BOARD OF COUNTY COMMISSIONERS

OFFICE OF COUNTY ATTORNEY

Dylan R. Reingold, County Attorney
William K. DeBraal, Deputy County Attorney
Kate Pingolt-Cotner, Assistant County Attorney

February 25, 2019

Mr. Bill Spivey
Executive Director
Florida Development Finance Corporation
800 North Magnolia Avenue, Suite 1100
Orlando, Florida 32803

RE: The Economics of the Brightline/Virgin Trains Project

Dear Mr. Spivey:

The Florida Development Finance Corporation ("FDFC") should not authorize an additional $950,000,000 in private activity bonds for the failing Brightline/Virgin Trains higher speed passenger rail project. Earlier this month, the private sector rejected this project by refusing to pay the price sought by Brightline/Virgin Trains in a proposed initial public offering. As explained by Bloomberg, the "money-losing Florida railroad running behind schedule on its own projections" had to "put off what would have been the year's biggest initial public offering so far." Bloomberg stated that the offering was expected to price below the marketed price range of $17 to $19 a share. Additionally, Bloomberg noted that the "IPO decision follows previous delays for Virgin Trains" which had lost "$87.1 million on $5.2 million in revenue in the first nine months."

Prior to the August 29, 2018, FDFC hearing on the Brightline project, Indian River County, Martin County and CARE-FL wrote to you concerning the fallacies of the Brightline Ridership and Revenue Study for Miami – Ft. Lauderdale - Palm Beach Segment, dated October 2017 ("October 2017 Study"). At that time, All Aboard Florida/Brightline had released one Quarterly Unaudited Financial Statement. That first quarterly financial report revealed that Brightline was unable to meet the lofty ridership and revenue projections of the October 2017 Study. Since then, two more quarterly reports have been released, which further support the notion that the Brightline/Virgin Trains project is not the transformative project presented to FDFC and the public, but a project that is unlikely to succeed even with FDFC's PAB approvals, and the related Federal taxpayer subsidies.

Since the private sector rejected the Brightline/Virgin Trains' initial public offering and Brightline/Virgin Trains' needs cash, Brightline/Virgin Trains is coming back to the FDFC for almost $1 billion in additional private activity bonds. Keep in mind that only six months ago, the FDFC approved $1.75 billion in private activity bonds for this project. As justification for the issuance of the additional $950,000,000 in bonds, Brightline/Virgin Trains has presented the Brightline Ridership and Revenue Study, dated December 2017 ("December 2017 Study"). It is important to note that the December 2017 Study was prepared by the same firm that prepared the faulty October 2017 Study. Additionally, the December

2017 Study was prepared before the first Brightline passenger train ever left a station. The actual numbers from the first three quarters have proven that these studies are wrong.

It has been reported that in 2018, Brightline carried 579,000 passengers. This is well below the over 1 million riders predicted in the October 2017 Study and the December 2017 Study. And "Next Miami" reported in an article on February 21, 2019, that the Brightline passenger count in January 2019 was only 73,568. More concerning for Brightline must be that in January 2019, Brightline carried less passengers than in December 2018, (98,076 passengers) and November 2018 (80,660 passengers). This would indicate a leveling off of ridership at a number well below the projected ridership of over 2 million riders for 2019 and almost 3 million riders for 2020.

Now that three quarterly reports have been released, others are coming forward who are skeptical of this train proposal. As reported in the Palm Beach Post just last week, "[d]espite growth in ridership, Brightline's revenue from fares remains below projections." As explained in the article, "[w]ith a cash flow of negative $6.8 million per month, the money-losing parent of the Brightline train service must look outside passenger revenue for a financial lifeline, said Ozgur Ince, a finance professor at the University of South Carolina." The article also quoted Richard Rampell, a Palm Beach CPA and former board member of the RailAmerica freight line, who stated "[a]t this rate, they could last maybe a year." The article went on to note that Rampell was skeptical that the service could continue to operate without government support, quoting him as saying "[t]his is going to end up having to be subsidized, ultimately." And Matt Fabian, a partner at the bond research firm Municipal Market Analysis, added that "[t]here's no compelling reason to believe it's actually going to work."

Based upon the foregoing, the FDFC must reject this additional subsidy. Per the FDFC Conduit Issuance Policy, the borrower is required to provide sufficient evidence that the project is financially feasible. The quarterly reports along with the failed initial public offering demonstrate that the Brightline project is not financially feasible. The FDFC should not issue $950,000,000 in bonds for a company that suffered a net loss of almost $10 million a month for nine months. By providing additional financial support, when the private sector has rejected the project, the FDFC is setting the State of Florida up to eventually take over the project once it ultimately fails. Please save the State of Florida from a future costly bail out.

Sincerely,

Dylan Reingold
County Attorney

DR/cm

cc: Honorable Governor Ron DeSantis
The Honorable Bill Galvano
The Honorable Jose R. Oliva
Kevin J. Thibault, P.E., Secretary