Key Steps For Traversing Federal Grant Terminations

By **Amy Fuentes and David Black** (May 28, 2025)

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Following implementation of the U.S. Department of Government Efficiency's cost efficiency initiative the Trump administration terminated billions of dollars in grant and cooperative agreement awards across various federal agencies. Recipients of these federal agreements cover a range of industries, and include companies, nonprofits, and universities and colleges.

Such widespread terminations are unprecedented. For grantees, the unexpected terminations or alterations in funding may have significant consequences, and necessitate a thorough understanding of the legal rights and obligations involved, either in challenging such terminations or engaging in grant termination settlements and closeout procedures.

The following guidance is designed to assist recipients as they triage their options upon receipt of a termination notice and decide whether to dispute it or proceed to grant closeout.

1. Initial Triage Efforts Upon Receipt of Termination Notice

The recipient should first ascertain the reason for the grant termination. Under Title 2 of the Code of Federal Regulations, Section 200.341(a), federal agencies are required to provide a written notice detailing the specific reasons for the termination, the effective date and, if the termination is partial, the portion of the award to be terminated. Any omissions or ambiguities should be promptly addressed in writing.

Upon receipt of a termination notice, the recipient should stop all terminated project work immediately, as the government has no obligation to reimburse the costs of work performed after the effective date of the termination.

The recipient should notify all potential partners, such as subrecipients and contractors, of the grant's termination and provide clear instructions consistent with the government's termination notice. The recipient should state clearly that future work under subawards and contracts will not be paid. The recipient should obtain a written confirmation of receipt of the termination notice from all parties involved.

After stopping work, a recipient should thoroughly document all costs and impacts associated with the termination. Ensure costs incurred responding to the termination are accounted for separately from regular operational expenses. This includes costs related to legal advice, storage or disposition of government property, transportation of employees, and settlement or termination of subrecipient agreements.

Separate timekeeping numbers or codes should be established to collect the costs of employee time spent responding to the termination. As with other allowable costs under the applicable federal cost principles, the recipient must collect documentation and proof of costs to seek reimbursement, either through a modification of the agreement, if advocacy efforts succeed, or through the grant closeout process.

2. Advocacy Efforts to Consider

When faced with a termination notice for a federal grant, recipients should consider whether the agency might be open to negotiating a scope change before proceeding with project termination and closeout. This strategy can help preserve valuable components of the project, especially if there is a business interest in maintaining certain elements.

Agencies may be willing to modify the project's scope after issuing a termination notice, particularly if the modifications can be shown to align with current administration priorities. This flexibility can potentially allow recipients to retain significant portions of their projects.

Moreover, recipients should not overlook the possibilities of political and policy advocacy. Engaging with members of Congress and governors, especially those from the affected districts or states, or those aligned with the president's party, can result in a reconsideration and reversal of a grant termination decision. These figures may be able to persuade federal agencies to reconsider termination decisions by communicating the project's positive impact on their regions or the alignment of the grant with political or policy priorities.

3. Determining Whether to Challenge the Termination or Proceed With Closeout

Considering whether, how and where to challenge a grant termination presents recipients with their own fork in the road. The initial decision is whether to challenge the legality of the grant termination or accept it and pursue recovery of allowable, allowable and reasonable costs in accordance with the closeout procedures.

Challenging the Grant Termination

Federal courts may exercise jurisdiction under the Administrative Procedure Act to assess whether a final agency action is arbitrary, capricious or contrary to law. An action can be initiated in a federal district court, either where the plaintiff resides or where the government agency is located, seeking judicial review under the APA and injunctive relief from agency actions that violate the APA.

The legal landscape regarding the APA's applicability to grant terminations is evolving. A district court's jurisdiction to hear an APA suit faces hurdles, primarily jurisdictional.

Many recipients of terminated grants have filed APA actions seeking to enjoin agencies from proceeding with grant terminations. As a general matter, district courts do not have APA jurisdiction to consider whether an agency has breached a contract or grant agreement, and may not issue judgments for the payment of money judgments.

Breach of contract claims for monetary damages fall under the U.S. Court of Federal Claims' jurisdiction, per the Tucker Act — Title 28 of the U.S. Code, Section 1491. However, district courts may review an agency action that violates a source of rights outside the grant agreement such that the claim is not in essence contractual.

Recipients of terminated grants have asserted APA claims for injunctive relief based on alleged violations of appropriations statutes, the Impoundment Control Act or constitutional provisions such as the appropriations, spending, and take care clauses.

District courts have authority to issue injunctions to enforce the APA and the legal requirements at issue in the case, even though one consequence of the injunction is that

the government may resume payments under a contract or grant.

On April 4, the U.S. Supreme Court issued a three-page expedited decision in U.S. Department of Education v. California. This decision stayed the U.S. Court of Appeals for the First Circuit's ruling, which had upheld a temporary restraining order requiring the agency to continue funding grants. The grants had been terminated with boilerplate letters citing a policy change.

A few weeks later in Widakuswara v. Lake, the U.S. Court of Appeals for the District of Columbia Circuit stayed, pending appeal, a D.C. district court's preliminary injunction under the APA, requiring the government to restore federal awards that funded contractors operating the Voice of America. In staying the U.S. District of Court for the District of Columbia's preliminary injunction restoring these grants, the D.C. Circuit's May 3 decision applied the Supreme Court's decision in California very broadly, holding that its reasoning controlled the Voice of America case.

These decisions narrow the window for grant recipients to seek injunctive relief under the APA following a grant termination. The D.C. Circuit's 2-1 panel decision in Widakuswara has been administratively stayed while the court considers the plaintiffs' motion for emergency review by the court sitting en banc.

Agencies often cite Section 200.340 as authority to terminate grants that no longer align with program goals or agency priorities. However, federal district courts have occasionally issued temporary or preliminary injunctions against such terminations that were demonstrated to be arbitrary, capricious, or unlawful. And for grants awarded after Oct. 1, 2024, termination based on this authority is impermissible unless the grant explicitly included a provision granting the government termination authority.

Even when termination authority is present, agency discretion is not boundless. Under the APA, an agency's decision must be rational and must adequately consider all significant aspects of the issue, including the reliance interests of grant recipients and program participants, as well as the consequences of halting funding for ongoing programs.

Agencies may need to demonstrate that new priorities or program goals were properly established by authorized personnel following the requisite procedures, and they must provide good reasons for these new priorities or goals. Given the expedited manner in which the current administration has been terminating grants, there is a possibility that the written explanations for such decisions may be deficient in some respects.

Whether a grant termination can be enjoined under the APA is an evolving area of law. Recipients of terminated grants will need to continue monitoring court decisions and develop thoughtful legal strategies to navigate jurisdictional challenges effectively.

Proceeding With Closeout Process and Procedures

When a grant recipient decides not to challenge the termination of a federal award under the APA, the next step is to proceed with closing out the award with the respective agency. This process involves fulfilling final award requirements and assembling a comprehensive closeout package.

To formally close out the award, the recipient must complete several key tasks.

- Submit all reports. This includes financial, performance, and any other reports required by the award.

- Liquidate financial obligations. Settle any financial commitments made under the award.

- Refund unobligated funds. Return any funds that were not authorized for retention in accordance with Section 200.344, Section 200.346, and Office of Management and Budget Circular A-129.

- Adjust the federal share of costs. Make necessary adjustments after submitting closeout reports.

- Account for property. Properly account for any property acquired with federal funds or received from the awarding agency.

Compliance with Section 200.344 and Section 200.345 is essential during this process.

In addition to the uniform grant guidance in Title 2 of the Code of Federal Regulations, recipients should adhere to any agency-specific closeout requirements outlined in the termination notice, as well as the respective agency's supplemental guidance.

If there is uncertainty, recipients should contact their federal counterparts in writing to request specific instructions for effectuating the termination and closeout. Obtaining written guidance helps ensure compliance and reduces the risk of future enforcement issues.

Recipients should be prepared for potential audits during the closeout process. Agencies often conduct audits to verify compliance with grant terms, and recipients must be ready to provide documentation and address any findings. By meticulously following agency-specific procedures, recipients can minimize liabilities and ensure a smooth transition from the terminated grant agreement.

The closeout package should include:

- A legal cover letter.
- Documentary proof of costs expended and claimed.
- Confirmation of completed regulatory actions.
- A final invoice seeking reimbursement for allowable, allocable costs.

This invoice may cover preparatory costs, such as equipment expenses, rental costs under unexpired leases, the costs of settling subawards and contracts, and reasonable costs

associated with legal, accounting, clerical and administrative assistance in preparing the package.

Internal costs related to final reports and package preparation should be tracked separately. An important cost principle addressing the allowability of termination and closeout costs is Section 200.472.

After submitting the closeout package, the agency will review it, and the parties will negotiate a final settlement. Given the potential for delays due to personnel changes at various federal agencies, it is crucial to submit a strong initial package to avoid issues that could delay payment and formal closeout.

If an impasse occurs regarding cost recovery, the recipient may consider filing a claim under the Tucker Act at the U.S. Court of Federal Claims. Before filing, the recipient may need to submit a prelitigation claim to the agency and exhaust administrative remedies. Maintaining thorough records of all costs and communications with the agency will protect the recipient's position and strengthen any future claims.

Conclusion

In light of the Trump administration's unprecedented termination of federal grants and cooperative agreements, recipients across various sectors must navigate a complex and rapidly evolving legal landscape to protect their interests.

Whether opting to challenge these or proceed with grant closeout procedures, recipients must meticulously document all costs and impacts, engage in strategic advocacy and comply with regulatory requirements.

Recent court decisions have resulted in jurisdictional hurdles, emphasizing the need for recipients to develop thoughtful strategies. By maintaining comprehensive records and adhering to agency-specific procedures, recipients can minimize their liabilities and safeguard their interests in this challenging legal environment.

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