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[Las Vegas High-Speed Rail Bonds Test Wall Street's Risk Appetite.]

- **Yield-hungry buyers eye $3.2 billion in unrated municipal debt**
- **After deadline extended, deal planned for next week: sources**

Fortress Investment Group plans to sell a record $3.2 billion of unrated municipal securities next week to finance a passenger train to Las Vegas. The pricing will signal how far investors will go for higher returns amid persistently low rates and economic uncertainty.

Morgan Stanley, the lead underwriter, intends to set pricing terms next week, according to people familiar with the matter who asked not to be identified because the discussions are private. The deal is listed as day-to-day. Samantha Kreloff, a spokesperson for Morgan Stanley, declined to comment on the timing.

The company's Brightline Holdings expects the rail to ultimately extend to Los Angeles. For now, the bond issue will cover a 169-mile (272-kilometer) line connecting Las Vegas to a southern California desert town called Apple Valley, 90 miles away from downtown. The venture plans to raise a total of $6.5 billion in debt for the $8 billion project. The first high-speed, fully electric rail in the U.S. will run in 2024, according to offering documents.

Success of this deal will show that "there's a lot of people looking for yield in this low-rate environment and people are comfortable with the risks of infrastructure projects," said Dan Solender, head of municipal debt at Lord, Abbett & Co.

In a video to prospective buyers, Brightline predicted profit margins of at least 70%. Its train would provide a comfortable and environmentally friendly ride to Las Vegas and take about three hours, compared with up to six hours by car, and entail less hassle than flying. Potential pitfalls listed in the offering documents include construction delays and diminished demand because of the coronavirus pandemic and more specific issues like Richard Branson's Virgin Enterprises Ltd. challenging Brightline's termination of their branding agreement.

Brightline had said it planned to sell the debt for the Las Vegas rail by Sept. 30 to meet a California deadline, but it received an extension to Dec. 1. In September, Brightline sold $1 billion in short-term securities to preserve its federal allocation of so-called private activity bonds that it will refinance next year, according to offering documents.

Last week, Morgan Stanley pitched corporate junk-bond buyers and overseas investors on the offering and suggested yields as high as 7.5%, according to people familiar with the matter who asked not to be named as the talks were private. That yield on a 30-year bond would be about four times what the highest rated state and local governments pay, data compiled by Bloomberg show. Ben Porritt, a Brightline spokesman, declined to comment on the deal.

Fortress, owned by Softbank Group Corp., has invested more than $30 billion in infrastructure-related assets over the past decade. Officials in California and Nevada, which awarded the company the ability to issue tax-exempt debt, have touted the prospect of jobs and economic development the project could bring. The company is considering adding a commuter station in Hesperia, California along the line. Office workers could use the rail instead of driving, said Jim Colby, senior municipal strategist at Van Eck Associates Corp.

“Long-term, this has some aspects that are positive, and not just driven by tourism,” Colby said. “Pandemic aside, this probably can be a profitable enterprise.”

Profits haven’t materialized for the company’s previous venture, the first privately funded intercity passenger train in the U.S. in a century. The luxury rail line in Florida has struggled to meet revenue estimates and has suspended service because of the pandemic. The company is looking to boost future ridership by adding stations.

Fortress last year raised a then-record $1.75 billion of unrated municipal debt for the project under the name Virgin Trains USA. Those securities were sold at initial yields of as much as 6.5%. The price of its bonds due in 2049 has slid to an average of 87 cents on the dollar.

For the Las Vegas to Los Angeles venture, the company projects $1.1 billion in annual revenue in 2027, after three years of operations, according to the offering documents. It expects about 11 million one-way trips that year.

The securities are being marketed as green bonds because they’re financing clean transportation and environmentally friendly buildings. Besides eliminating tons of carbon emissions annually by replacing car trips, the company will pledge to plant a tree for every ride.

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By Romy Varghese

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— With assistance by Davide Scigliuzzo