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[Fitch: Florida's Reedy Creek Dissolution Bill Heightens Bondholder Uncertainty]

Fitch Ratings-New York-28 April 2022: The Florida state government's move to dissolve several independent special districts on June 1, 2023 creates significant risk to the credit quality of these districts, including Reedy Creek Improvement District (RCID), says Fitch Ratings. In response, Fitch placed the 'AA-' rating on RCID's ad valorem tax bonds and the 'A' rating on its utilities revenue bonds on Rating Watch Negative due to uncertainty in servicing the RCID debt post-dissolution. We expect the state will ultimately work with various stakeholders to resolve the uncertainty in a way that ensures timely repayment of RCID debt, with reconstitution of the district as one option specifically offered in the bill. The failure to do so could alter our view of Florida's commitment to preserve bondholder rights and weaken our view of the operating environment for Florida governments.

The RCID was created by a special act of the Florida legislature in 1967 and granted the power to own, operate and maintain various utility systems and infrastructure projects, issue tax-exempt debt and levy and collect fees, service charges and ad valorem taxes. Walt Disney Co. (A-/Stable) and its wholly owned subsidiaries own substantially all of the land within the district. The bill unwinding the RCID reflects a unique and dynamic level of discord between the state and Disney. Fitch does not currently consider the state's action a precursor to similar dissolution measures or interference in the operations of other local governments.

Fitch's U.S. Tax-Supported Rating Criteria recognizes certain structural factors as a strength for all U.S. local governments, including significant, but not unlimited, autonomy and respect for property rights and bondholder security. In that context, the RCID dissolution bill is outside our baseline expectations for the sector, as it creates ambiguity around which entity or entities will ultimately repay bondholders, which carries adverse consequences for RCID's credit quality and was a significant factor in the Negative Watch.

Fitch expects the title of all property owned by RCID, including its indebtedness, to be transferred to Orange (AAA/Stable) and Osceola (AA/Positive) counties, the cities of Bay Lake and Lake Buena Vista (neither rated), or to a successor agency, pursuant to state law. Fitch believes the mechanics of implementation, including the transfer of the revenue pledged to bondholders, will be complicated, increasing the likelihood of negative rating actions for RCID's outstanding bonds. Moreover, neither Orange nor Osceola county provide the complete suite of utility and emergency services provided by RCID. Fitch expects the RCID to continue to maintain its facilities and operations and to service its debt through the dissolution date.

Furthermore, the dissolution potentially impinges creditors' rights and may violate the state's covenant to bondholders under the RCID Enabling Act in that it will not limit or alter the right of the district to carry out various governmental services or to levy and collect taxes, fees and other charges. These risks have been highlighted in Fitch's ESG Relevance Score of '5', indicating high relevance to the rating, for Governance Structure for the RCID utilities revenue bonds and Rule of Law, Institutional & Regulatory Quality, Control of Corruption for the ad valorem tax bonds.

The full financial and operational implications and responsibilities stemming from a transfer of RCID's assets and liabilities for the receiving governments and taxpayers is unknown at this time. The ad valorem taxes levied by RCID (approximately $139 million in fiscal 2021) are in addition to those taxes levied by the counties and cities on RCID taxpayers as part of their respective general millage rate. Fitch will evaluate the potential credit impact on Orange and Osceola counties, if any, as more information about the potential allocation becomes available.

The dissolution bill allows for the re-ratification of the RCID on or after June 1, 2023. Any such re-ratification would likely result in changes to the governance and administrative structure of RCID (or successor agency) while potentially preserving the operating and fiscal powers that underpin the creditworthiness of its outstanding debt. Conversely, prolonged uncertainty with respect to the dissolution procedures, litigation or other factors that alter the security provisions and/or the capacity for repayment from the respective pledged revenue streams could lead to a downgrade of the RCID ratings.

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