
Fortress Debt Sale for Vegas Train Sees Bond Market Skeptics.

- **Nuveen's Miller says focus should be on inaugural line first**
- **Brightline has October deadline to attract municipal investors**

During the municipal-debt market's pre-pandemic boom days, investors poured almost $2 billion into America's first new privately financed intercity passenger rail in a century, allowing Fortress Investment Group to expand its unprofitable line to Orlando.

Now Fortress is back, seeking $4.2 billion more to build a new railroad to Las Vegas from a desert town near Victorville, California, about 90 miles (145 kilometers) outside Los Angeles. But even the investor who bought about 80% of the previous deal said the company should focus on improving its inaugural train before trying to market the largest ever offering of unrated muni bonds as Covid-19 sidelines travelers.

"Before we even go down that path, let's get more detail and more accomplishment in Florida," said John Miller, head of municipal investments at Nuveen LLC, which holds about $1.4 billion of the bonds sold for the project under the name of Virgin Trains USA. "And if that were to occur successfully, I think the whole marketplace would then be a lot more excited about Victorville to Vegas."

The massive offering will test the appetite for risky municipal securities in a market where investors are desperate for fatter returns amid historically low interest rates. And it comes as local governments face great economic uncertainty from the pandemic, as well as challenges for the train company as it navigates a contested breakup with Richard Branson's Virgin brand and tries to boost ridership.

"There's a lot of negatives," said Dan Solender, head of municipal debt at Lord, Abbett & Co., which runs a $3.2 billion high-yield fund among its total $29.5 billion in municipals under management. "You don't know if there's really a demand for this type of thing. The history in Florida is not very good right now for how that's going."

Last year, 1 million passengers rode the Florida railroad, half the number estimated. In addition, the system was supposed to earn $37 of total revenue per passenger in 2019; instead, it was an average of about $22.

The company, which is now calling itself Brightline Trains LLC, is planning three more stations along the existing line besides building the extension to Orlando's airport. It's in talks with Walt Disney Parks and Resorts to put a stop at the Orlando attraction as well, and with Miami-Dade County for a new commuter rail service, according to regulatory filings. But its service has been suspended indefinitely since March 25 because of the pandemic.

The Las Vegas line, compared with the Florida one, requires much more buy-in from investors — and more of them. For the roughly $5 billion project, $3.25 billion in bonds will be issued through a

California agency and $950 million from a Nevada one, according to company statements. Fortress's contribution to the venture is about $600 million, or about 12% of the capital structure, according to documents presented to Nevada's board of finance. In contrast, its investment in the Florida line was about 36%.

The California and Nevada debt will be sold as private activity bonds, which are meant for ventures for the public interest that are capped annually by the federal government. The decision by officials in California to spend that scarce low-cost financing resource on a train to shuttle tourists to casinos raised the ire of advocates who had pressed for all of the state's allocation to go toward alleviating California's housing crisis.

California set an Oct. 1 deadline for the bond sale. The company intends to market the bonds by the end of September, spokesman Ben Porritt said. He wouldn't say if the company would ask for permission to put off the sale until next year. He also declined to comment on investor concerns about the project.

With a completed bond sale for the Las Vegas venture, combined with that for the Florida line, Brightline would account for about $6 billion of high-yield debt in the municipal market. And that doesn't include another $950 million the company could sell in additional borrowing for the Florida system because it has yet to convert the equivalent in variable-rate financing done in 2019 into long-term securities.

The thinly-traded Florida bonds haven't benefited as much from the rally in high-yield debt after the pandemic-triggered March rout. A 6.5% coupon security due in 2049 traded July 30 at an average price of 86 cents on the dollar, compared with about 104 cents in February, according to data compiled by Bloomberg.

Investors are wondering if holding that much long-term debt will pay off given trends that may diminish ridership, such as self-driving cars and increased online gaming.

"I do think there are some clear changes we're going to have with how people choose to interact with each other," said Terry Goode, a senior portfolio manager at Wells Capital Management, which holds $2.3 billion in high-yield securities among its $41 billion in municipal debt under management. "It's all going to boil down to whether people buy into train travel, and whether they feel like train travel from Victorville to Las Vegas, for whatever pricing, whether that makes sense."

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