



Regulation for Federal Financial Assistance

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Dear Mr. Vought:

Thank you for the opportunity to comment on Proposed Rule: Regulation for Federal Financial Assistance (OMB-2026-0034; FR Doc. 2026-10817). These changes to government-wide grant policies would have profound consequences for the entire nonprofit sector—ranging from service providers to research universities—and, by extension, the American public. As a result, I advise against the proposed changes.

I write in my capacity as a historian of the United States with expertise in the nonprofit sector and its relationship to government. My doctoral dissertation at Harvard University and subsequent book, *Nonprofit Neighborhoods: An Urban History of Inequality and the American State*, considered how the rise of government grantmaking to nonprofit organizations in the decades after World War II shaped the sector as a whole and the communities nonprofits serve. I joined the faculty of the University of Maryland's School of Public Policy in 2018, where I teach courses on public policy and the nonprofit sector and continue to research public and private grantmaking. Additionally, I have brought my expertise on federal grantmaking to university committees working to support graduate students, postdoctoral fellows, and other faculty following the disruptions to federal research funding beginning in January 2025. This committee work provided me relevant insight into how the proposed changes would reshape—and dismantle—the robust research enterprise federal grants built over the twentieth century.

My comments first consider how and why the nonprofit sector and government became so intertwined. From this history, I then raise five justifications against the proposed changes: they undermine the purpose of relying on nonprofit organizations, jeopardize trust in the sector, distract from service delivery, are unnecessary given existing regulations, and muffle free speech. Instead of helping achieve goals around transparency, the historical record points to how the proposed changes will do the opposite.

Historical Context

Grants-in-aid from the federal government to nonprofit organizations expanded significantly in size and amount in the decades after World War II. Grantmaking—via categorical grants and, later, block grants—became a preferred means to expand service delivery and meet the needs of Americans without expanding the size of government. This approach had the advantages of drawing in private philanthropy to help cover costs, decentralizing decision-making, increasing participation in governance, and responding to local contexts while also ensuring federal standards were met regarding costs, accounting, approach, and priority. Public-private partnerships between the federal government and nonprofit organizations—what some call “third party government”—have remained a durable and quintessentially American approach to governing. Democrats and Republicans have both embraced nonprofit partnership (albeit for different

reasons) and the consensus among policymakers has been that outsourcing certain elements of implementation to local partners makes for effective governance.

Today, nearly one-third of nonprofit organizations receive government grants and nearly two thirds receive funding of either grants or contracts. Analysis by the Urban Institute underscores the continued tight financial ties between the government and nonprofit sector, and the programmatic and implementation consequences of those financial arrangements. Any significant change to federal grantmaking procedures—such as by these proposed changes—will thus have wide reach across the nonprofit sector, impacting everything from service provision to knowledge production.

Lessons from History

Because the federal government has been funding nonprofits for so long, ample evidence exists to help anticipate the impact of the proposed rule changes.

First, proposed rule changes (§ 200.300) related to the prohibition of activities related to “diversity, equity, inclusion, and accessibility,” undermines a key justification by which the government has historically partnered with nonprofit organizations by turning an asset into a liability. As non-governmental but public-serving organizations, nonprofits have close ties to their communities and constituencies, sometimes defined along geographic lines (say, a particular neighborhood), or as connected to groups with shared religious, ethnic, linguistic, racial, sexual orientation, or gender identities. Recognizing that nonprofits maintain these connections and expertise through legally permissible discretion in their hiring, program design, messaging, and service delivery has long been recognized as an asset for governments and a reason to partner with nonprofit organizations. My research further demonstrates how the public funding of these private entities increase participation and improve governance, fundamentally increasing trust in both the nonprofit sector and government.

Second, the proposed transfer of grantmaking authority from subject-matter experts and experienced bureaucrats to political appointees (§ 200.205, § 200.432) will politicize and polarize the nonprofit sector. A feature and strength of the third party government approach is that it enables the government to harness the good reputation of the nonprofit sector, which Americans consistently express more trust in the nonprofit sector over government, small business, the media, and the military. This trust subsequently increases participation, buy-in, and compliance with programs deemed useful to the nation, all of which will be jeopardized by the proposed change in decision-making authorities.

Third, the historical record points to instances where increased scrutiny and changes to federal programs create uncertainty in nonprofit organizations and distract from the delivery of programs. The archival records of federal grantees from the twentieth-century are replete with examples of significant time spent corresponding back and forth with federal funders over reimbursements, phone logs, spending allowances, and more. Those back-and-forths, my findings show, took time away from program implementation, led to interruptions in service, and created uncertainty in leadership. The proposed changes that relate to grant termination (§200.340) transform the federal government from a reliable funder into an unreliable one, reserving for the government the ability to cancel a grant or contract at any point due to shifting priorities. That level of uncertainty will render any kind of economic forecasting for grantees impossible and introduce even more precarity into a sector already operating on thin margins. The possibility—if not reality—of

terminated grants will dissuade nonprofits from seeking government funding, which will trigger staff layoffs and reductions in service.

Fourth, administrative and legal apparatuses already exist to ensure there is no discrimination or undue lobbying in nonprofit organizations or in their delivery of publicly-funded programs, rendering proposed changes under § 200.300 and § 200.450 unnecessary. My research reveals instances where the IRS paused and threatened to revoke a nonprofit's tax exempt status on the grounds of potential discrimination. Similarly, legal scholars have traced the court's establishment of the "public policy doctrine" that permits the denial of tax-exempt status to entities with discriminatory regulations that violate public policy and the spirit of a public interest. The current proposed rule changes, therefore, are redundant as a check on discrimination. Instead, they will cause unnecessary, burdensome paperwork for both nonprofits seeking government funding and the government agencies making grants, ultimately undermining program goals and government expectations of efficiency.

Fifth, the proposed changes related to lobbying (§ 200.450) create an ambiguous and undefined standard of what constitutes advocacy "unrelated to the statutory objectives" that will exist purely as a way for federal agencies to suppress the free speech rights recipients of federal funding from sharing and applying the findings and insights from their funded research or activities. While the administration may not agree with the advocacy engaged by federal grant recipients, its allowance of grantees to translate findings or experience into advocacy is an essential feature of democracy. In my book I discuss an incident where a group of Bostonians used federal funds to critique the very funding initiative that underwrote their activities. The tolerance of such legal critique and advocacy actually increased local trust in the federal program and ultimately improved local outcomes.

Conclusion

The goals of increasing transparency and accountability, ensuring clarity on policies, and reducing burdens are values important to uphold as the federal government rebuilds and reorganizes its grantmaking procedures. The proposed changes, however, represent a marked— and dangerous—departure from the history of federal grantmaking in the United States by expanding federal control and politicizing decision making that will ultimately undermine stated goals and erode public trust in the government and the nonprofit sector.

Sincerely,

Claire Dunning, Ph.D.