

# South Florida's Brightline

## The Public Cost of Private Rail

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# Overview

- Quick Introduction
- Brightline
  - Purpose (static) and structure (dynamic)
  - Costs and financing (aka Frightline)
  - Ridership projections (aka Mightline)
  - Public costs (aka Blightline, Slightline)
- Conclusions

- Source: Florida Development Finance Corporation, 2015.





Orlando International Airport  
South Airport Intermodal Terminal Facility

01.16.18



- Source: Turner Kiewit, 2018.

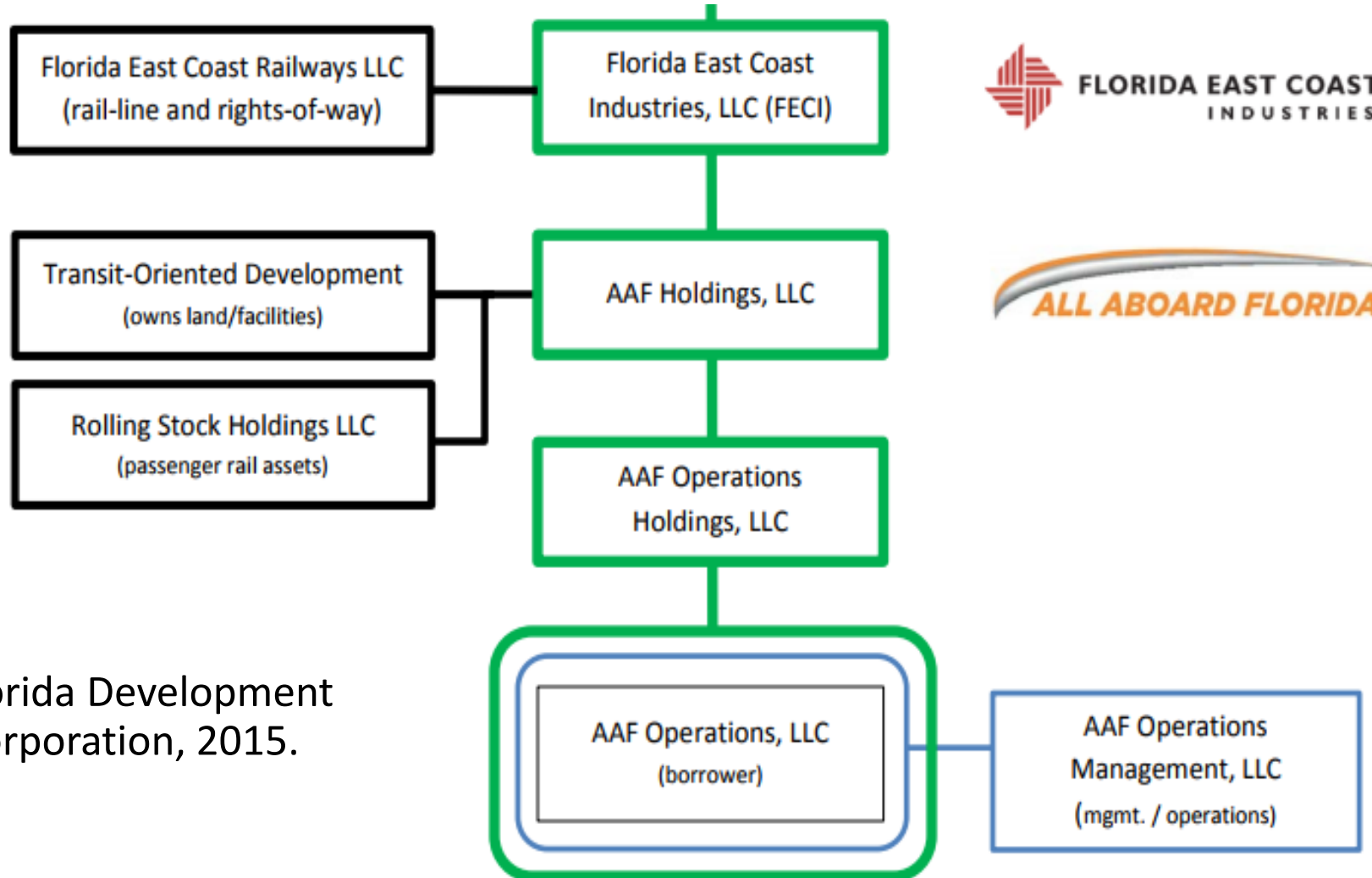


- Source: Brightline, 2018.





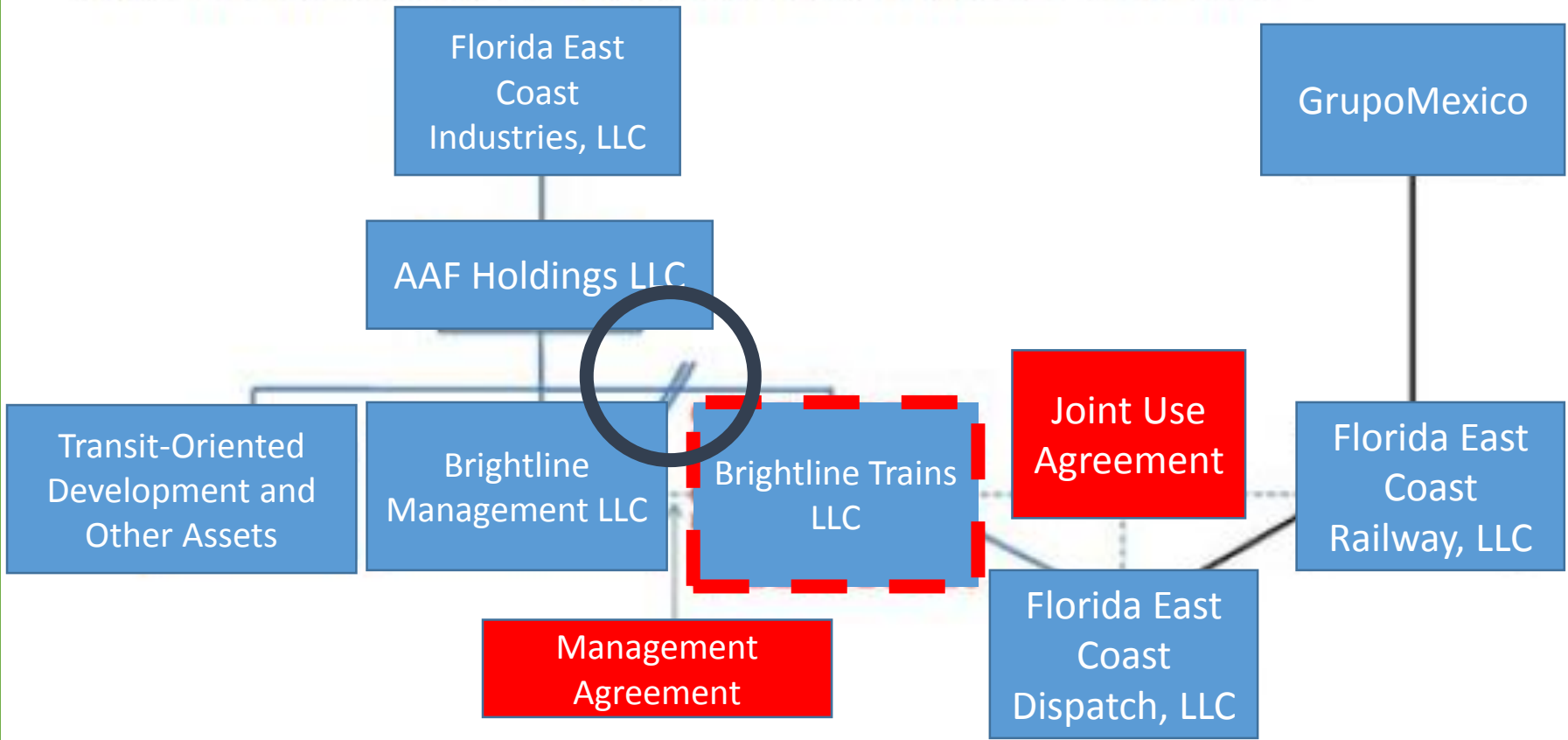
# Organizational Structure?



- Source: Florida Development Finance Corporation, 2015.

### Organizational Structure

The following chart reflects the organizational structure of the Company and its affiliates, including FECL. The chart is for illustrative purposes only and does not reflect all entities or ownership amounts.



(1) The transit oriented development assets are not included in the Collateral.

• Source: Florida Development Finance Corporation, 2018.

# Ridership Forecast

## AAF Ridership and Revenue Forecast, 2020 (2012 \$)

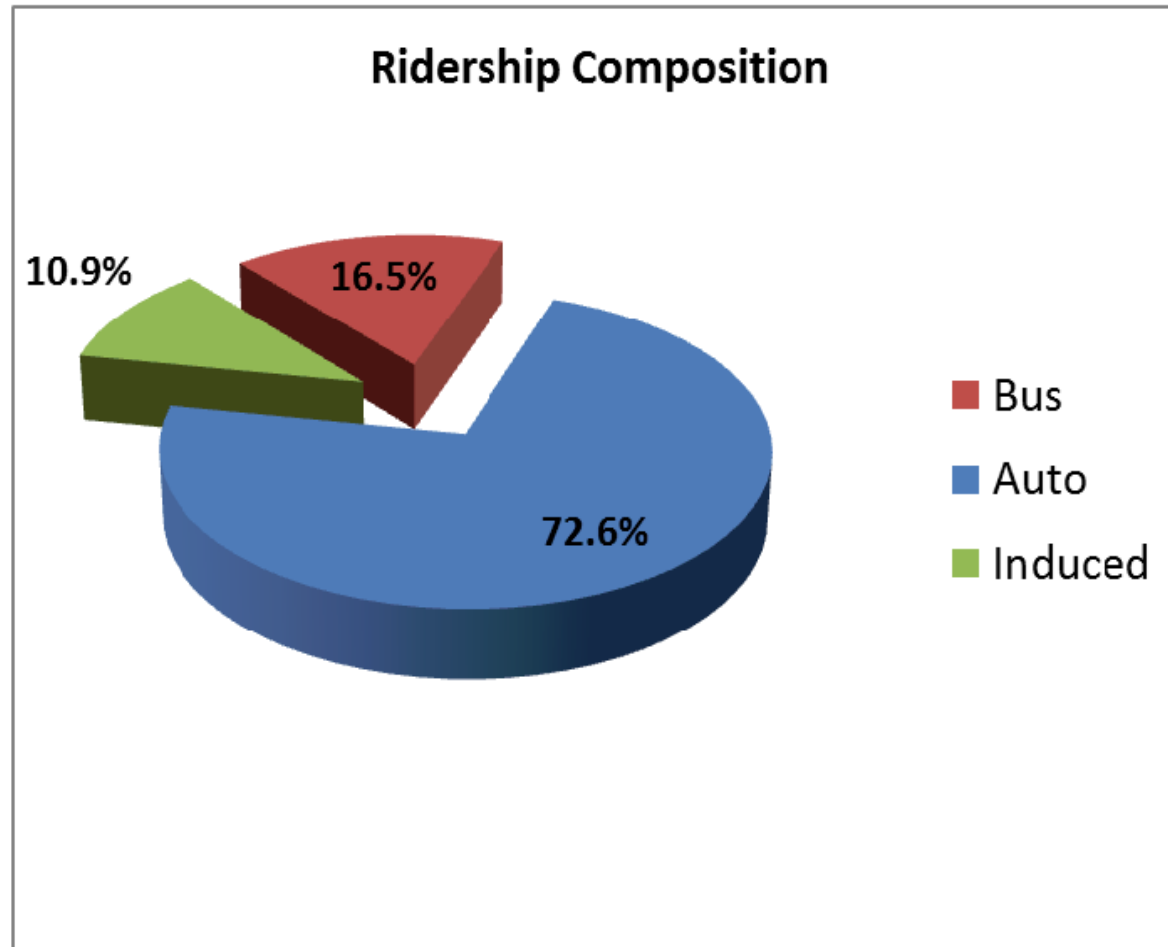
	2020 Forecast		
	<u>Short Distance</u> <sup>(1)</sup>	<u>Long Distance</u> <sup>(2)</sup>	<u>Total</u>
<i>Ridership:</i>	2,813,200	2,534,100	5,347,300
<i>Fare Revenue:</i>	\$64,143,400	\$229,436,300	\$293,579,700

<sup>(1)</sup> Short distance trips = Miami - Ft. Lauderdale, Miami-West Palm Beach, Ft. Lauderdale - West Palm Beach

<sup>(2)</sup> Long distance trips = Southeast Florida – Orlando

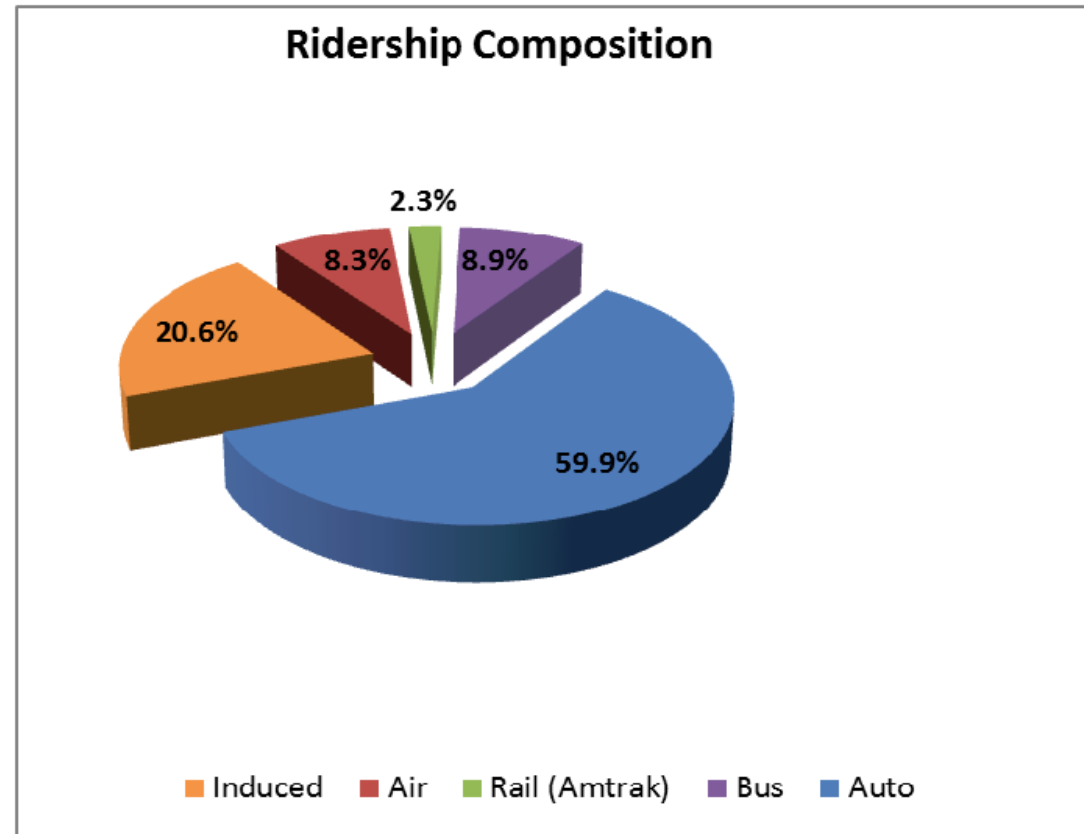
- Source: Louis Berger Group, 2015.

# Short Trips (Regional)



• Source: Louis Berger Group, 2015.

# Long Trips (from Miami to Mickey-ish)



• Source: Louis Berger Group, 2015.

# Assumptions

## Fare Optimization Assumptions, Short Distance Travel Market (Within Southeast Florida – 2012 \$)

Station Pairs	Assumed Business Travel Fare				Assumed Non-Business Travel Fare			
	Initial	\$/Mile	Optimized	\$/Mile	Initial	\$/Mile	Optimized	\$/Mile
Miami / W. Palm	\$22.00	\$0.31	\$33.81	\$0.48	\$18.00	\$0.26	\$27.72	\$0.39
Ft Lauderdale / W. Palm	\$17.00	\$0.37	\$22.54	\$0.49	\$14.00	\$0.30	\$18.48	\$0.40
Miami/Ft. Lauderdale	\$15.00	\$0.57	\$22.54	\$0.85	\$11.00	\$0.42	\$18.48	\$0.70

Source: LBG, 2012.

## Fare Optimization Assumptions, Long Distance Travel Market (SEF to Central Florida – 2012 \$)

Station Pairs	Assumed Business Travel Fare				Assumed Non-Business Travel Fare			
	Initial	\$/Mile	Optimized	\$/Mile	Initial	\$/Mile	Optimized	\$/Mile
Miami / Orlando	\$130.00	\$0.55	\$143.46	\$0.61	\$85.00	\$0.35	\$93.80	\$0.40
Fort Lauderdale / Orlando	\$115.00	\$0.54	\$126.91	\$0.60	\$75.00	\$0.35	\$82.76	\$0.39
West Palm Beach / Orlando	\$90.00	\$0.55	\$99.32	\$0.60	\$60.00	\$0.35	\$66.21	\$0.40

Source: LBG, 2012.

- Source: Louis Berger Group, 2015.

# “Bent” out of shape?

“Simple uncertainty does not seem to account for the outcome of rail travel forecasts, however. Such forecasts are overestimated too consistently for an interpretation in terms of simple uncertainty to be statistically plausible.”

“...traffic estimates used in decision making for rail infrastructure development are highly, systematically, and significantly misleading (inflated). The result is large benefit shortfalls”

- Source: Bent Flyvbjerg, 2013.

# Plausibility vs. Flawsibility

	FDOT	FECI
Long Distance Trips	18.4M	25M
Induced – Short	9%	11%
Induced – Long	9%	20%

# How to get to Orlando?

Option A: Plane	Option B: Train	Option C: Auto
\$65/\$130	\$91/\$182	\$35/\$70 in gas (\$4/gal)
MCO	MCO	\$19 in tolls
Security/delays	Cost from MCO	Parking
Parking/ transportation		

# Private Activity Bonds

- Sponsored by issuer of municipal bonds
- Private party responsible for paying the bonds
- Significant public interest
- “Bonds must be approved by:
  1. Governmental entity issuing the bonds or on behalf of which the bonds were issued and
  2. Each governmental entity having jurisdiction over the area in which the bond financed facility is to be located (**although for bonds financing certain airport and high-speed intercity rail facilities, only the entity issuing the bonds must approve them.**” (IRS Publication 4078: Tax-Exempt Private Activity Bonds)

# Private Activity Bond Default

- How solid is the revenue stream?
- Actual revenues vs. projected revenues
- Historical failure:
  - Costs too high
  - Ridership too low
  - Not competitive with alternatives

# Risks

- Cost overruns and delays in the completion of the North Segment, as well as difficulties in obtaining requisite approval or sufficient financing to pay for such costs and delays.

- Source: Florida Development Finance Corporation, 2018.

# Risks

- Current limited revenue and cash flows and limited history constructing and operating a passenger railroad makes evaluating its business and future prospects difficult, and may increase the risk of investment. There can be no guarantee that the company will achieve profitability and generate positive operating cash flows in the future.

- Source: Florida Development Finance Corporation, 2018.

# Risks

- The development costs of the North Segment are estimates only, and actual development costs may be higher than expected.

- Source: Florida Development Finance Corporation, 2018.

# Risks

- Rising fuel costs could materially adversely effect the company's business.

- Source: Florida Development Finance Corporation, 2018.

# Risks

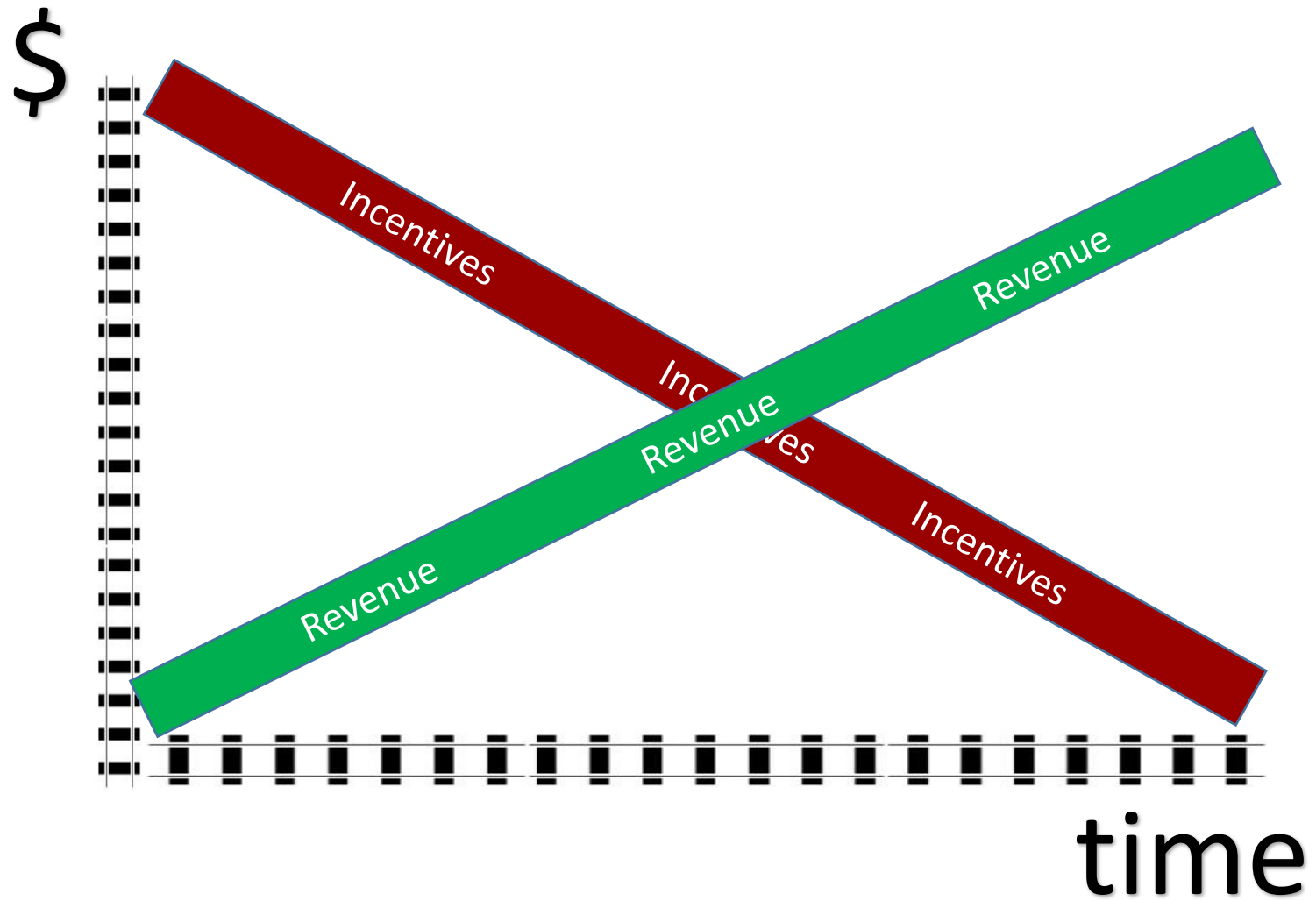
- The company is relying on estimates of third-party consultants regarding the future ridership and revenue, operations and maintenance costs and ancillary revenue of the company's proposed passenger rail service to build company's projections, and these estimates may prove to be inaccurate. Actual results could differ from the projections and other estimates.

- Source: Florida Development Finance Corporation, 2018.

# Close? Caveats?

	1/18-3/18	4/18-6/18	1/18-6/18	Projected
Ridership	74,780	106,090	180,870	1,100,000
Ridership Revenue	\$663,667	\$1,540,000	\$2,200,000	\$23,900,000
Profit/(Loss)	(\$28,200,000)	(\$28,300,000)		

# Close? Caveats?



# Risks

- The company is subject to governmental regulations relating to the project, which could impose significant costs on the project and could impede completion or operation of the project, which could have an adverse effect on the company.

- Source: Florida Development Finance Corporation, 2018.

# Risks

- Railroad regulations and legislative amendments may impose costs and restrictions that could adversely affect the company's operations.

- Source: Florida Development Finance Corporation, 2018.

# Risks

- Shared use of the company's corridor with freight operations could have an adverse effect on the company's ability to utilize the company's railway efficiently, which could impact the company's operations and financial condition.

- Source: Florida Development Finance Corporation, 2018.

# Risks

- Shared use of the company's corridor with Tri-Rail could have an adverse effect on the company's ability to utilize the company's railway efficiently, which could impact the company's operations and financial condition.

- Source: Florida Development Finance Corporation, 2018.

# Risks

- Once established, the limits on pricing under the company's remaining construction contracts may increase, and the company may be responsible for the amount of any increase.

- Source: Florida Development Finance Corporation, 2018.

# Risks

- The financial resources of the company's contractors may be insufficient to fund cost overruns or liquidated damages for which they are responsible under their contracts.

- Source: Florida Development Finance Corporation, 2018.

# Risks

- The company may incur liability under environmental laws relating to the development of the project.

- Source: Florida Development Finance Corporation, 2018.

# Risks

- The company has not yet begun construction of the Tampa Expansion, and there can be no assurance that the Tampa Expansion will operate as described herein, or at all.

- Source: Florida Development Finance Corporation, 2018.

# Risks

- The company may be subject to federal, state, and local taxes on the company's income and property and, since the company has limited operating history, the impact of such taxes on the company is currently unknown.

- Source: Florida Development Finance Corporation, 2018.

# Risks

- The company is not providing all of the information that would be required if this offering were being registered with the Securities and Exchange Commission.

- Source: Florida Development Finance Corporation, 2018.

# Risks

- The company has limited revenue and may not be able to generate sufficient cash to service the Series 2018 Bonds or the Company's other existing and future indebtedness, and may be forced to take other actions to satisfy the Company's obligations under the company's indebtedness, which may not be successful.

- Source: Florida Development Finance Corporation, 2018.

# Risks

- The value of the collateral securing the Series 2018 Bonds may not be sufficient to satisfy the company's obligations under the Senior Loan Agreement and the Series 2018 Bonds.

- Source: Florida Development Finance Corporation, 2018.

# One of the Best Performing Railroads in North America

## Rank at the top of the industry in both financial and operational metrics

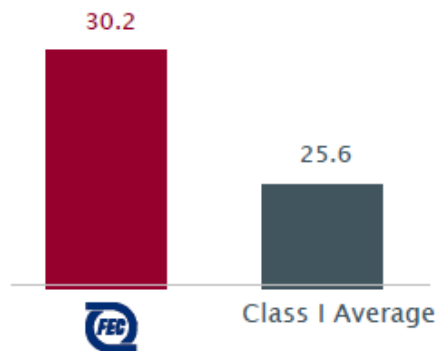
- Multiple drivers of outperformance:
  - Highest revenue per track mile when compared to Class I Rails
  - Higher historical revenue over past years
  - Highly efficient operating model
  - High quality infrastructure

CAGR = Compound annual growth rate

## Superior Rail Operator

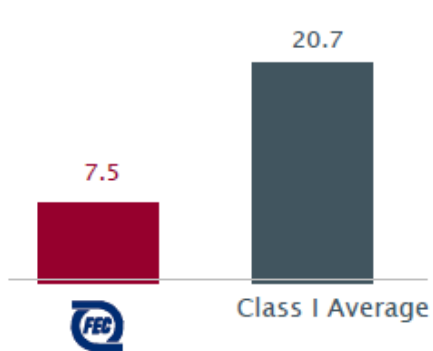
1H'16 Velocity (mph)

**18% Faster**



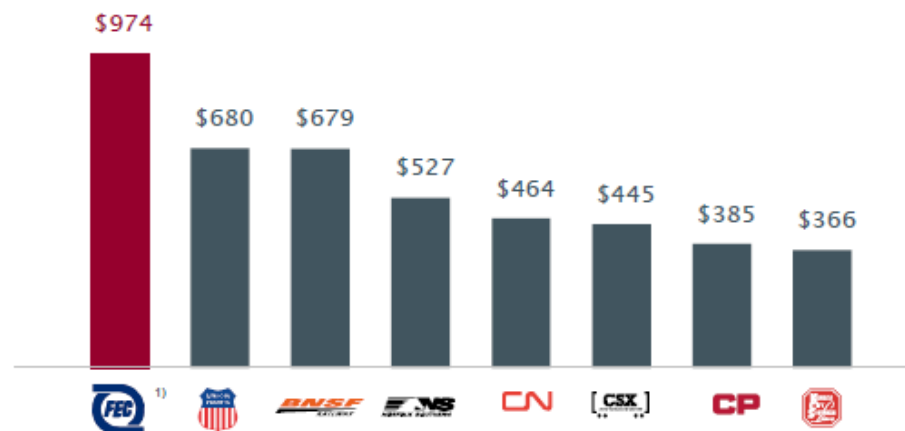
1H'16 Dwell (hours)

**2.8x More Efficient**

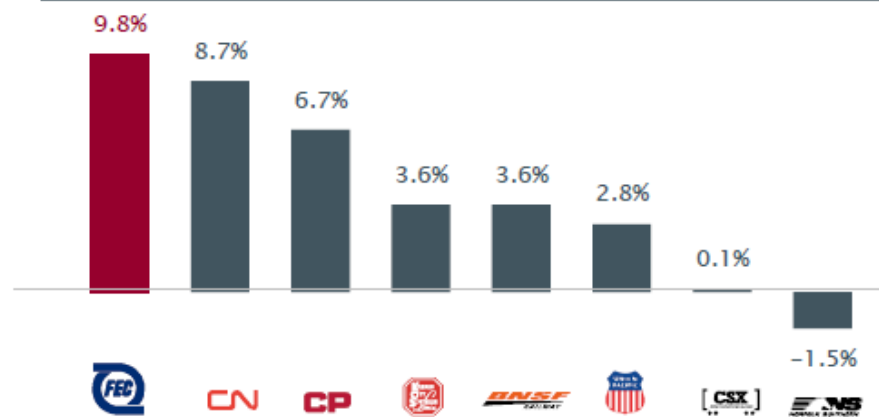


## Outperforming Class I

2015 Revenue per Track Mile vs. Class I Rails



2011-2015 Historical Revenue CAGR vs. Class I Rails<sup>2)</sup>





Source: Testimony of Patrick Goddard before the U.S. House Oversight and Government Reform Committee, Subcommittee on Government Operations, April 19, 2018

## Critical transportation asset with virtually impossible to replicate location



- Source: GrupoMexico Transportes, 4<sup>th</sup> Quarter 2017 Results, 2018.

# South Florida's Brightline

The Public Cost of Private Rail

**QUESTIONS???**