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Fortress Fails to Sell Record Bond Deal for Las Vegas Rail.

- **'There is not a lot of liquidity,' California treasurer says**
- **California to take back bond capacity, offer to other projects**

Fortress Investment Group is postponing its plan to build a train to Las Vegas from Southern California after failing to sell a record amount of unrated municipal debt to finance the speculative project, showing the limits of investor appetite amid an economic downturn.

Since the end of September, Fortress, through its company Brightline Holdings, had been marketing $3.2 billion of debt to be issued through California and Nevada agencies. It subsequently reduced the size to a still-record offering of $2.4 billion and tried to purchase some of the bonds it sold for a Florida rail as a way to entice investors to commit to the Las Vegas sale before terminating that buyback offer Friday.

"Unfortunately there is not a lot of liquidity in the market and a lot of economic uncertainty at this moment," California Treasurer Fiona Ma said Saturday by email. "The project is postponed until market liquidity improves."

Brightline spokesman Ben Porritt confirmed the postponement. "We will continue to move the project forward," he said Saturday by email.

California and Nevada had given Fortress the ability to sell private activity bonds, which are meant for ventures for the public interest that are capped annually in each state by the federal government. California had provided the bulk, $600 million, which was leveraged four times to $2.4 billion in bonds because of federal rules extending that special boost to railroads.

California had given Fortress a Dec. 1 deadline to sell the bonds. Now, Ma said, the state will take back the bond capacity and give it to affordable housing projects and other kinds of qualifying ventures, such as recycling facilities. Before Fortress won its allocation from Ma's debt committee earlier this year, affordable housing advocates had pressed for all of the state's low-cost financing resource to go toward easing California's homelessness crisis.

Ma said she didn't know when Fortress would return to California to request bonds again.

"That will be part of the discussions with Brightline West over the next several weeks," she said.

The failure to sell the bonds shows that deal sweeteners and juicy yields weren't enough to overcome investor concerns about a project that depends on the recovery of the pandemic-ravaged travel and entertainment industries and has few comparisons in the U.S.

While Fortress said the rail would ultimately go to Los Angeles, it would need to do multiple rounds of financing to do so. The venture planned to raise a total of $6.38 billion in debt for the $8.4 billion project. The bond issue would have financed construction for a 169-mile (272-kilometer) line connecting Las Vegas to a Southern California desert town called Apple Valley, 90 miles away from downtown.

Lead underwriter Morgan Stanley pitched corporate junk-bond buyers and overseas investors, as well as traditional municipal-bond managers, according to people familiar with the matter who asked not to be named as the talks were private. Prospective yields in October ranged from 7% to 7.5% depending on the call dates, with final maturity in 2050. That yield on a 30-year bond would have been about four times what the highest rated state and local governments pay, data compiled by Bloomberg show.

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