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All Aboard Florida plans to pay off high-risk bond with federal loan

By: Kimberly Miller
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Eager to begin construction on its express train service from Miami to Orlando, All Aboard Florida sold $405 million in high-risk bonds last month to a market hungry for the notable 12 percent interest payout.

But those privately offered notes stand to be paid off by a nearly $1.6 billion publicly subsidized federal loan requested by the company for its planned resurrection of passenger travel on the Florida East Coast Railway tracks.

In a prospectus for the bond sale, potential buyers were told that All Aboard Florida may redeem all or part of the notes sometime before the end of 2016 "with the proceeds of a Government Loan."

Stock analysts said it's just smart business to pay off high-interest debt with a low-interest loan. A loan sought from the Federal Railroad Administration would include low rates.

But Cato Institute rail expert Randal O'Toole said he is skeptical All Aboard Florida will be profitable either as a transportation or real estate investment, and that reducing the private sector buy-in by paying off the bonds is "one more reason to oppose the project."

At the same time, All Aboard Florida opponents question why the federal government would loan money to a project that is considered so high-risk in the private sector that it required a 12 percent bond yield.

"The money they borrowed in the marketplace was at a junk bond level," said Steve Ryan, a Washington, D.C.-based attorney hired by the group Citizens Against Rail Expansion. "To me, raising money at junk bond levels is not an indication of strength."

All Aboard Florida has said the total cost for its unprecedented project is $2.5 billion, and the prospectus notes that parent company Florida East Coast Industries has contributed $345 million in cash to the plan. It has also contributed to the land purchased for the stations in Miami, Fort

Lauderdale and West Palm Beach, which is valued at approximately $730 million, according to the prospectus.

"They definitely have skin in the game," said Chris Kotowski, an analyst at Oppenheimer & Co. in New York. "Three hundred and forty-five million dollars, that's not peanuts."

The Federal Railroad Administration has not responded to a Palm Beach Post public records request made May 7 for information about All Aboard Florida's nearly $1.6 billion Railroad Rehabilitation and Improvement Financing (RRIF) loan application.

In general, though, the RRIF program authorizes the Federal Railroad Administration to provide direct loans and loan guarantees up to $35 billion to finance development of railroad infrastructure. Up to $7 billion is reserved for projects benefiting freight railroads.

The money may be used to acquire and improve rail equipment or facilities, refinance outstanding debt taken on to rehabilitate rail lines, and develop new intermodal railroad facilities -- all things All Aboard Florida plans to do.

If the company's $1.6 billion request is granted, it will be the largest RRIF loan awarded to date.

Robert Poole, the South Florida-based director of transportation for the Libertarian-leaning Reason Foundation, is no fan of the RRIF program. He dislikes that it can be used to pay for 100 percent of a project and says it needs more taxpayer protections.

But he believes All Aboard Florida has found a niche market in its Miami to Orlando plan and considering its real estate investments in Miami, Fort Lauderdale and West Palm Beach, says it could be the first profitable passenger rail project in the country.

"On the surface, it meets all the criteria for the RRIF," Poole said. "The guidelines are pretty clear and it seems to be perfectly well qualified."

The loan also depends on the outcome of a pending Environmental Impact Statement on the from West Palm Beach to Orlando. Originally scheduled to be released in April, it now may be pushed back to September.

The delay puts a hold on All Aboard Florida's construction plans for the rail corridor north of West Palm Beach, and quashed the original idea to have the entire Miami to Orlando route open at the same time, first in 2015, and then, as delays occurred, 2016.

But with approvals already in hand for the Miami to West Palm Beach leg, All Aboard Florida decided to begin there. The second phase to Orlando is now expected to be completed in 2017.

"We weren't willing to wait on a federal process," said Vincent M. Signorello, when asked why the company didn't wait for the entire loan to be funded, especially if it plans to use the money to pay back the bond. "People should be thrilled that the project is moving ahead on our own nickel."

Still, some say it's risky starting construction on the first leg of the route, without money in hand for the second.

"If they don't have the long haul traffic to Orlando, there is way less potential revenue to the project," said Poole. "I was surprised to see them go ahead without the Environmental Impact Statement or RRIF loan approved yet."

The Cato Institute's O'Toole says the government should be wary.

"I love passenger trains and I wish Florida East Coast Industries well on its Miami to West Palm Beach venture," he wrote in a blog this month. "I suggest, however, that the Federal Railroad Administration wait to see how well (the Miami to West Palm Beach route) works out before investing $1.6 billion in taxpayer dollars on the Orlando extension."