

industry in order to revitalize areas suffering from unemployment and economic recession. With limited exceptions, the courts have held that the economic objectives of such development justify the issuance of revenue bonds by municipal corporations. In a typical case, the proceeds of these bonds are used by the municipality to acquire and construct an industrial plant which is leased to a company on a long-term basis. The rentals are sufficient to pay the debt service on the bonds and are unconditionally guaranteed by the company. The operating costs are usually assumed by the company. In most cases the credit of the municipality is not involved since the bonds are secured solely by the revenues derived from the leasing of the plant.

Another development in revenue bond financing during the past two decades has been in the nature of the issuer. Prior to World War II, a large amount of revenue bond financing was by municipalities, particularly with respect to electric, water, and other utility services. Public authorities and special districts were active—Port of New York, Triborough, Pennsylvania Turnpike, Consumers Public Power District, among others—but they had not attained the importance which they acquired during the 1950's. In that decade most of the toll road authorities were created and issued their bonds. Power authorities and districts, such as Power Authority of the State of New York, became active and financed their great revenue projects. Several regional compact agencies with revenue bond-issuing powers were created during this period and issued bonds. In addition, the period saw the creation of nonprofit corporations as governmental subdivisions for the purpose of issuing revenue bonds and constructing public improvements.

The year 1954 witnessed the second largest annual volume of revenue bond issues, in large part due to the toll road financings. Public authorities in New York, New Jersey, and Illinois financed turnpikes through giant revenue bond issues. These and others proved financially successful. The successful financings of this period far outweighed the few disappointments. These latter included toll roads in West Virginia and Illinois, bridges on the Missouri River, and a few others.

A development in revenue bond financing during the period 1946–66 was the increased use of advance refunding. Refunding of revenue bonds is, of course, not new. Bond resolutions and trust indentures ordinarily provide for the issuance of bonds to refund outstanding revenue bonds when subject to redemption. During the past 5 years, issuers were anxious to replace outstanding high-interest bonds with more moderately priced obligations. In addition, some issuers felt the need to modify or eliminate restrictive conditions in outstanding bond resolutions, particularly with respect to the issuance of additional bonds. In many cases, the bonds to be refunded were not callable for several years. Accordingly, advance refundings were developed, whereby the issuer sold refunding bonds and placed the proceeds in escrow pending the redemption of the outstanding bonds on the first call date. Where the resolution securing the outstanding bonds contained adequate defeasance provisions, the placing of sufficient funds in escrow to retire the outstanding bonds on the redemption date had the effect of discharging the outstanding bond resolution or indenture. Where such provisions were absent, interest on the refunding bonds was paid from investment income until the out-