

# Bond Case Briefs

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## Fortress Returns to Muni Market, This Time For Florida Train.

- **Firm's \$950 million offering follows \$2.4 billion failed sale**
- **Planned buyback is helping to lift prices of existing bonds**

Less than two months after failing to sell \$2.4 billion of unrated municipal debt for a Las Vegas tourist train, Fortress Investment Group is back in the market — this time with a smaller deal for its inaugural rail in Florida.

Through its company Brightline Holdings LLC, Fortress on Thursday is planning to sell \$950 million of unrated tax-exempt debt, with proceeds financing the train's extension to Orlando from West Palm Beach. Last year, it sold \$1.75 billion for the country's first new privately financed intercity passenger rail in a century, launched in 2018 along Florida's east coast.

The train missed passenger and revenue forecasts even before the coronavirus pandemic forced it to suspend operations in March. But in this offering, the company touts its plans for a new station at Walt Disney World property near Orlando and three more in the works along its initial line from Miami to West Palm Beach. And it says more revenue is likely from fees paid by Miami-Dade County, which wants to use the corridor for a separate commuter service.

It projects 9.9 million passengers and \$792 million in revenue in 2024, its first full year of complete operations, or almost four times the average revenue per passenger seen in 2019.

This sale comes after Fortress in late October pulled the deal for its proposed rail to Las Vegas that failed to attract enough interest following weeks of investor pitches even after it was downsized from \$3.2 billion. The postponement was a "positive" for the Florida train, said John Miller at Nuveen LLC, which holds 80% of the bonds sold for it. Before Fortress offered the bonds for the Las Vegas venture, Miller had said he had wanted to see the \$950 million deal converting short-term securities sold in 2019 into long-term debt first.

The new bonds maturing in 2049 were being offered with a 7.375% coupon, a 7.75% yield and a price of about 95.73, according to a preliminary pricing wire viewed by Bloomberg Tuesday. That's higher than the 94 cents on the dollar reached by an existing bond on Dec. 4, according to data compiled by Bloomberg.

The Florida train still has potential after the coronavirus pandemic is over and the full line is running, said Miller, head of municipal investments at Nuveen, which holds about \$1.4 billion of the bonds sold for the project under the name of Virgin Trains USA.

"This is essentially a construction project until it's finalized," Miller said. "The long-term popularity of the route, which will be seen in 2023, the long-term popularity of Florida for both a destination and increasingly a place to live, the long-term traffic trend — those are all unchanged."

Fortress has also dangled a sweetener for investors: it's willing to buy back \$250 million of the

existing Florida bonds at par, contingent on this week's deal getting completed. It had tried that with the Las Vegas deal without success, but after this buyback offer was made last week, prices of some of the thinly-traded bonds rose to the highest since March.

## **Heavy Demand**

The \$950 million deal, which comes amid heavy demand for high-yield securities, will test how far investors will go for juicier returns. In 2019, buyers of the Fortress bonds weighed more typical risks such as whether passenger estimates would materialize and construction would proceed as planned. Now, investors have those risks, plus uncertainty over whether and when tourism will bounce back after the Covid vaccine, said Terry Goode, a senior portfolio manager at Wells Capital Management.

"In this particular environment, there's probably even more uncertainty around whether that ridership will be there and how soon it will be there," Goode said.

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. In an online presentation, the company said it had "strong momentum" and was on track to carry 2 million passengers this year before Covid.

The train is expected to reopen for service in the third quarter next year, bond documents show. Construction of the 168-mile extension to Orlando International Airport has continued amid the pandemic, and service is slated to start in 2022. The station at Disney Springs, a retail and entertainment complex a mile from the theme park, is projected to open in 2023.

## **Second Run**

While he's a "bit skeptical" about the train's latest forecasts, Jason Appleson at PT Asset Management said the company "has made some very good improvements." The buyback offer shows Fortress is "willing to stand behind the project," said Appleson, who helps manage about \$2.5 billion in municipal debt, including Fortress bonds.

Success in Florida could facilitate a second run at issuing bonds for the Las Vegas venture. California Treasurer Fiona Ma said she expects Fortress to return in the first quarter next year to request a smaller amount of bonding authority from the state.

"The focus on Vegas was too early," Miller said. "At some point next year, I think they would have a better chance of parlaying that success story in Florida into a new issue."

## **Bloomberg Markets**

By Romy Varghese

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— *With assistance by Danielle Moran, Natalia Lenkiewicz, and Bert Louis*