

Court Ruling Curtails Administration's Ability to Terminate Grants Based on New Priorities

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On March 24, 2026, the U.S. District Court for the Northern District of Illinois decided that federal grantees can challenge grant terminations by the Administration if at the time of termination the grantees were compliant with Administration policies that were in place at the time the grant was awarded, as opposed to new rules or policies subsequently imposed by the Trump Administration. This decision could aid federal contractors and grantees in their legal challenges to the numerous contract and grant terminations, which have occurred since January 2025, based on alleged failure of the contracts or grants to align with or effectuate new Administration programs, policies, goals, and/or priorities, including, but not limited to, those relating to diversity, equity and inclusion (DEI) programs and policies.

In Chicago Transit Authority v. United States DOT, 2026 U.S. Dist. LEXIS 61864 (N.D. Ill. 2026), the plaintiff, Chicago Transit Authority (CTA), sued the U.S. Department of Transportation (DOT), challenging the suspension of over \$2 billion in federal grant payments for two major transit projects—the Red and Purple Modernization Project and the Red Line Extension Project—that were awarded on January 10, 2025. As an express condition of those grants, the CTA was required to set Disadvantaged Business Enterprise (DBE) participation goals. In October 2025, in response to Trump Administration policies, the DOT issued an interim final rule eliminating race- and gender-based presumptions from the DBE program and immediately suspended all CTA disbursements, pending DOT compliance reviews. Despite the CTA's assertions that it had fully complied with DOT's information requests, the grant payments were never resumed.

As to jurisdiction, the District Court found that it, rather than the U.S. Court of Federal Claims, could hear the CTA's claims under the Administrative Procedure Act (APA) because "the source" of plaintiff's challenge was the government's enforcement of the anti-discrimination provisions under Title VI (42 U.S.C. § 2000d). *Id.* at 7. The Court concluded that "Title VI expressly vests in federal courts jurisdiction to review agency action terminating or refusing to grant or to continue financial assistance," noting that the CTA did "not seek payment pursuant to terms of the grants," but sought only to vacate the DOT's retroactive application of the agency's Interim Final Rule suspending the grant payments. *Id.* at *6, *9. The Court found that the CTA did not challenge the terms of the grant themselves and that the claims under Title VI "displace[d] the Court of Federal Claims' exclusive jurisdiction." *Id.* at *5, *8.

The Court granted the CTA's claims on the merits under the APA, set aside the DOT's grant payment suspension and issued a temporary restraining order. The Court found that the agency's suspension was unreasonable and arbitrary

and capricious because the agency failed to justify its retroactive application of the interim final rule as “necessary or reasonable.” *Id.* at *10. The Court emphasized that while the Administration has the authority to “change policy,” the DOT cannot, without a reasonable and necessary justification, retroactively apply new Administration policies, nor impose penalties on grantees for complying with regulations that were in place when the grant was awarded.

The Court also held that the DOT could not selectively enforce the interim final rule only on grantees connected to the cities of Chicago and New York and such “targeted enforcement” was “likely arbitrary and capricious.” *Id.* at *12. The Court found that the DOT failed to provide “any justification for targeted enforcement of what should otherwise be a policy applicable to all DOT’s grants nationwide,” and concluded that the DOT’s limited selected enforcement likely was a “pretextual basis for some other interest unrelated to actual compliance with Defendants’ stated concerns,” in violation of the APA. *Id.* at *11–12.

Finally, the Court found that the DOT’s grant terminations failed to follow various notice and other procedural requirements and safeguards contained in the APA, Title VI, and grant regulations codified in 2 C.F.R. Part 200. *Id.* at *15–16.

The Court’s ruling may assist terminated federal grantees and contractors in their numerous ongoing challenges to terminations, which largely have been based on agencies’ claims that recipients’ grants or contracts no longer align with or effectuate the Administration’s programs, policies, goals, or priorities. If the *Chi. Transit Auth.* court’s reasoning is adopted by other district courts, challenges seeking to enjoin anti-discrimination enforcement by agencies under Title VI can be brought in U.S. district courts, and the government should not be able to terminate federal contracts or grants for failing to meet rules, regulations, or policies imposed *after* the contract or grant was awarded, absent the government showing a “reasonable justification” to warrant the termination under the APA. The APA requires that such termination decisions by an agency must include a satisfactory explanation for its action, including a rational connection between the facts found and the choices made. *Id.* at *12. Furthermore, selective terminations of certain contracts or grants, especially those regarding DEI programs or policies, may now be challenged as arbitrary and capricious under the APA, if the government cannot offer a reasonable justification for selectively enforcing Title VI to terminate or suspend funding for certain grants, but not others. The government almost certainly will appeal this ruling, but federal contractors and grantees should keep a close watch, as the outcome may significantly impact their businesses going forward.

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