

standing bonds could be redeemed and the old resolution discharged. This method of advance refunding, which could be justified either because it offered savings in overall interest cost to the issuer or because it aided in removing onerous bond restrictions which prevented additional financing of public improvements, reached its peak in 1963 and accounts in part for the record volume of revenue bond issues in that year.

A development which has affected revenue bond financing is the controversy as to whether national banks may lawfully underwrite certain revenue bonds as general obligations under the Glass-Steagall Banking Act of 1933. The Comptroller of the Currency has ruled that revenue bonds issued by certain public authorities—e.g., the Port of New York Authority—are general obligations within the meaning of the Federal law, even though not supported by a pledge of tax funds, and are therefore eligible for underwriting by national banks. The question is presently before the courts.

3. SIGNIFICANT CHANGES IN PREVAILING ATTITUDES REGARDING CERTAIN REVENUE BOND SECURITY REQUIREMENTS

There have been important changes since 1946 in revenue bond security requirements contained in bond resolutions, trust indentures, and similar instruments securing the issuance of revenue bonds. These changes reflect an increased market for revenue bonds, particularly among institutional investors and fiduciaries, and this expanding market has resulted in a greater demand for reasonable assurance against falling off of revenues which might lead to a default on the bonds. Also, as they became more experienced with revenue bonds as a vehicle for financing public improvements, responsible issuers, bond counsel, and underwriters, have sought to strengthen and improve upon the instruments securing the bonds in order to afford greater protection both to the public and the investor in the application of many hundreds of millions of dollars of bond proceeds and revenues.

Debt service coverage requirements are stricter in 1966 than they were in 1946. In many resolutions and trust agreements in the 1946 period, it was not uncommon to require an issuer to maintain tolls or other revenues sufficient only to meet operating expenses and debt service as it became due. Today it is generally customary to require that tolls shall be maintained at a rate sufficient to provide revenues equal to operating expenses and debt service plus a margin of safety, depending upon the nature of the issuer, the project, and the certainty of the flow of revenues. A hydroelectric power project financed by revenue bonds secured by long-term power contracts with responsible purchasers may not need a margin greater than 10 or 20 percent. Water and sewer revenue bond issues, with their assured consumer demand, do not ordinarily require large coverage margins. However, a toll road or bridge, dependent upon motorists' needs and subject to competition with federally financed free roads of comparable standards, may require a margin of 25, 30, or 50 percent of net revenues over debt service.

Related to the debt service coverage requirement is the requirement for debt service reserves. Provision for this reserve is customarily contained in the flow of funds established by the bond resolution and often follows immediately upon the allocation of revenues for current