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## **Disney Muni Bonds Are a Bargain After DeSantis Blow, Analysts Says.**

Investors should buy more municipal bonds sold by the embattled Walt Disney Co.'s special district, analysts at Municipal Market Analytics said.

Bonds of Reedy Creek Improvement District, which was created in the 1960s for the development of Walt Disney World in Florida, fell last week after Governor Ron DeSantis signed a bill that would dissolve the district in 2023 without further legislative action.

"If bond prices tumble again this week or after, investors able to ride out the volatility and manage related customer communications have an opportunity to earn incremental income," Municipal Market Analytics's Matt Fabian and Lisa Washburn wrote in a note to clients dated Monday.

Reedy Creek has roughly \$1 billion of municipal debt outstanding that was thrown into flux when the Florida lawmakers passed the bill last week. Florida statutes say that the obligations would be transferred to other local governments, and Reedy Creek has reassured bondholders the debt service will continue to be paid while options are considered.

Even with the latest developments, Florida will "very likely respect the strong non-impairment language" it promised to bondholders, the analysts said. That should mitigate any "hypothetical medium-term default risk" posed by the new law that may dissolve the district.

MMA says that the Reedy Creek trade "may see a performance lag for some time" as ratings companies will likely take action on the bonds as the situation unfolds. Fitch Ratings has already placed the debt on a negative watch, indicating the bonds could be downgraded and MMA said others are likely to follow "or, possibly, do worse."

Moody's Investors Service moved the outlook on Reedy Creek bonds to developing from stable, citing the uncertainty around the new law, the ratings firm said in a report on Tuesday.

"The developing outlooks reflect uncertainty surrounding the State of Florida's recent decision to dissolve the district during a special legislative session," Moody's analysts led by Francis Mamo wrote in the report.

Still, Florida has pledged to not "in any way impair the rights or remedies of the holders," according to Reedy Creek's bond documents. That strong language is key to evaluating the risk of the bonds, MMA says.

The legislation to dissolve Reedy Creek emerged after a month-long feud between DeSantis and Disney in which the entertainment giant criticized a law the governor backed that limits school instruction about gender identity and sexual orientation

"It is one thing for Florida to threaten one of its local units with rapid dissolution for purely political reasons," Fabian and Washburn wrote. "It would be a very different thing for the state to knowingly

walk away from or violate its own nonimpairment pledge to bondholders.”

If the state does the latter, Florida’s triple A rating could be in jeopardy, the analysts said.

“Doing so could very reasonably lead to rating downgrades of any state or local bond dependent on a contract with Florida and possibly Florida’s own bond ratings,” according to MMA. “Because Florida’s issue is with Disney and not the bond market at large, we do not believe this is where the current situation will lead.”

## **Bloomberg Markets**

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