hinder participation, reduce program effectiveness, and undermine the ability of counties to achieve federally funded public health objectives.

Pre-Award Processes

[§ 200.202(f); § 200.204]

While California Counties have significant concerns with many aspects of the proposed rule, we support provisions that promote effective program planning and strengthen partnerships between federal agencies and grant recipients. Encouraging the use of multiyear awards would enhance funding predictability, reduce administrative burden, and enable counties to make long-term investments in critical services and infrastructure (§ 200.202(f)). Likewise, allowing federal agencies to provide pre-application technical assistance and clarifying information on funding opportunities can improve applicant readiness, increase the quality of grant submissions, and help ensure that federal funding reaches communities with the greatest needs (§ 200.204).

Impact on the Federal–State–Local Partnership

Annually, California counties receive billions of dollars in direct federal funding through discretionary, mandatory, block and formula grants to fulfill our delegated responsibilities in the intergovernmental partnership. Additionally, counties pass through investments to spur private investment and innovate solutions throughout the state, especially in rural and underserved communities. The cumulative effect of the proposed changes would shift federal financial assistance away from a predictable, rules-based system toward one characterized by uncertainty, increased cost, and heightened administrative complexity.

For California Counties, this will mean delayed or reduced program delivery, fewer partnerships with community-based providers, and reduced participation in federal programs. Ultimately, this proposal means fewer projects and services reaching California residents, undermining the legislative goals of grant funding.

Multi-Year Awards and Notice of Funding Opportunity Reform

[§§ 200.202, 200.204]

California Counties appreciate the proposal's encouragement of multi-year awards with budget periods longer than one year and plain-language, predictably posted notices of funding opportunities. For example, infrastructure projects rarely fit within a single-year budget period. Multi-year award authority to infrastructure grant programs would meaningfully reduce administrative burden for both agencies and recipients.

Uncertainty Related to Interaction with State Law and Lawful County Policy

[§§ 200.202; 200.218; 200.340; 200.450]

California has enacted a series of statutes, including the TRUST Act (Cal. Gov. Code, §§ 7282, 7282.5), the TRUTH Act (Cal. Gov. Code, §§ 7283, 7283.1, 7283.2), and the California Values Act, SB 54 (Cal. Gov. Code, § 7284), that govern the circumstances under which state and local law enforcement resources may be used to assist U.S. Immigration and Customs Enforcement (ICE). Courts have repeatedly held that these state law requirements do not conflict with 8 U.S.C. § 1373.[2] Accordingly, California Counties are legally required to comply with these statutes. The proposed rule's combination of broad "national interest" and "policy-alignment" grounds for termination, together with its pre-award political review process, creates the possibility that grants could be denied, revoked or terminated based on a county's compliance with California law governing cooperation with ICE. As a result, California Counties would be placed in an untenable position: they are legally obligated to comply with state laws that limit certain forms of cooperation with federal immigration enforcement, yet they may face the loss of federal funding for doing so. This conflict would undermine the ability of California Counties to make long-term investments and administer federally funded programs with confidence and certainty.

Similarly, the proposed rule's prohibition on promoting or supporting disparate-impact theories, framed as targeting "unlawful DEI," is both undefined and overly broad, particularly where such social issues are unrelated to the aims of the grant program. California law generally prohibits explicit racial or sex-based preferences by public entities under Proposition 209 (Cal. Const., art. I, § 31). Yet there are many provisions in state law that mandate nondiscrimination across employment, accommodations and public services that are lawful requirements but potentially could be viewed as "unlawful DEI" under this

[2] *City & County of San Francisco v. Barr* (9th Cir. 2020) 965 F.3d 753, 757; see also *City & County of San Francisco v. Garland* (9th Cir. 2022) 42 F.4th 1078, 1085 ("We have rejected DOJ's interpretation of Section 1373 repeatedly . . . . Our precedential interpretation of Section 1373 dispelled any purported conflict between the federal provision and [California's] laws."); *United States v. California* (9th Cir. 2019) 921 F.3d 865, 893.

proposal.[3] The absence of a clear definition of "unlawful DEI" in the federal grant context creates substantial uncertainty and legal risk. California Counties are effectively forced "to make an unlawful and coercive decision: either forgo billions of dollars in critical funds or accept conditions on those funds that are in conflict with [their] own laws and policies."[4] Without clearer standards, California Counties have no reliable way to determine what OMB considers lawful or unlawful DEI activity. Instead, assessments of county policies and programs could be left to the discretion of political appointees, resulting in inconsistent interpretations that may vary from one Administration to the next. Such uncertainty threatens to subject federal grant administration to shifting political priorities rather than objective and predictable standards that promote effective outcomes for local governments.

Any rules adopted by OMB must clarify that a recipient's compliance with valid state law or county policy is not, by itself, grounds for negative risk determination, suspension, or termination. Vague and broad terms, such as "national interest," "policy alignment," and "unlawful DEI" must be clarified, as the uncertainty puts California Counties in the impossible situation of losing grant awards for complying with state laws and county policies, the validity of which has been confirmed by the courts.

Mid-Award Changes to Payment Terms and Conditions

[§ 200.208]

Authority to add, remove, or modify specific conditions during the period of performance — including switching a recipient from advance payments to reimbursement-only — creates cash-flow risk for public agencies financing multi-year construction contracts. Any change from advance payment to reimbursement should apply prospectively to new awards only and OMB should require agencies to provide reasonable advance notice and a transition period before imposing new specific conditions on active <u>construction projects with </u>capital awards.

---

[3] See, e.g., the California Fair Employment and Housing Act (Cal. Gov. Code, § 12900, et seq.); the Unruh Civil Rights Act (Cal. Civil Code, § 51); and Nondiscrimination in State-Funded Programs and Activities (Cal. Gov. Code, § 11135).

[4] *Commonwealth of Massachusetts v. U.S. Dept of Agriculture* (D.Mass June 24, 2026, No. 1:26-cv-11396) 2026 U.S.Dist.LEXIS 140005, *67, fn. 1 (district court granting a preliminary injunction against similar grant conditions).

Conclusion

California Counties remain committed to strong stewardship of federal funds and to improving outcomes for Californians. However, the proposed rule, as drafted, would undermine, at every stage of the grant lifecycle, the stability, objectivity, and administrability necessary to make federal programs effective at the local level.

We respectfully urge OMB to withdraw the proposed rule and to ensure that any future efforts at grant funding reform take into account the following critical needs:

- Preserve funding certainty and continuity
- Ensure grant administration remains objective and grounded in statutory purposes
- Scale administrative requirements to practical, implementable levels
- Provide clear standards, safe harbors, and sufficient transition periods

Thank you for the opportunity to comment.

Respectfully,

Graham Knaus, CEO
California State Association of Counties (CSAC)

Eric Will, Policy Advocate
Rural County Representatives of California (RCRC)

Jean Hurst, Advocate
Urban Counties of California (UCC)

Michelle Gibbons, Executive Director
County Health Executives Association of California (CHEAC)

Carlos Marquez III, Executive Director
County Welfare Directors Association of California (CWDA)

Johannes Hoevertsz, President
County Engineers Association of California (CEAC)

Morgan Boyd, President
California Association of County Veterans Service Officers (CACVSO)

Kate Chatfield, Executive Director
California Public Defenders Association (CPDA)

Lindsey Carter, Executive Director
California Agricultural Commissioners and Sealers Association (CACASA)