

CHAPTER 7

Patterns of Revenue Bond Financing*

1. THE GROWING IMPORTANCE OF REVENUE BOND FINANCING, 1946-65

Prior to World War II, revenue bond financing by municipal and other public instrumentalities enjoyed only a limited acceptance. While municipal public utility revenue bonds had been known since the turn of the century, this type of public financing of revenue projects in the prewar years was not extensive, particularly through the medium of independent instrumentalities such as public authorities. Among such projects in 1946 were the Hudson and East River crossings of the Port of New York Authority and the Triborough Bridge Authority and the toll road constructed by the Pennsylvania Turnpike Authority.

In the immediate years before the war, public authority revenue financing received an important impetus from decisions of the Federal courts affirming the status of the Port of New York and Triborough Authorities as political subdivisions entitled to exemption from Federal income taxation of interest on their bonds. *Commissioner of Internal Revenue v. Shamberg's Estate* (1944), 144 F 2d 998, Cert. denied, 323 U.S. 792; *Commissioner of Internal Revenue v. White's Estate et al.* (1944), 144 F 2d 1019; Cert. denied, 323 U.S. 792. With the termination of the war in 1945, the demand for public improvements, long subordinated to military requirements, became vocal. The elimination of price controls and the need for higher taxes to finance ordinary municipal operations led State and municipal officials to seek new means for raising capital for needed public improvements without a corresponding rise in the tax level. They turned to revenue bond financing, which offered a welcome combination of primary expense to the user and primary risk on the investor without a corresponding drain on the general funds or (in most cases), a charge against the debt limit. With an increasing awareness on the part of the courts of the expanding nature of public purpose, the acceptance by State legislatures of revenue bond financing of self-liquidating projects was swift.

In 1946, new issues of revenue bonds by municipal and public agencies accounted for \$205,860,000, or 17 percent of the total municipal bonds issued. In 1947 this ratio fell to slightly more than 16 percent. In 1954, the peak year of toll road financing, revenue bonds accounted for \$3,214,381,100, or 46 percent, of total municipal bonds issued; 1963 saw the largest annual volume of revenue bonds, amounting to \$4,037,470,000, or nearly 40 percent of the total municipal

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