

rowed dollar and the extension would mean we would pay 57 cents on every borrowed dollar. In postponing paying through borrowing the State does incur additional cost in the form of higher interest charges.

Finally, I would like to speak briefly about flexibility. I think, too, this is important but I get a different answer than extension of the maturing length. The significant factor to be observed in arranging the term of the debt is the effect of the debt on state finances. The existence of debt lessens the state's freedom of action in financial matters, it compels the state to apportion a part of its current revenues in a predetermined and fixed manner. It reduces the state's ability to meet new demand and new emergencies. New conditions may arise in which the State will need all possible freedom of action to change its disposition of its revenue.

THE CHAIRMAN: Your time has expired.

DELEGATE MENTZER: One more sentence. The longer its debts run the longer the State has to wait for such freedom and in this sense a 25-year term gives far less flexibility—the 15-year gives far greater flexibility than a 25-year one and I am glad to sponsor this amendment.

THE CHAIRMAN: Delegate Sherbow.

DELEGATE SHERBOW: I yield up to seven minutes to Delegate Case.

THE CHAIRMAN: Delegate Case.

DELEGATE CASE: Mr. Chairman, ladies and gentlemen of the Committee, early in October when the matter of the maturity of state bonds was before the Committee on State Finance and Taxation, I wrote a letter to the editor of the Baltimore Sun which was reprinted and placed on every delegate's desk. That letter stated the case for a maturity limit of state bonds of up to 25 years. To refresh your memory I would like to make to you tonight the salient points I made in that letter.

The case for 25-year maturity limit for state bond indebtedness is as follows: First, the maturity of state bonds should equate to the life of the facility for which the monies are borrowed to erect. As much as I hate to disagree with my good friend, Delegate Stern, it is incorrect that this principle is applicable to revenue bonds and not to general obligation bonds.

All the teachings and all of the lexicon of financing states exactly to the contrary.

This principle is applicable to general obligation bonds. Quite to the contrary, the maturity of revenue bonds is fixed not by the length of the asset's life for which the bonds are floated but rather based upon the tolls that can be collected from the revenue facilities. The case in point is the Kennedy Expressway, a transaction in which I approved the bond issue of the State. There we started by determining what the tolls could be, what the traffic would bear. When that figure was determined, we worked out what length of maturity bond issue could be sustained by that amount of tolls. So just to the contrary of what Delegate Stern has told you, in a revenue bond financing the length of the facility is based upon the tolls you can collect from the bridge or road or building you are erecting and a general obligation bond issue the length of time of the bond issue is equated to the life of the facility.

The facilities for which these bonds are to be issued in the future will last for at least 25 years and, therefore, a 25-year limit is the more practical time.

Secondly, a 25-year maturity limit would attract a larger group of buyers for the bonds. The testimony was clear and unequivocal before our Committee that the longer the maturity the better the market for the bonds. The reason for this is, ladies and gentlemen, that there are a number of buyers of municipal bonds who will not buy 15-year bonds. Insurance companies are a case in point. They will buy 25-year bond maturities; they do not want 15-year bond maturities. This means we would have a large market for the bonds and as Judge Sherbow has expressed since the credit rating and interest rates are based upon the market place, since the market place is based on the law of supply and demand the more demand you have the better your bond issue.

Thirdly, the 25-year bond limit or maturity limit would encourage more political subdivisions to use the state aid which is granted under certain programs we now have in this State. The questions which Delegate Marvin Smith raised are right at point. Today there is one political subdivision which because of the limit of 15 years on the state maturities has simply not used one of the major programs in our State, namely the program of financing state schools.

Another political subdivision, the one from which Delegate Mentzer and Delegate Stern come, has only partially used this program because of the restrictive feature