



June 12th, 2026

**Re: OMB-2026-0034, Office of Management and Budget (OMB) Regulation for Federal Financial Assistance - CalNonprofits Public Comment Letter**

To Whom It May Concern,

Thank you for the opportunity to provide comments on the proposal to revise several parts of the OMB Guidance for Federal Financial Assistance located in title 2 of the Code of Federal Regulations (CFR), subtitle A (OMB-2026-0034, Office of Management and Budget (OMB) Regulation for Federal Financial Assistance).

On behalf of the California Association of Nonprofits (CalNonprofits), **representing 110,000+ community-based organizations across the state, we oppose the Office of Management and Budget's (OMB) proposed changes to the Uniform Guidance governing federal grants, cooperative agreements, and other monetary awards.** CalNonprofits serves as the leading voice for California's nonprofit sector, and our mission is to ensure nonprofits have the policies, resources, and partnerships needed to serve our communities effectively.

Resources from federal grants are essential for California's nonprofits to deliver programs and services that support the health, safety, and economic stability of our communities. The nonprofit sector serves as the state's social safety net, administering essential, life-saving services—including housing, food security, disaster recovery, and healthcare—to millions of residents, especially vulnerable populations. To effectively execute these congressionally mandated programs, nonprofits require operational predictability and financial certainty.

The proposed revisions actively strip away that certainty without merit. If implemented, these changes would give any administration broad discretion to withhold, suspend, or change grant terms mid-performance. This would force community organizations to operate in a volatile, constantly shifting environment. Introducing arbitrary financial and legal risks mid-stream creates severe operational instability, making long-term planning, staffing, and resource allocation impossible for nonprofits, particularly small organizations.

Furthermore, this would allow federal awards to be determined by partisan ideology rather than objective criteria, community need, and congressional intent—politicizing the entire federal financial assistance apparatus and reducing transparency. By undermining the administration of these awards, it is not just nonprofits that will suffer—it is the vulnerable communities relying on them who will pay the price in every single community that relies on federal grantees to deliver services. And it will inevitably deter qualified, highly effective nonprofit partners from entering into federal agreements due to the unpredictable risk of sudden, without-cause funding disruptions.

While we object to numerous provisions in the proposed Uniform Guidance in addition to the aforementioned concerns, we urge you to closely examine the following particularly harmful changes:

### **Grantee/Proposal Selection (§ 200.205 / § 200.300) and DEI Provisions**

The proposed process for pre-issuance review of discretionary federal awards would allow an administration to reject federal funding proposals using criteria not authorized under federal law. We are opposed to the proposed overhaul of Section 200.205, which fundamentally disrupts the objective, merit-based selection of federal grantees. In addition, the sweeping directives in § 200.205 and related compliance sections to ban funding for activities that advance Diversity, Equity, and Inclusion (DEI) or address gender-affirming care and marginalized populations are a direct assault on the core missions of thousands of California nonprofits. In a state where systemic inequities are actively combated by community-based organizations, barring federal funds from supporting inclusive programming will decimate highly effective, culturally competent initiatives. This provision forces a harmful ultimatum: abandon equity-centered work or lose access to federal funding entirely.

In addition, the proposal § 200.300 requires federal agencies and pass-through entities to ensure awards and subawards are not used to fund, promote, encourage, subsidize, or facilitate (1) illegal diversity, equity, and inclusion (DEI); (2) gender ideology; or (3) the gender transition of a person under age 19. By threatening congressionally mandated programs that address longstanding racial and social disparities, this proposal introduces an undefined and legally flawed ban on critical diversity, equity, and inclusion (DEI) initiatives. National civil rights and pro-democracy organizations strongly reject the administration's interpretation of the law, and this proposal directly contradicts established court rulings and jeopardizes vital services for historically underserved communities.

Beyond this proposed rule, the OMB repeatedly describes DEI and identity-based policies as unlawful, discriminatory, and divisive throughout the regulations. By functionally treating inclusive outreach as a compliance violation, this shifts the federal grants ecosystem from one aimed at removing barriers to one that actively penalizes culturally specific engagement—systematically locking critical grassroots organizations out of vital federal funding. Nonprofits rooted in these causes already face severe structural barriers to accessing federal capital.

### **New Terms and Conditions (§ 200.208) - Advance Payments vs. Reimbursement**

If implemented, the proposal would authorize federal agencies to add or remove specific award conditions—such as shifting to reimbursement-based payments, increasing monitoring, or requiring additional prior approvals—throughout the period of performance. By allowing federal agencies to switch from providing advanced payments to reimbursement – during performance – the proposal could lead to greater financial instability for grantees. Because federal reimbursements are notoriously plagued by bureaucratic delays, forcing a grantee to absorb and float thousands—or millions—of dollars in upfront costs while waiting weeks or months for government repayment will trigger financial instability. Most community-based organizations do not possess the cash reserves required to bankroll federal programs out-of-pocket. We oppose allowing an agency to abruptly strip an organization of advance payment status and force a shift to a reimbursement-based model mid-stream, as it is a threat to nonprofit operations and service delivery.

### **Indirect Cost Rate (§ 200.205)**

CalNonprofits opposes the proposed provision in § 200.205 that creates a competitive preference for discretionary awards given to grantees with lower indirect cost rates. While the proposal purports to apply this metric only when "all things are equal," it effectively institutionalizes a penalizing framework for nonprofits that account for the true, full cost of delivering federal programs.

Indirect costs—including critical infrastructure, compliance, cybersecurity, and equitable staff compensation—are the backbone of effective program delivery. By favoring lower indirect rates, this provision actively disadvantages community-based, small to mid-sized, and historically under-resourced nonprofits that lack the alternative financial cushions to absorb unreimbursed operational overhead. Conversely, it provides an unfair advantage to large, heavily endowed institutions that can afford to subsidize federal programs out-of-pocket.

This preference fundamentally undermines the financial health of the nonprofit sector, reverses years of bipartisan progress toward achieving equitable full-cost recovery, and will inevitably degrade program quality and service delivery in the California communities that need it most.

### **Conclusion**

In sum, the Office of Management and Budget's proposed revisions represent a harmful departure from objective, equitable, and transparent federal financial stewardship. Rather than modernizing the Uniform Guidance, these changes inject administrative volatility, political interference, and financial inequity into a system that millions of vulnerable Californians rely on daily. CalNonprofits reiterates our strong opposition to the proposed changes, which would expose California nonprofits to unpredictable financial, legal, and reputational risks. Many organizations would need to step back from federal partnerships, disrupting life-sustaining services for individuals and communities. California's nonprofit sector cannot, and should not, be forced to absorb arbitrary financial risks or compromise its core values of equity and service delivery to satisfy shifting ideological metrics.

For these reasons, CalNonprofits strongly urges the OMB to listen to the unified voice of the nonprofit sector, withdraw these deeply flawed provisions, and preserve the integrity and predictability of the federal financial assistance framework.

Thank you for considering our input on this urgent matter.

Sincerely,



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