

Federal Grant Administration in Governmental Bankruptcies

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ABSTRACT

Who should benefit from the billions of dollars in stimulus that federal grant spending creates when a city is bankrupt—creditors or communities? The Puerto Rico bankruptcy demonstrated that neither bankruptcy courts nor government grant-making agencies really know what to do in that situation, and that their actions created moral hazards that benefited moral hazards that benefited its creditors post-Hurricane Maria. I argue that giving communities the benefit of economic stimulus created by federal spending makes more sense as a matter of Congressional grant policy and bankruptcy law.

Federal grant making agencies should actively engage with bankruptcy courts and coordinate directly with them to ensure bankruptcy governments use those grant dollars, and any economic stimulus those funds create toward meeting Maintenance of Effort and other Congressionally mandated grant purposes. Doing so would meet bankruptcy law's goal of ensuring the debtor has a fresh start and minimizes the need to seek bankruptcy protection in the future.