

June 15, 2026

Revisions to Federal Grant Rules Could Impact Vermont Communities





The U.S. Office of Management and Budget (OMB) has proposed sweeping changes to the federal grant rules known as 2 CFR Part 200 – Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, which establishes the administrative, financial, and audit requirements for nearly all federal grants received by state and local governments. **The proposed changes would create the most significant overhaul of federal grant management in over a decade and affect grants currently being managed as well as future ones.** OMB is proposing that the final rule be **effective October 1, 2026**, leaving limited time for preparation.

For Vermont's towns, villages, and cities – many of which rely heavily on federal funding to support infrastructure, emergency management, housing, and economic development – these proposed changes **could reshape how grants are applied for, managed, and even terminated.**

Public Comment Period

Local governments have a very limited opportunity to weigh in.



- **Public comment deadline: July 13, 2026.**
- **Where to comment:** Federal Rulemaking Portal at www.regulations.gov (search for Docket OMB-2026-0034).

Communities that rely heavily on federal funding may wish to highlight how proposed changes could affect local administrative capacity, project delivery timelines, cash flow, and the ability to pursue future grant opportunities.

Why This Matters in Vermont

Vermont's local governments depend on federal grants to meet community needs. From FEMA disaster recovery funds to infrastructure investments and housing programs, federal dollars are often critical to maintaining essential services.

The proposed changes raise several important concerns for Vermont:

- **Capacity Constraints:** Many rural municipalities operate with minimal staff. Increased reporting and compliance requirements may strain local administrative capacity.
- **Funding Stability:** Expanded termination authority introduces uncertainty for multi-year grants and long-term projects such as water systems, broadband expansion, and hazard mitigation.
- **Access to Funding:** Additional pre-award review steps and alignment requirements may make it harder for small communities to successfully compete for discretionary grants.
- **Cash Flow Risks:** New payment verification requirements may result in longer wait times for reimbursement, challenging communities with limited reserves.



At the same time, OMB states the proposal is intended to reduce burden in some areas and improve clarity and consistency of grant rules across agencies.

Municipal leaders should pay close attention to the proposed changes, especially if their community currently manages federal grants or plans to pursue federal funding in the coming years. Even modest increases in administrative requirements can create challenges for smaller communities operating with limited staff capacity and local resources.

Key Proposed Changes for Local Governments

Expanded Authority to Terminate Grants

- Federal agencies would gain broader authority to terminate discretionary grants if they determine an award no longer aligns with agency priorities, program goals, or the national interest. Similar authority could extend to pass-through entities overseeing subawards.

Increased Oversight and Risk Reviews

- Federal agencies would conduct enhanced pre-award reviews and risk assessments. Applicants could face additional scrutiny regarding organizational practices, compliance history, and other risk factors.

New Reporting and Subrecipient Monitoring Requirements

- Stronger reporting requirements would apply to sub-awards and pass-through funding arrangements. Local governments acting as pass-through entities may assume additional oversight responsibilities.

Elimination of Most Fixed-Amount Awards



- The proposal would largely eliminate fixed-amount grants and sub-awards unless specifically authorized by statute. (All grants would be reimbursement based.)

New Payment Verification Requirements

- Recipients may be required to provide additional justification when requesting grant reimbursements or drawdowns.
- Expanded use of federal verification systems is also proposed.

Additional Restrictions on Certain Activities

- The proposal includes new restrictions related to diversity, equity, and inclusion (DEI) activities, certain foreign collaborations, and other **policy areas identified by recent executive orders**. For instance, one requirement related to events would apply to events that occur on property under control of a public entity, regardless of whether the event is funded by the federal award.

Changes Intended to Reduce Burden

- OMB proposes simplifying some funding opportunity announcements through plain-language requirements and streamlined notices.
- The proposal also encourages greater use of multi-year awards in some programs.

What Communities Should Do Now

Although the proposal is not yet final, municipalities that receive federal funding should begin reviewing how the changes could affect their grant management practices.



1. **Review the proposed changes carefully.** Focus on areas affecting grant administration, reporting, and project flexibility.
2. **Submit public comments.** Share specific examples of how changes could impact your community (staffing, cash flow, project delivery, ability to pursue future grant opportunities).
3. **Participate in webinars.** Register and participate in the June 17, 2026, [webinar](#) outlining the impacts of the proposal on counties and local governments. Registration is free and open to members of the hosting organizations (NACo, NLC, USCM, GFOA, ICMA, and IMLA) and their staff.
4. **Assess your current grants.** Identify projects that could be affected by new termination authority or cost restrictions.
5. **Prepare for increased compliance.** Consider training, shared services, or regional partnerships to manage additional administrative workload.

Federal grants remain an essential source of funding for Vermont communities, helping municipalities recover from disasters, improve infrastructure, expand housing opportunities, and strengthen local resilience. As OMB considers these proposed changes, it is important that the voices of small and rural communities are heard. The experiences of Vermont municipalities can help federal policymakers better understand how grant requirements affect local governments' ability to deliver services and meet community needs.

