Maine County Commissioners Association

4 Gabriel Drive, Suite 2 Augusta, ME 04330, 207-623-4697
www.mainecounties.org

January 21, 2026

Sen. Baldacci, Chair
Rep. Salisbury, Chair
Joint Standing Committee on State
And Local Government
100 State House Station
Augusta, ME 04333

Re: ***Comments of MCCA re LD 2009, An Act to Allow a Political Subdivision to Enter into Federal Bankruptcy Proceedings***

Chair Baldacci, Chair Salisbury, and Members of the Joint Standing Committee on State and Local Government:

On behalf of the Maine County Commissioners Association (MCCA), we appreciate the opportunity to provide testimony in respectful ***opposition*** to LD 2009. We understand this bill is likely before the Legislature to help address the recent financial challenges confronting a particular county in Maine, and we further understand that the goal of the bill is to be helpful by providing more options for local governments in Maine to respond to financial crises. However, we are unable to support this bill because creating a right for local governments to declare bankruptcy carries with it the risk that lending institutions must increase the cost of local borrowing to offset the higher risk of loan delinquency due to bankruptcy – a risk that currently does not exist in Maine.

About MCCA. Briefly, the Maine County Commissioners Association was established in 1890 to assist Maine's county government in providing vital services to Maine citizens in a responsive, efficient, and credible manner. The Association is based in Augusta, represents all 16 of Maine's counties, and is governed by a board with representation from each participating county.

What does LD 2009 do? Under current federal bankruptcy law, municipalities may not declare bankruptcy unless permitted under state law. In Maine, the right to bankruptcy does not exist for municipalities or counties, hence such entities may not declare bankruptcy under any circumstances.

LD 2009 would change current law by authorizing both counties and municipalities to seek relief under federal bankruptcy law. By establishing bankruptcy authority for local governments, the bill would create a new legal framework governing how fiscal distress may be addressed at the local level.

Context and historical experience. Maine counties and municipalities have a long history of meeting their financial obligations without need to resort to the federal bankruptcy code. Local governments endeavor to pass balanced budgets and maintain a fund balance to offset unexpected expenses. In the highly unlikely instance where revenue shortfalls may impact debt repayment obligations, these challenges can be addressed by restructuring the debt, issuance of tax anticipation notes, and/or raising taxes. The ultimate failsafe is the ability to raise taxes to meet debt obligations.

Potential statewide impacts beyond any single local government. Although LD 2009 may be viewed as addressing circumstances in a specific county or municipality, MCCA's concern is that authorizing bankruptcy could have consequences well beyond the jurisdiction of any individual local government. Financial markets do not assess risk on a jurisdiction-by-jurisdiction basis in isolation. Instead, they evaluate statewide legal frameworks and categories of governmental entities.

In this regard, county and municipal bond ratings play a critical role in how borrowing costs are established when local units of government seek to finance essential public infrastructure and services. Under current Maine law, lenders do not need to worry about the risk of bankruptcy and the potential that their loan may be discharged in bankruptcy. As a result, lenders do not need to price this risk into the cost of lending. However, if LD 2009 were adopted and the potential for bankruptcy were introduced, lender would need to consider this new risk—whether or not it materializes—and likely translate that risk into higher interest rates for county and municipal borrowers. These higher interest rates in turn would require more debt service and higher taxes to pay for the higher costs.

Conclusion. For these reasons, the Maine County Commissioners Association very much appreciates the spirit of LD 2009, which is to provide more options for local government in Maine. However, because of the potential effects of this bill on local bond ratings and borrowing costs, we respectfully urge the Committee to vote ought not to pass on this bill.

Respectfully submitted,

Commissioner Kevin Kelley, Waldo County
Co-Chair, Legislative Policy Committee, MCCA

Commissioner Jean-Marie Caterina, Cumberland County
Co-Chair, Legislative Policy Committee, MCCA

cc: Commissioner Andre Cushing, Penobscot County. President, MCCA
James I. Cohen, Verrill Dana, LLP. Legislative counsel for MCCA