

# **Bond Case Briefs**

*Municipal Finance Law Since 1971*

---

## **Meadowlands Mega-Mall Wins Bond-Market Subsidy It Long Coveted.**

New Jersey is on the brink of realizing the American Dream — if the definition is a mega-mall in the middle of a marsh.

A state agency approved \$1.2 billion of tax-exempt municipal bonds for Canadian developers Triple Five Worldwide. The company plans to complete a partially built “world-class destination” of shops, restaurants and entertainment attractions in the Meadowlands, 10 miles west of Manhattan, where previous developers ran out of money.

The Sept. 15 decision to float the bonds reignites a debate in New Jersey over the use of government subsidies to foster economic development. Buyers of the bonds won’t pay federal tax on the income, making U.S. taxpayers silent partners in the project. And in addition to paying a lower interest rate than they would on taxable bonds, the developers get a \$390 million state grant over time if they reach sales-tax targets.

“It’s essentially crony capitalism,” said Republican State Senator Michael Doherty, who represents a west-central New Jersey district. “Our credit rating is in the crapper and we’re going to triple down by giving more than \$1 billion to a private mall developer.” The state has halted non-emergency road improvements for lack of money and faces an \$80 billion pension deficit.

### **Boost Economy**

To supporters, American Dream promises to boost New Jersey’s economy, which lagged the U.S. through most of the recovery. The state’s Economic Development Authority estimates it will generate \$340 million in state tax revenue over 20 years and create about 11,000 full- and part-time jobs at the complex and 5,800 construction jobs.

“We’ve had false starts,” said James Cassella, mayor of East Rutherford, New Jersey, where the complex sits unfinished. “Hopefully this time is real.”

The 2.9 million square-foot (270,000 square-meter) American Dream, originally called Xanadu, features an indoor amusement park and water park, an 800-foot (245-meter) indoor ski slope, a 300-foot Ferris wheel, aquarium, 1,500-seat performing-arts theater, skating rink and a 1,400-seat movie theater with “wind, rain, snow, fog and scents all synchronized to the on-screen action,” the company says. It will also have 500 stores, restaurants and food shops.

### **MetLife Stadium**

The project broke ground in 2004 across the highway from what is now MetLife Stadium. Construction was abandoned after Mills Corp. and Mack-Cali Realty Corp. and then Colony Capital LLC ran short of funding.

Every day for the last 10-plus years, hundreds of thousands of people pass by what looks to be aging,

scattered hunks of metal and concrete, painted in checkerboard shades of pastel blue and orange near the New Jersey Turnpike and within sight of NJTransit commuter trains.

Now construction cranes have appeared again.

Triple Five, run by the billionaire Ghermezian family that also owns Mall of America in Minnesota and West Edmonton Mall in Canada, says it'll succeed where the others failed. It says the development, slated to open in 2018, will offer plenty to entice an estimated 40 million annual shoppers and thrill-seekers from all over the area and the world.

### **Tax Dollars**

"This will bring much-needed jobs and tax dollars back to our region," said Rick Sabato, president of the Bergen County Building and Construction Trades Council.

Critics say the development will suck business away from existing enterprises. Paramus, New Jersey, 10 miles north, has three indoor malls, including the 2.1 million square foot Garden State Plaza, owned by Westfield Corp.

The nonprofit New Jersey Alliance for Fiscal Integrity asked a state court last week to stop the project, saying the New Jersey Sports and Exposition Authority, which owns the site, violated state law when it authorized the bonds.

### **Tax exempt**

Tax-exempt bonds are normally used for roads, sewers, schools and bridges.

In order for Edmonton, Alberta-based Triple Five to be eligible, a state or local government must finance the project and the company must pay bondholders what's called PILOT, or payment in lieu of taxes. Triple Five will pay \$800 million of the bond debt in this way.

Triple Five won't pay property taxes to its host town either. Instead, East Rutherford will receive an upfront payment of more than \$20 million from the bond sale and annual payments starting at \$750,000 when American Dream opens. Triple Five will also make infrastructure improvements to smooth traffic.

A Brookings Institution report this month found that, since 2000, tax-exempt financing of professional sports stadiums has siphoned \$3.7 billion from federal revenue. The report didn't mention malls.

Rather than sell bonds to the public, the Sports and Exposition Authority will sell them to the Wisconsin Public Finance Authority, which will in turn market its own debt to the public. Tony Armlin, Triple Five's vice president of development and construction, said the Wisconsin agency charges lower issuance fees.

New Jersey officials have said New Jersey taxpayers won't be at risk if the bonds default.

Goldman Sachs Group Inc. is managing the tax-exempt bond issue for Triple Five.

### **Rug Merchant**

Don Ghermezian, president of Triple Five, is the grandson of Jacob Ghermezian, an Iranian rug merchant who moved to Canada in 1964. The family built a real estate empire that also includes

banking and energy divisions.

Triple Five is investing \$300 million in cash and borrowing another \$1.5 billion through a construction loan arranged by Deutsche Bank AG.

Triple Five, which says it's leased 70 percent of the complex, is forecasting \$1.5 billion in annual retail sales, even though Bergen County is the last county in the country with a ban on Sunday shopping.

### **Political Contributions**

Bloomberg News reported that members of the Ghermezian family and their employees contributed \$40,000 to the New Jersey State Republican Committee in May and \$50,000 to the Republican National Committee in June, according to campaign-finance records.

"It's indicative of a sick economy in New Jersey that you keep having to do these special deals for connected people," said Doherty, the state senator.

American Dream may end up providing ammunition to critics of the tax-exemption for municipal bonds, said Lisa Washburn, a managing director at Municipal Market Analytics.

New Jersey is "bending over backwards to provide tax-exempt financing along with a whole host of other sweeteners in order to get a non-essential project, benefiting a for-profit company," Washburn said. "It just doesn't look good."

### **Bloomberg Markets**

by Martin Z Braun

September 26, 2016 — 2:00 AM PDT