

THE BOND BUYER

\$950 million in bonds for Florida's Virgin Trains USA price Thursday

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The Florida Development Finance Corp. plans to issue \$950 million of short-term, tax exempt private activity bonds Thursday for the privately owned passenger train project now known as Virgin Trains USA.

Morgan Stanley & Co., which is pricing the flexible-rate deal, said in a pre-sale guidance document that the bonds are subject to alternative minimum tax and will have a 1.95% coupon. The bonds will be backed by escrowed Treasuries with a mandatory tender date of March 17, 2020, according to the pricing guide.

The short-term structure is designed to allow the train company to comply with a deadline set by the U.S. Department of Transportation, which allocated the PABs in March and said they must be issued by June 30. The structure preserves the company's ability to issue long term bonds in the future.

Moody's Investors Service rated the bonds Aaa/VMIG-1 because of the deal's "strong legal structure and the high credit quality of investments" securing the debt.

"The VMIG-1 short-term rating is based on cash flow projections that demonstrate that total trustee-held monies in the escrow reserve redemption account will be sufficient for full and timely debt service payments through and including the mandatory tender date in March 2020," Moody's said.

The structure also allows the bonds to be sold in minimum denominations of \$5,000.

When the escrow is released, the bonds are expected to be restructured as long-term financing and a limited offering memorandum will be prepared so that the debt can be sold to qualified institutional buyers, according to the FDFC's financial advisor Jeff Larson.

Bond proceeds will be used to finance portions of Virgin Trains USA's project between Miami and Orlando.

The company's first phase of passenger train service began operating between Miami and West Palm Beach a year ago. In late May, the owners announced that construction had begun on the \$4 billion second phase between West Palm Beach and Orlando. Service on the 170-mile extension is expected to begin in 2022.

This week's deal is the second for the passenger train project this year.

In April, the FDFC sold \$1.75 billion of USDOT-authorized bonds on behalf of Virgin Trains, which was formerly known as Brightline and All Aboard Florida.

The tax-exempt bonds were sold to qualified institutional buyers under Rule 144A of the Securities Act of 1933 as a private activity placement in three series, each with mandatory puts.

Morgan Stanley said 67 qualified buyers participated in the deal. Some \$250 million priced with a 6.25% coupon and a put in 2024; \$500 million priced with a 6.375% coupon and a put in 2026; and \$1 billion priced with a 6.50% coupon and a put in 2029.

The project sold its first allocation of bonds in 2017. The \$600 million deal received interest from 61 qualified institutional buyers. Proceeds refinanced company debt that was used to build the Miami to West Palm Beach segment. That deal sold at an interest rate of 5.625%.

All of the bonds have been sold while federal lawsuits were being litigated by Florida counties challenging the USDOT's bond allocation.

Indian River County is currently pursuing the remaining suit, an appeal of a U.S. District Court ruling in December 2018 that struck down the county's argument that the USDOT improperly allocated the bonds.

Bond documents released for Thursday's sale said that Virgin Trains "believes that the district court's opinion is well reasoned and addresses all the issues in the matter." The company also said it has a high degree of confidence that December 2018 ruling will be upheld on appeal.