WINSTON & STRAWN LLP

CLIENT ALERT

Safeguarding Public Health Grants: How States Fought Against Abrupt Federal Funding Cuts

JUNE 12, 2025

On May 16, 2025, the U.S. District Court for the District of Rhode Island granted a Motion for a Preliminary Injunction against the Department of Health and Human Services (HHS) and Secretary of Health and Human Services Robert F. Kennedy Jr.[1] As a result, HHS must continue to provide access to healthcare-related funding to the 23 plaintiff States and the District of Columbia (the States) after attempting to unilaterally terminate access to those funds, and it may not "tak[e] any action to reinstitute" the terminations "for the same or similar reasons."[2]

BACKGROUND

In response to the COVID-19 pandemic, Congress passed six appropriation acts. These acts allocated $5.4 trillion to help the U.S. respond to the ongoing pandemic, prepare for future public health crises, and support businesses impacted by the pandemic. HHS was tasked with distributing a large portion of the funds to the states. HHS allocated the funds to two of its sub-agencies; the Center for Disease Control (CDC) and the Substance Abuse and Mental Health Services Administration (SAMHSA), granting them the authority to distribute the funds.[3]

In June 2023, about a month after the pandemic's official end, Congress reviewed the appropriations and rescinded several, while allowing others to remain. HHS worked with states to administer these remaining appropriations, including by granting extensions to draw down funds and issuing guidance on appropriate uses of the funds beyond COVID-related concerns.[4] The remaining funds had multiple purposes, including providing immunizations to vulnerable populations, strengthening emergency preparedness for future health threats, providing mental health and substance abuse services, and modernizing public health infrastructure.

On March 24, 2025, HHS without any prior notice to the affected states terminated access to the remaining $11 billion in funding. HHS sent nearly identical termination notices to the States, without providing prior notice or hearings. The termination notices generally stated that terminations were for cause and "[t]he end of the pandemic provides cause to terminate COVID-related grants and cooperative agreements."[5] As a result, on April 1, 2025, the States sued to reverse the terminations, arguing that the termination of funds violated the Administrative Procedure Act (APA) and the Constitution.

THE PRELIMINARY INJUNCTION

To show the preliminary injunction was proper, the States needed to establish the risk of irreparable harm and prove a "likelihood of success on the merits."[6] The States brought seven total claims against HHS:

1. HHS exceeded its statutory authority by terminating funds despite clear congressional intent to leave such funding intact (*e.*, violating the Major Questions Doctrine).
2. HHS acted contrary to law and in excess of its statutory authority by terminating the SAMHSA grants in a manner that violated 42 U.S.C. 300x-55—which governs such funding and was the basis for HHS's authority in the termination letters.[7] Under 42 U.S.C. § 300x-55(a) HHS is required to make a determination that a State "materially failed to comply"[8] with grant agreements before terminating funds. Further, under 42 U.S.C. § 300x-55(g) HHS is prohibited from withholding any funds under subsection (c) without "an investigation concerning whether the State has expended funds…in accordance with the agreements."[9] In either instance, under 42 U.S.C. § 300x-55(e) HHS must first provide adequate notice and opportunity for a hearing before terminating or withholding funds.[10]
3. HHS acted contrary to law and in excess of its statutory authority as it "had no legal basis" to terminate the CDC grants, because the end of the pandemic is not "for cause" as required under 45 C.F.R. § 75.372(a)(2).[11]
4. HHS's terminations were "arbitrary and capricious"[12] because HHS violated statutory and regulatory authority and failed to (a) provide a rational basis for the decision, (b) undertake an individualized assessment or acknowledge the important public health initiatives supported by the grants, (c) provide a reasoned explanation for its change in position, and (d) consider the States' reliance interests.
5. HHS, as an agent of the Executive Branch, violated fundamental Separation of Powers principles and the Take Care Clause when it "usurped Congress's authority to spend and allocate funds how it deems appropriate"[13] by unilaterally terminating appropriated funds.
6. The terminations violated the Spending Clause.
7. HHS "lacked statutory or constitutional authority to terminate funds."[14]

Having ruled in favor of the State plaintiffs on Counts One through Five, the court declined to address Counts Six and Seven.

To justify the preliminary injunction, the States were also required to show "that irreparable injury is likely in the absence of an injunction."[15] The States made several arguments. First, they argued that terminating funding would impact their ability to protect public health, because they would be forced to lay off essential staff. Second, they argued that losing funding would impact their healthcare services, particularly services for mental health and substance abuse residents, vaccines for vulnerable populations, and services for infectious disease outbreaks. Finally, the States argued that they relied on the funding to strengthen their disease surveillance and laboratory infrastructure to respond to future health threats.

The court found that the States "clearly demonstrated they are likely to suffer irreparable harm absent preliminary injunctive relief."[16] While HHS argued that if it prevailed later in the litigation it would be unable to recover the funds, the court stated that Congress's "direction that the funds remain intact and the States' reliance on the continuation of the funding … overshadow[ed] that argument."[17]

The States needed to prove that the balance of equities and public interest strongly favored preliminary relief. HHS contended that it would be forced to act against the Executive's agenda. But the court found that argument unpersuasive. Rather, the court concluded that, after weighing "an agency's unreasoned, unsubstantiated, and likely unlawful determination that funding was 'no longer necessary,' against the States' interest and reliance on the funds to safeguard their public health outcomes, the balance of the equities and public interest are undeniably in the States' favor."[18]

In a final effort, HHS asked the court to impose a bond on the States. The court declined, stating that "it 'would defy logic—and contravene the very basis of this opinion—to hold' the States 'hostage for the resulting harm.'"[19]

KEY TAKEAWAYS

- HHS's termination of funding without explicit congressional authorization was deemed likely unlawful. State entity grant recipients and healthcare industry stakeholders downstream from state entity grantees should closely monitor HHS actions to ensure compliance with statutory authority.
- HHS and its sub-agencies may be required to adhere to procedural requirements, including providing notice and conducting hearings, before terminating funding. Companies should ensure procedural compliance in their interactions with federal agencies.
- HHS and its sub-agencies' decisions lacking a rational basis or reasonable explanation are unlikely to be upheld when challenged. Healthcare industry participants should document reliance interests and advocate for reasoned decision-making.
- The court's emphasis on the public interest in maintaining health funding highlights the importance of these programs. Industry stakeholders should, where possible, align their operations with public health priorities to improve positioning should further litigation challenges to federal agency action be deemed necessary.

If you have any questions regarding this or related subjects or if you need assistance, please contact the authors of this article (T. Reed Stephens, Co-Chair of Winston's Health Care and Life Sciences Industry Group; Christopher Parker, Associate in the White Collar & Government Investigations Group; Regan Rusher, Associate in the Employee Benefits & Executive Compensation Group; and, Ian Redmond, Summer Associate in General Litigation) or your Winston & Strawn relationship attorney. You can also visit our Health Care Practice webpage and our Benefits Blast blog for more information on this and related subjects.

---

[1] 2025 WL 1426226 (D.R.I. May 16, 2025).

[2] *Id*. at 24.

[3] *Id*. at 2.

[4] *Id*. at 3.

[5] *Id*. at 4.

[6] *Id*. at 10.

[7] *Id*. at 14.

[8] *Id*.

[9] 42 U.S.C. § 300x-55(g)(3)

[10] 42 U.S.C. § 300x-55(e)

[11] 2025 WL 1426226 at 15 (D.R.I. May 16, 2025).

[12] *Id*. at 16.

[13] *Id*. at 19.

[14] *Id*. at 10.

[15] *Id*. at 19.

[16] *Id*. at 23.

[17] *Id*.

[18] *Id*.

[19] *Id*. at 24 (quoting Woonasquatucket River Watershed Council v. U.S. Dep't of Agric, 2025 WL 1116157 at 24 (D.R.I. Apr. 15, 2025)).

6 Min Read

Authors

T. Reed Stephens

Christopher M. Parker

Regan S. Rusher

Ian Redmond

Related Topics

Health and Human Services (HHS)

Related Capabilities

Health Care

Related Professionals

T. Reed Stephens

Christopher M. Parker

Regan S. Rusher