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Fortress Eyes Junk Market for Record Las Vegas Train Deal.

- **Morgan Stanley pitching buyers on \$3.2 billion of muni bonds**
- **Proceeds will fund passenger rail to Las Vegas from California**

Fortress Investment Group is turning to corporate junk-bond buyers and overseas investors to help finance its planned passenger train from Southern California to Las Vegas through the sale of \$3.2 billion of tax-exempt debt, a deal that's far larger than most issued in the state and local-government securities market.

Morgan Stanley, the lead underwriter, began reaching out to traditional U.S. high-yield money managers on Tuesday to gauge interest, according to people familiar with the matter who asked not to be identified because the discussions are private. The bank has also pitched the securities to European bond buyers familiar with infrastructure projects.

Such buyers are likely needed given the size of the securities offering. It would be the largest ever sale of unrated debt in the municipal market, a haven for risk averse investors where high-yield bonds are largely held by a handful of firms.

In initial conversations with potential buyers, the bank has indicated that the securities will yield as much as 7.5%, the people said. The sale is not expected to price until next week. A 7.5% yield for 30-year debt would be nearly five times what the highest rated state and local governments pay, data compiled by Bloomberg show.

Ben Porritt, a spokesperson for Fortress's Brightline Holdings, the company behind the railroad, said the project is generating a lot of interest. "Brightline West is one of the most ambitious and transformative projects in the country and we are excited to introduce it to investors," he said.

A spokesperson for Morgan Stanley declined to comment.

The offering will test the appetite for risky securities in the municipal market, where investors are desperate for fatter returns amid historically low interest rates. It comes as the pandemic continues to weigh on the economy, including the travel and entertainment industry that the Brightline project depends upon.

The sale is being done through California and Nevada agencies that extended their power to issue tax-exempt debt. The proceeds will finance construction of a rail line from Las Vegas to the California desert town of Apple Valley, about 90 miles (145 kilometers) from Los Angeles. The company intends to issue more debt to finance an extension to Los Angeles that will begin running in 2024, according to offering documents.

Offering tax-exempt bonds to high-yield investors worked out well for Fortress last year, when it raised a then-record \$1.75 billion of unrated municipal debt for a passenger rail project in Florida under the name Virgin Trains USA. Those securities were sold at initial yields of as much as 6.5%.

The unprofitable Florida line, however, has struggled to meet revenue estimates and has suspended

service because of the pandemic. The price of its bonds due in 2049 has slid to 87.5 cents on the dollar to yield around 8.6%. The company is looking to boost future ridership by adding stations.

Bloomberg Markets

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September 29, 2020, 12:57 PM PDT

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