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What Is an Industrial Development Bond and Why Does It Matter When Interpreting Blue Sky Laws? - Harris Beach

When it comes to the proper application of Blue Sky laws relating to the issuance of municipal securities, interpretations matter. And so does a sense of history, given evolutions in various related state and federal regulations.

Today we're taking a look at one of the finer points in the analysis of the Blue Sky law in Arizona. You will recall that we previously wrote about Arizona and its approach to the [municipal issuer exemption](#).

One ambiguity in Arizona concerns the proper definition of industrial development bonds, or IDBs.

The Arizona statute refers to IDBs as defined in the 1954 code, which has been superseded by the 1986 code. The 1986 Code no longer uses the definition of IDBs and instead uses the alternative term of "private activity bond" in place of industrial development bond.

Some practitioners take the position that 501(c)(3) Bonds, which were new to the 1986 Code, would have been IDBs under the 1954 code — and therefore, the exemption from registration does not apply.

Others argue that since 501(c)(3) Bonds were not IDBs under the 1954 Code, the exemption does apply because these bonds do not get captured by the express language of the statute.

In our view, short of further guidance from Arizona, a strict interpretation of the law means it is limited to just IDBs from the 1954 Code and 501(c)(3) bonds are not included and therefore exempt.

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