



### **Testimony in Support of LD 2009:**

“An Act to Allow a Political Subdivision to Enter into Federal Bankruptcy Proceedings”

Senator Baldacci, Representative Salisbury, and the distinguished members of the Committee on State and Local Government, my name is Harris Van Pate and I serve as policy analyst for Maine Policy Institute. Maine Policy is a free-market think tank, a nonpartisan, non-profit organization that advocates for individual liberty and economic freedom in Maine. I respectfully submit this testimony in support of LD 2009, “An Act to Allow a Political Subdivision to Enter into Federal Bankruptcy Proceedings.”

LD 2009 is a prudent, forward-thinking proposal that provides Maine’s counties and municipalities with a tool for financial self-governance and responsibility. By granting local governments the authority to enter into Chapter 9 bankruptcy proceedings—under clearly defined conditions—this bill empowers local officials to address fiscal emergencies without relying on state bailouts, tax hikes, or unsustainable financial practices.

Under this legislation, a county or municipality may only file for bankruptcy after:

1. Exhausting all reasonable alternatives to resolving its debt obligations,
2. Receiving a determination of insolvency from the State Auditor, and
3. Securing majority approval from its governing body.

These safeguards ensure that this extraordinary measure is used only as a last resort, and with transparency and accountability. Importantly, LD 2009 does not mandate insolvency proceedings, but rather provides an optional, legal remedy for municipalities facing severe financial distress—much like tools available to cities and counties in other states. Maine Policy Institute supports this measure for several reasons:

#### **It promotes local fiscal responsibility**

Rather than pressuring the state to assume local debt or compel residents to bear higher taxes, LD 2009 enables local governments to manage their own obligations through a federally supervised restructuring process. This aligns with the principle that those closest to the issue are best equipped to address it—without burdening state taxpayers.

#### **It creates an incentive for prudent governance**

The mere existence of a legal mechanism for bankruptcy can encourage municipal officials to take proactive steps to avoid insolvency. Financial decisions—particularly



concerning debt issuance, long-term liabilities, and public employee contracts—would necessarily be made with greater care when potential consequences are real.

### **It reduces pressure for state-level bailouts and new mandates**

When municipalities have no exit strategy from mounting obligations, pressure grows for the state to intervene—often at the expense of other communities or taxpayers. LD 2009 mitigates this moral hazard by creating a structured process under federal law, rather than shifting the burden to state government or other jurisdictions.

### **It aligns with a commitment to long-term reform**

Across the country, Chapter 9 has provided municipalities in crisis an opportunity to restructure debt, renegotiate unsustainable contracts, and emerge on stronger footing.<sup>1</sup> Maine should not deny itself access to a mechanism that has helped restore financial order elsewhere when all other options have failed.

In a time of rising costs and economic uncertainty, Maine must prepare for the possibility that some communities may find themselves unable to meet their financial obligations. LD 2009 gives those communities a responsible and transparent path forward—without compromising the fiscal integrity of the state or infringing upon the rights of taxpayers.

For these reasons, Maine Policy Institute strongly supports LD 2009 and urges the committee to vote Ought to Pass. Thank you for your time and consideration.

---

<sup>1</sup>

<https://www.orrick.com/en/Insights/2025/10/Municipal-Bankruptcy-Avoiding-and-Using-Chapter-9-in-Times-of-Fiscal-Stress-Third-Edition>