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Fortress's Muni-Fueled Florida Rail Dream Faces Wary Investors.

Fortress Investment Group LLC's plan to sell \$1.75 billion of municipal debt to build the first privately run passenger railroad in a century is drawing opposition from some Florida residents. Bond buyers may pose a bigger obstacle.

Debt of All Aboard Florida, the company owned by Fortress private-equity funds that's building the project, has lost more than 7 percent of its market value since it was issued in June. And the company has been paying interest in kind, racking up more debt, according to data compiled by Bloomberg.

The Florida train is part of a quest in the U.S. to revive the 19th-century mode of transportation even as Amtrak, the national passenger railroad, loses money. Investors said the \$3 billion project may struggle to make enough to pay its debt.

"This is a very high-risk project," said Dan Heckman, senior fixed-income strategist in Kansas City, Missouri, with U.S. Bank Wealth Management, which oversees \$126 billion. "I would question whether they would get the kind of ridership they may need quickly enough to make it work."

The 235-mile (378 kilometer) line would link Orlando to Miami. As highways grow increasingly clogged, privately funded railroads have been proposed in Texas and the Washington area. California's already started work on a high-speed line to be funded in part with private money.

Lower Yields

All Aboard is asking the state-run Florida Development Finance Corp. to approve the sale of municipal debt to finance the railroad, which would have stations in Miami, Fort Lauderdale, West Palm Beach and at Orlando International Airport. That approach would allow it to borrow at tax-exempt rates, which are lower than on corporate bonds.

Gordon Runte, a spokesman for New York-based Fortress, declined to comment.

The project has drawn opposition from residents who are concerned that towns along the route would suffer and question the company's commitment to keeping it running.

"They're going to build this all up and sell it," said Tom Campenni, a councilman in Stuart, Florida, a coastal city along its route. "It will put a burden on our community."

Companies can raise money for public works such as airline hangers, toll roads and real-estate developments, as long as state or local-governments agree to issue the securities. All Aboard would be responsible for paying the debt. Taxpayers won't be liable if it defaults.

Awaiting Approval

At an April 20 meeting of Florida's development agency in Tallahassee, dozens of people urged officials to reject the bond plan. No date has been set to vote on it, said Beth Frady, a spokeswoman for Enterprise Florida, which oversees the development agency.

All Aboard says the rail line will provide an economic boost and reduce highway congestion.

"There is tremendous need in-state for a reliable and convenient transportation alternative to air-and-car travel," Lynn Martenstein, an All Aboard spokeswoman, said in an e-mail.

When All Aboard sold \$405 million of corporate debt in June, it paid a 12 percent interest-rate on five-year bonds. The price tumbled to a record low of 93.5 cents on the dollar by April 1 from from \$1.03 in June, pushing the yield to 14.7 percent, a level typically associated with distressed securities. Five-year munis with the lowest investment grades yield about 2.1 percent, according to Bloomberg data.

Not Recommended

Marilyn Cohen, president of Envision Capital Management in El Segundo, California, said she's leery of the possibility that the project's price tag will swell.

"The fact that they're trying to offload their risk to investors is very telling," said Cohen, who manages \$345 million for individual investors. "This isn't something I would recommend for my clients."

While it will lay some tracks, All Aboard is mostly using existing freight lines. Work has already started on the segment from Miami to West Palm Beach, which the company plans to open late next year. The entire railroad is expected to be running in 2017.

On a Feb. 26 earnings call with investors, Wesley Edens, a co-chairman of Fortress, said the company will benefit from developments around the railway.

He said the railroad is a "wild card that could have nothing but upside."

(An earlier version of this story corrected the spelling of Stuart, Florida.)

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