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PROPOSED OMB RULE TO OVERHAUL FEDERAL GRANTMAKING. In late May, the Office of Management and Budget (OMB) issued a proposed rule that would implement sweeping changes to the regulatory framework governing federal grants, cooperative agreements, and all other forms of federal financial assistance across federal agencies. If finalized, the rule would fundamentally overhaul the process for how federal awards are distributed to universities, research institutions, non-profit organizations, hospitals, state and local governments, and other organizations that receive federal funding.

This proposed regulation represents a significant shift in federal funding policy, with implications across NIH, CDC, ARPA-H, and other federal research agencies. The proposal would codify into regulation several priorities from executive orders issued at the start of the second Trump administration, most notably EO 14332 "Improving Oversight of Federal Grantmaking", as well as orders addressing diversity, equity, and inclusion (DEI), gender-related issues, and affirmative action. A summary of the proposed rule's provisions impacting research can be found here.

The comment period of the proposed rule closed on July 13, and OMB has indicated it intends to issue a final rule by October 1 so that all discretionary grants issued in FY27 are governed by the new requirements. Legal challenges are expected to follow when any final rule takes effect.

HOUSE APPROPRIATIONS COMMITTEE RELEASES FISCAL YEAR 2027 LHHSE SPENDING BILL. On June 4, the House Appropriations Committee released its version of the Fiscal Year (FY) 2027 Labor, Health and Human Services, Education, and Related Agencies (LHHSE) spending bill, which proposes $111.9 billion for the Department of Health and Human Services (HHS), a $4.5 billion decrease from enacted FY26 levels.

The bill provides $48.8 billion for the National Institutes of Health (NIH), a $100 million increase over its FY26 amount, while the *Eunice Kennedy Shriver* National Institute of Child Health and Human Development (NICHD) remains level funded at $1.7 billion. The measure would cap NIH's use of multi-year funding for research grants at FY25 levels, maintaining the parameters established in the FY26 spending legislation. It also maintains a longstanding appropriations provision prohibiting changes to indirect cost rates and continues funding all 27 NIH institutes and centers, a signal that any future NIH restructuring plan would need to be pursued through separate legislation. Overall, the committee's proposal rejects many of the deep cuts to NIH included in the president's budget request.

However, the proposal does make significant cuts across other health agencies. The bill slashes the budget for the Centers for Disease Control and Prevention (CDC) by $1 billion and would eliminate funding for CDC gun violence prevention research. It would also cut HRSA's budget by $440 million, though it maintains level funding for the Pediatric Specialty Loan Repayment Program (PSLRP).

The bill also eliminates funding for the Agency for Healthcare Research and Quality (AHRQ), characterizing the agency's work as duplicative of similar research at NIH and CDC. It also would rescind funding for the Patient-Centered Outcomes Research Trust Fund, effectively eliminating the Patient-Centered Outcomes Research Institute (PCORI). Furthermore, the House bill omits funding for NIH's Environmental influences on Child Health Outcomes (ECHO) program, which has historically received $180 million to support research on how environmental factors affect children's health and development.

Congress still has significant work ahead to complete FY27 appropriations, particularly as the Senate has yet to advance its own appropriations bills for the coming fiscal year. With the government funding process unlikely to be complete before the end of the fiscal year on September 30, House Speaker Mike Johnson (R-La.) introduced plans to advance a continuing resolution to keep the government operating through December 4, and a short-term spending patch extending funding through the midterm elections appears to be the most likely path forward at this juncture. PPC and other child health advocates will continue urging congressional appropriators to pass full-year spending bills with robust funding for key child health priorities.

CMS ACCEPTS COMMENTS ON MEDICAID PAYMENT RULE TARGETING STATE DIRECTED PAYMENTS. On May 20, the Centers for Medicare and Medicaid Services (CMS) released a proposed rule that would severely limit state directed payments (SDPs) used in Medicaid managed care, a financing tool that states use to support providers and strengthen access to care.

SDPs allow state Medicaid agencies to direct managed care organizations to pay providers according to specific rates or payment methods approved by CMS. States have used these payments to help offset low Medicaid reimbursement rates, sustain safety-net hospitals, support access to specialized services, invest in workforce capacity in underserved areas, and address behavioral health needs. Pediatric hospitals and other child-serving providers often rely on these payments because Medicaid covers nearly half of all children nationwide, and over 75% of Medicaid-enrolled children are covered by managed care.

The proposed rule would codify provisions enacted in last year's H.R. 1 reconciliation bill by capping certain SDPs at 100% of Medicare rates for Medicaid expansion states and 110% of Medicare rates for non-expansion states for rating periods beginning on or after July 4, 2025. The statutory caps apply to categories such as inpatient and outpatient hospital services, nursing facility services, and qualified practitioner services at academic medical centers. However, CMS also proposes extending these SDP caps across all services, going beyond what the law requires.

If finalized as written, the rule could significantly reduce Medicaid payments to hospitals and other pediatric care facilities that depend on Medicaid revenue to operate and maintain access to care. The public comment period for this rule closed on July 21, and the PPC groups joined a child health coalition comment letter for this rule.

CMS ISSUES RESTRICTIVE FINAL RULE ON MEDICAID WORK REQUIREMENTS. In early June, CMS also released a separate rule implementing H.R. 1 Medicaid provisions, this one focused on work requirements for Medicaid eligibility. The rule details how states must implement the requirements by January 1, 2027. Under H.R. 1, adults ages 19-64 must document at least 80 hours per month of work, volunteering, or education to maintain Medicaid eligibility. Parents of children 13 or younger and caregivers for individuals with disabilities are exempt from these requirements.

Since the law's passage last summer, states have been preparing for implementation and have undertaken differing approaches, including developing verification systems, drafting exemption criteria, and building infrastructure to track compliance. Much of this work had been done in anticipation of federal guidance about how to define certain exemptions as well as community engagement activities and what verification methods will be accepted.

The final rule sharply deviates from what states were anticipating. CMS establishes a highly restrictive framework for determining exemptions, including a tight definition of medical frailty that requires individualized assessments of each applicant's ability to work. The rule offers limited options for demonstrating work or exemption status, with self-reporting only allowed in 2027 and then significantly limited beginning in 2028. CMS also declined to provide standardized assessment tools or criteria.

As a result, states now face an unprecedented operational challenge of evaluating the functional work capacity of every applicant on a case-by-case basis, with far less administrative discretion than previously anticipated. Though the rule is final, CMS is accepting public comments through July 31. Those interested may consider submitting comments on Regulations.gov. Additional background information about the rule and comment guidance can be found here.

FEDERAL COURT STRIKES DOWN $100K H-1B VISA FEE. On June 8, a federal judge struck down the Trump administration's $100,000 fee on new H-1B visas, ruling that the policy exceeded the administration's authority. Announced last September, the fee would have significantly restricted access to visas for highly skilled foreign workers, including international medical graduates who help address physician shortages across multiple pediatric subspecialties, particularly in underserved areas.

The administration has appealed the ruling. As of June 12, the same federal court reversed its administrative stay, effectively reinstating the fee while the administration seeks emergency relief from the U.S. Court of Appeals for the First Circuit.

PPC and other physician advocates continue to oppose the fee's application to health care professionals. In April, the PPC joined 47 medical groups in signing onto a letter supporting bipartisan legislation that would exempt physicians and other health care professionals from the $100,000 fee for new H-1B visas.

RECONCILIATION BILL FUNDING IMMIGRATION ENFORCEMENT SIGNED INTO LAW. On June 9, the House cleared roughly $70 billion for immigration enforcement agencies, funding that had been carved out of an earlier agreement to reopen the rest of the Department of Homeland Security. President Trump signed the measure into law the next day. The funds would remain available through the rest of the Trump administration and into 2029.

Building on the major increases provided to U.S. Immigration and Customs Enforcement (ICE) and U.S. Customs and Border Protection (CBP) in last year's H.R. 1 reconciliation bill, the latest bill gives both agencies additional resources to sustain expanded enforcement operations and increase immigration detention capacity, including family detention. Pediatric and child health advocates have sounded the alarm about the effects of expanded enforcement and family detention on child health, including the short- and long-term consequences of detention, and have pushed for policies that protect sensitive locations, such as schools and health clinics, from enforcement.

The House of Representatives is currently pursuing another budget reconciliation bill, known colloquially as Reconciliation 3.0, to provide funding for defense activities and advance other Republican priorities ahead of the midterm elections. However, the prospects of the bill in both the House and Senate remain highly uncertain, and very few legislative days remain before November.

NIH PROPOSES CAP ON SIMULTANEOUS RESEARCH PROJECT GRANTS. NIH has released a new Request for Information on a proposed policy that would limit the number of Research Project Grants (RPGs) on which an individual can simultaneously serve as a Principal Investigator (PI) or Multi-PI at once. The agency is considering caps of two, three, or four grants, arguing that such a limit would broaden the distribution of federal research funding, strengthen support for early- and mid-career investigators, and improve oversight of funded research projects.

NIH outlines two potential implementation pathways. A gradual phased-down approach would allow PIs currently above the cap to reduce their portfolios over time – primarily by not renewing certain grants, transferring PI roles to other qualified researchers, or allowing awards to end at the close of their next budget period. Institutions would need to ensure PIs are at or below the cap before accepting new awards. A second, more rapid approach would require institutions to bring all PIs into alignment within one year. This could involve ending grants at the conclusion of their current budget period or seeking NIH approval to transfer awards to other investigators.

Comments on this RFI are being accepted through August 3.