Bond Case Briefs

Municipal Finance Law Since 1971

Fortress Eases Nuveen's Concerns With Tweaks to Vegas Deal.

- **Nuveen's Miller now sees debt 'in a more positive light'**
- **Deal scaled back, with more protections for bondholders**

Nuveen's John Miller, the biggest backer of Fortress Investment Group Inc.'s Brightline passenger railroad in Florida, had been skeptical of plans to forge ahead swiftly with a multi-billion dollar venture to build a second line running between Southern California and Las Vegas.

But with the company now offering to buy back some of its Florida bonds and provide added safeguards for investors, Miller said in an interview that he's starting to see the debt offered for the Las Vegas project "in a more positive light."

With this week's changes, Fortress is counting on money managers like Miller, who runs the biggest high-yield mutual fund in the tax-exempt debt market, to complete a record sale of unrated municipal bonds to finance its latest venture just as the coronavirus is roiling the tourism and transit industries.

Deal Changes

Fortress-backed Brightline Holdings cut the size of the debt sale by about $800 million to $2.4 billion, according to a preliminary pricing wire viewed by Bloomberg, an indication that some investors were balking at buying the securities.

On Tuesday, Brightline offered to buy as much as $250 million of bonds sold for its Florida railroad for 100 cents on the dollar, about 17% more than where some of them have been trading, on the condition that its sale for the Las Vegas line occurs. It also said it will lengthen the ability to tap a reserve account for debt payments, a protection for bondholders.

In addition, last week Fortress told prospective buyers that it put more equity into the Las Vegas project and did a similar extension of the period that a reserve account could be used for debt payments. While the bonds being marketed 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 Los Angeles, Fortress plans to ultimately connect to an existing rail station serving the second-most populous U.S. city.

'Positive' Change

The action on the Florida bonds shows Fortress's commitment to that project and "improves the confidence level" in the Las Vegas venture, said Miller, whose firm manages about $30 billion in high-yield bonds and owns 80% of those issued for the Florida railroad. Also, the proposed connection to Los Angeles is "a really important change from a fundamental standpoint and a positive," Miller said.

“These are the sorts of the points of progress that should for our team get us more excited about Los Angeles to Las Vegas,” said Miller, who declined to say whether the firm would buy the debt.

Fortress has until Dec. 1 to turn enthusiasm into orders to meet a deadline for the sale from California, which extended the company the power to sell tax-exempt debt through a state agency. Officials there and in Nevada, which approved similar authority, declined to comment on the decision to cut the size of the debt offering. Brightline spokesperson Ben Porritt declined to comment.

Fortress needs continued support for the Las Vegas venture, with plans to raise a total of $6.4 billion in debt for the $8.4 billion project it expects to open for service in 2024.

Borrowing Surge

The Brightline debt sale is coming just as municipal managers are swamped with new offerings as governments race to borrow now in case the November presidential election upsets financial markets.

At $2.4 billion, the offering is “still a pretty sizable high yield deal that is not without risk,” 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. He noted that it also comes amid a busy debt sale calendar and “just before potential volatility from the election.”

Bloomberg Markets

By Romy Varghese

October 21, 2020, 4:00 AM PDT Updated on October 21, 2020, 9:03 AM PDT

— With assistance by Danielle Moran