CITY OF HOMER
HOMER, ALASKA

Mayor/Aderhold

RESOLUTION 26-044

A RESOLUTION OF THE CITY COUNCIL OF HOMER, ALASKA PROVIDING COMMENT ON PROPOSED REVISIONS TO THE OFFICE OF MANAGEMENT AND BUDGET'S UNIFORM GUIDANCE FOR FEDERAL GRANTS (2 CFR PART 200) AND DIRECTING TRANSMITTAL OF COMMENTS.

WHEREAS, On behalf of its citizens, the City of Homer (the City) benefits substantially from federal grant funding, including direct federal awards, cooperative agreements and pass-through awards administered by the State of Alaska, to plan, finance, and construct critical infrastructure, including port and road surface transportation systems, water and wastewater infrastructure, disaster mitigation, and emergency response; and

WHEREAS, As a rural Alaska community, the City faces exceptionally high infrastructure costs due to remoteness, limited transportation access, short construction seasons, and a limited tax base, making federal funding partnerships essential to building and maintaining infrastructure critical for economic development, local health, safety, and quality of life, and for supporting federal assets and capabilities, such as U.S. Coast Guard and law enforcement; and

WHEREAS, The Office of Management and Budget (OMB) is taking public comment on proposed revisions to the Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (2 CFR Part 200, the "Uniform Guidance"), which governs federal grant administration; and

WHEREAS, The City finds that certain proposed revisions would reduce the predictability, transparency, and fairness intended by the proposed changes, and increase cost in the administration of federal funding, undermining the federal–state–local partnership necessary to deliver infrastructure projects effectively.

NOW, THEREFORE, BE IT RESOLVED the City provides the following comments and questions on the proposed regulatory revisions to the Uniform Guidance:

SECTION 1. DISCRETIONARY TERMINATION OF AWARDS (§200.340)

A. Under current regulations, federal awards may be terminated only for noncompliance, mutual agreement, or expiration of statutory authority. These limitations provide the certainty necessary for the City to commit local funds, execute multi-year contracts, and undertake infrastructure projects in reliance on federal funding.

The proposed revision to 2 § C.F.R 200.340 (Termination) would introduce a broad discretionary termination standard applicable to both direct and pass-through awards. Under subsection (b)(2), grants can be terminated, with little explanation and no procedural protections, if the agency determines that termination "is in the interest of the federal agency" or if "a Federal award does not effectuate program goals, Federal agency priorities, or the national interest as they exist at the time of the termination." As a result, as the City interprets the revision, projects already underway could be terminated for reasons unrelated to recipient performance. While awarding agencies would make such decisions, the authority would derive from this OMB rule rather than from program-specific statutes or congressional direction (see Section 4).

B. This change would effectively convert long-term federal infrastructure commitments into at-will arrangements, introducing uncertainty as to whether funding will continue across administrations and exposing the City to stranded costs, breached contracts, and incomplete infrastructure, and potentially threatening municipal financial stability.

C. The risk is not hypothetical. The City's port enterprise, for example, is implementing a federally funded Port Infrastructure Development Program (PIDP) project (Homer Port Coastal FREIGHT), supported by a federal award of approximately $11.5M toward a total project cost of approximately $18M. The City is committing $6M in local funds, entering binding contracts, and structuring operations in reliance on the award. This single project represents a significant share of the port enterprise's overall budget of approximately $9.6M, underscoring the scale of the City's financial exposure.

Termination under the proposed discretionary standard—absent noncompliance—could leave the City with unfunded obligations and partially completed infrastructure it cannot independently finance. The loss one-third of our moorage capacity would directly impact essential marine transportation services and the broader public benefits they provide. At the same time, the obligation to fulfill contractual commitments would place the enterprise under severe financial strain and jeopardize its long-term fiscal stability.

D. Beyond this project, the City estimates that approximately $20.9 million in current and anticipated direct federal, pass-through, and State formula funding could be subject to this discretionary termination risk. These funds support the replacement of drinking water transmission mains, pedestrian safety, and two erosion mitigation projects in our working waterfront—one of which protects a designated national freight route. These projects collectively support essential public infrastructure, critical supply chain functions, safety, and long-term resource protection, reflecting both local needs and broader state and national interests.

E. The City is further concerned that discretionary termination of existing grants, whether direct or pass-through from the State of Alaska, would undermine our ability to meet obligations to contractors. Such outcomes could result in significant reputational harm and impair the City's ability to procure qualified firms for future infrastructure projects.

F. The City asks the following clarifying questions about discretionary termination of awards:

1. Can OMB clarify that federal awards that have already been issued would be subject to discretionary termination?
2. Can OMB clarify if priorities can change mid-award? If so,
3. Can OMB clarify how terminated infrastructure projects such as harbor float replacements or drinking water system upgrades that are underway will be completed in a manner that is safe for the public?
4. Can OMB clarify who is responsible for paying outstanding invoices to contractors for work completed before project termination and how municipalities such as the City can operate within tight budgets if grants are terminated at the federal government's discretion?
5. Can OMB clarify the meaning of "not in the national interest" so it is a clear and transparent definition for all to understand?

SECTION 2. REDUCTION IN PUBLIC NOTICE REQUIREMENTS (§200.204)

A. Current law requires federal funding opportunities to be publicly posted (e.g., on Grants.gov), ensuring fair access for local governments.

B. The proposed revision would allow agencies to withhold public notice whenever deemed "not in the national interest," a standard far broader than existing transparency exceptions, which are narrowly tailored to protect sensitive national security programs and operations.

C. This change would allow funding opportunities to be awarded without public notice, depriving the City of a fair opportunity to compete.

SECTION 3. WEAKENING OF MERIT-BASED REVIEW UNDERMINES FAIRNESS AND EFFECTIVE USE OF PUBLIC FUNDS (2 C.F.R § 200.205)

A. The current merit-based review process establishes clear, published evaluation criteria and ensures that funding decisions are based on project quality, readiness, and demonstrated public benefit, allowing municipalities of all sizes to compete on a transparent and level playing field.

B. Reducing merit review to advisory, or non-determinative would allow awards to be made on grounds other than project merit, creating a risk that less competitive or less well-developed projects could receive funding based on political access or other non-merit considerations. Such outcomes would undermine public confidence and reduce the effectiveness of federal infrastructure investments by potentially directing limited resources away from the strongest and most beneficial projects.

C. The City invests substantial local resources in developing competitive grant applications, including staff time, technical studies, engineering, environmental review, and project development costs—totaling, for example, over $2.1 million for the recent Port Infrastructure Development Program (PIDP) application. This investment reflects a commitment to advancing well-designed, high-impact projects that meet program objectives and criteria. A system that diminishes the role of merit-based evaluation risks devaluing these investments and discouraging rigorous project development, to the detriment of applicants, federal funding agencies, and the public.

D. The City is further concerned by proposed revisions to 2 C.F.R. § 200.206 (Federal agency review of risk posed by applicants) and related pre-award provisions, which would expand federal agency discretion in evaluating funding applications. While current regulations require agencies to assess applicant risk based on objective criteria such as financial capacity, performance history, and program integrity, the proposed rule would introduce additional layers of pre-award review by senior agency appointees and broaden evaluation criteria to include alignment with agency priorities, the national interest and rate risk factors such as reputational damage to federal agencies and the Federal government.

This shift represents a significant departure from longstanding, merit-based and technically driven review processes. By introducing discretionary, policy-based considerations into pre-award risk assessments, the proposed changes reduce transparency and predictability in federal funding decisions. For local governments, this creates additional uncertainty as to whether applications will be evaluated consistently over time, complicating long-term infrastructure planning and increasing the risk that critical projects may be delayed or denied funding for reasons unrelated to project readiness or community need.

E. The City asks the following clarifying questions:

1. Will evaluation criteria be defined?
2. How will reputational factors be defined, weighted and monitored?
3. Will the agencies provide a list of practices or organizations that raise risk?

SECTION 4. OMB OVERRIDE OF PROGRAM-SPECIFIC AUTHORITIES

A. Current federal grant conditions are established through statutes and administered by individual program agencies, with clear avenues for engagement and congressional oversight.

B. The proposed revisions would allow OMB to impose government-wide conditions that would effectively supersede program-specific statutory frameworks, shifting decision-making away from agencies and oversight structures accessible to the City.

C. This would substantially reduce transparency and accountability for agency programs, and replace predictable, statute-based conditions with broad, discretionary rulemaking.

SECTION 5. EXPANDED FEDERAL COMPLIANCE, VERIFICATION, AND PAYMENT ADMINISTRATION REQUIREMENTS INTRODUCES PAYMENT AND DELIVERY RISK

A. The City is also concerned with requirements associated with **2 C.F.R. § 200.206 (Federal agency review of risk posed by applicants)** and related proposed revisions that would expand the use of government-wide eligibility verification systems. In addition to extending existing requirements to screen applicants through the Do Not Pay Initiative and other federal integrity databases to all recipients, the proposed rule would introduce new workforce verification obligations, including mandatory participation in DHS's E-Verify program. These expanded compliance requirements increase administrative burden and introduce additional uncertainty for local governments managing federally funded infrastructure projects.

B. The proposed integration would introduce a new layer of payment screening and eligibility verification into the administration of federal awards. While the City supports efforts to prevent fraud and improper payments, these systems are designed for transaction-level screening and are not well-aligned with the structure and purpose of federal grants. In these scenarios, this system would add a layer of administrative bureaucracy that will increase costs and decrease reliability of federal partners.

C. The City is also concerned with proposed changes to federal payment and financial management requirements under **2 C.F.R. §§ 200.302 (Financial management) and 200.305 (Federal payment)**, which govern the documentation and justification of payment requests. While current regulations already require that payments be limited to immediate cash needs and supported by appropriate financial records, the proposed revisions add new documentation layers and increase scrutiny associated with the drawdown of funds.

D. These expanded requirements require recipients to provide more detailed and contemporaneous justification for payment requests, increasing administrative burden and the risk of delays in reimbursement. For local governments managing complex infrastructure projects, such delays could disrupt project delivery, strain cash flow, and complicate the timely payment of contractors, particularly where projects rely on reimbursement-based funding structure.

E. Federal infrastructure grants function as long-term partnership funding mechanisms, supporting complex, multi-year projects that require substantial upfront local investment, coordinated procurement, and predictable reimbursement. These projects depend on the timely and reliable flow of federal funds to maintain construction schedules and fulfill contractual obligations.

F. The City's experience with its Port Infrastructure Development Program (PIDP) project (Homer Port Coastal FREIGHT) illustrates these risks. The project involves significant local financial commitments, binding contracts, and tightly sequenced construction activities constrained by seasonal windows and supply chain limitations. Delays in reimbursement—even if temporary—could disrupt project sequencing, delay contractor performance, and increase overall project costs.

G. Applying payment-screening mechanisms to active infrastructure awards creates a risk of delayed or interrupted disbursements due to administrative errors, data mismatches, or issues involving subrecipients or contractors. For projects such as the City's PIDP effort, where expenditures are already obligated and construction is underway or planned within limited seasonal windows, even brief payment interruptions could result in missed construction periods, remobilization costs, or contractual claims.

H. These risks are particularly acute in the current inflationary environment, where project costs escalate rapidly and delays directly translate into increased expenses. For rural Alaska communities, where mobilization costs are high and construction windows are short, timing is critical. In this context, delays in federal reimbursement do not merely slow progress but materially increase total project costs and financial exposure.

SECTION 6. REQUESTED ACTION

The City Council respectfully requests that OMB:

1. **Retain existing termination standards** in §200.340, limiting termination to noncompliance, mutual agreement, or statutory expiration, and decline to adopt a broad discretionary "national interest" standard;

2. **Retain public notice requirements** in §200.204, ensuring that all federal funding opportunities are publicly posted, with any exceptions narrowly limited to sensitive national security programs consistent with existing law;

3. **Maintain merit-based review in (2 C.F.R § 200.205)** as a binding component of award decisions, ensuring that federal funds are awarded based on project quality, readiness, and public benefit;

4. **If any expanded termination authority is adopted in (§200.340), require procedural safeguards**, including advance notice, clear justification, and an opportunity for affected recipients to respond and appeal before termination or modification of active awards supporting in-progress infrastructure projects.

5. **Refrain from integrating federal grant administration with the Treasury Do Not Pay system and Department of Homeland Security E-Verify system and adding additional layers of payment justification.** Federal infrastructure grants function as long-term partnership funding mechanisms and depend on timely, predictable reimbursement. If such integration is adopted, OMB should establish clear safeguards to ensure that payment screening does not disrupt project delivery, including:

    a. Timely notice to recipients of any payment flags or holds;
    b. A rapid resolution process with defined timelines;
    c. Limitations on payment holds for active, compliant awards; and
    d. Protections ensuring that administrative or data-related issues do not delay disbursements necessary to meet contractual obligations and maintain construction schedules.
    e. Will there be limits on the length or content of payment justifications? What level of detail will be required to demonstrate compliance?

6. **Extend the implementation date from October 1, 2026 to October 1, 2027.** If these sweeping changes are adopted, extending the implementation date by a year would allow time for federal agencies to implement relevant policies and procedures that would increase transparency and understanding by municipalities such as the City of Homer. It would also allow the City's finance department to develop policies and procedures to best prepare for implementation of the updated Uniform Guidance.

SECTION 7. TRANSMITTAL

The City Clerk is directed to transmit this Resolution to the Office of Management and Budget as a formal public comment, and to the City's Congressional delegation.

PASSED AND ADOPTED by the Homer City Council this 22nd day of June, 2026.

CITY OF HOMER

SHELLY ERICKSON, MAYOR PRO TEM

ATTEST:

AMY WOODRUFF, CITY CLERK

Fiscal Note: N/A