

Court Declares Unlawful Federal Grant Terminations Based on Changes to “Program Goals or Agency Priorities”

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by Alex Hontos, Matthew Gillespie, and Anna Ashley

In an important decision for recipients of federal funding, a federal court held that federal agencies may not terminate previously awarded grants merely because a new administration adopts new program goals or policy priorities, declaring unlawful a key authority for the federal government’s recent mass grant terminations.

Background

Twenty states, three governors, and the District of Columbia brought an action against an array of federal agencies asserting a pre-enforcement Administrative Procedure Act (“APA”) challenge to the administration’s interpretation of the government’s grant-termination authority under the Uniform Guidance, specifically 2 C.F.R. § 200.340(a)(4) (the “Termination Clause”), which provides:

The Federal award may be terminated in part or its entirety as follows: . . . The Federal agency or pass-through entity pursuant to the terms and conditions of the Federal award, including, to the extent authorized by law, if an award no longer effectuates the program goals or agency priorities.¹

In so doing, the plaintiffs challenged the key provision, found in many federal grants and cooperative agreements, that the Administration has relied upon to terminate billions of dollars of agreements over the last year-and-a-half. Notably, the plaintiffs did not seek reinstatement of grants previously terminated under this authority (perhaps an acknowledgment of the legal headwinds related to the Court of Federal Claims’ jurisdiction over such actions).

In their challenge, plaintiffs argued the Termination Clause was not, in effect, a termination for convenience, as the federal government could not redefine the “program goals or agency priorities” for a grant mid-performance.

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The Court's Decision

On July 17, 2026, the U.S. District Court for the District of Massachusetts ruled in favor of the plaintiffs, holding that “the Termination Clause does not permit agencies to terminate grants based on program goals and agency priorities identified after grants were awarded.” In reaching its holding, the court relied on the text and structure of the broader regulatory scheme, which the court found requires agencies to establish clear program goals, disclose funding priorities, and communicate performance expectations before issuing an award. The court also relied on OMB's explanation accompanying its rulemaking for the Termination Clause. The court reasoned that allowing an agency to replace those priorities after the award would undermine the Uniform Guidance's notice requirements.

The court also found that the government's interpretation raised concerns under the Spending Clause. Under *Pennhurst State School & Hospital v. Halderman*,² conditions attached to federal funding to States must be sufficiently clear to allow a recipient to make an informed decision whether to accept the funds. According to the court, a grantee cannot knowingly accept a funding condition if the agency may later change the goals against which the award will be measured.

Significantly, the ruling does not prevent agencies from changing their priorities for future funding opportunities. Nor does it prohibit termination for noncompliance or on other grounds authorized by the award terms, statute, or regulation. Rather, it limits agencies' ability to terminate an otherwise compliant award solely because the agency adopted different “program goals or agency priorities” after making the award—this of course was the basis for most of the billions of dollars in research and climate grants terminated by the Trump Administration over the past 18 months.

What This Means for Federal Grant Recipients

If the decision withstands appeal, one of the key tools used by federal agencies to terminate previously awarded grants will be unavailable as a basis to terminate future grants—at least for now (more on that below). The court granted the plaintiffs' motion for summary judgment on their declaratory judgment claim confirming future terminations of grants relying on a change in agency priorities since the award decision, will be suspect and subject to attack as violating the court's order—indeed, the declaration in the court's decision arguably protects all parties and non-parties from such a fate. And while the decision does not directly affect the rights of grant recipients and subrecipients who already had grants terminated under the Termination Clause, as the court declined to reinstate any terminated grants, it may be useful to those recipients if they challenge terminated grants as having been unlawful in separate litigation under the Tucker Act in the Court of Federal Claims. And because the relief is awarded under the APA, the Supreme Court's decision in *Trump v. CASA* proscribing so-called universal injunctions may mean that the decision has wider impact.

Institutions should carefully preserve and review the notice of funding opportunity, assistance listing, award terms, approved scope of work, stated program goals, performance measures, and agency communications. Those documents may help establish the priorities governing the award when it was made and whether a later termination rests on noncompliance, an authorized award condition, or a newly adopted policy position.

The court's order may be appealed, and institutions should continue to monitor further developments. Although the decision provides important guidance under the current Uniform Guidance, institutions should continue to monitor OMB's proposed revisions to the grant termination provisions. If adopted, those revisions could expand agencies' authority to terminate federal awards and change the regulatory framework that formed the basis for the court's decision, potentially limiting its application to grants awarded under the revised regulations. In the meantime, the opinion provides important support for colleges and universities administering federal grants by limiting agencies' ability to terminate existing awards based solely on policy priorities adopted after the awards were made.

¹ The plaintiffs also challenged an earlier version of the regulation, which had omitted the clause "pursuant to the terms and conditions of the Federal Award[.]" See 2 C.F.R. § 200.340(a)(4) (2021).

² 451 U.S. 1 (1981).