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## Barclays Says to Buy Disney District Munis Amid DeSantis Feud.

- **If dissolution goes through, investors could see ‘upside’**
- **Reedy Creek has about \$1 billion of outstanding muni debt**

The municipal bonds caught in the middle of a feud between the Walt Disney Co. and Florida Governor Ron DeSantis look attractive given the securities’ protections for bondholders, according to strategists at Barclays Plc.

The Reedy Creek Improvement District, a special district in central Florida that encompasses the Walt Disney World Resort and theme parks, has racked up about \$1 billion of outstanding municipal debt over the years — and now those bonds have been thrown into limbo amid the fight. In April, DeSantis signed a law that would dissolve the district in 2023 barring further legislative action.

Some of the investment-grade bonds have cheapened since DeSantis announced that he wanted the legislature to consider ending the special privileges that Disney enjoys in the state through the special district that was created in 1967. Debt due in 2026 traded at a spread of 86 basis points on Friday, compared to as little as 30 basis points in early April.

Investors and analysts have been trying to figure out how Florida’s unusual move to dissolve the district will play out in the municipal-bond market. Credit-rating companies have noted the uncertainty surrounding the situation, and have held off on downgrading the bonds. Research firm Municipal Market Analytics said last week that it’s a buying opportunity, and Barclays is now voicing a similar view.

Strategists at Barclays say the Reedy Creek bonds are protected by the state of Florida’s pledge not to impair the debt for the life of the obligations. The security on the bonds is “expressly contingent” on the state’s pledge not to limit or alter Reedy Creek’s right to own projects or collect taxes, which constitutes a non-impairment clause, they said.

“If the dissolution goes through, we could see upside to bonds from current levels; if it does not, we would not expect much downside; hence, this risk-reward seems attractive to us,” strategists Clare Pickering, Mayur Patel and Mikhail Foux wrote in a note to clients published Friday.

There is potential for upside in the debt because the investor protections mean that the bonds may have to be defeased, or paid off, in order for the district’s dissolution to go through, according to Barclays. There are several ways of defeasing outstanding bonds including a tender, make-whole or refunding, the strategists wrote.

“Most options will likely result in price appreciation of outstanding bonds from current levels,” they said.

The new Florida law doesn’t specifically outline a succession plan for the district’s responsibilities and its debt. Reedy Creek told bondholders that it expects to explore options while continuing to pay

debt service, according to an April regulatory filing. The filing noted Florida's pledge to bondholders.

"We find the district's bonds are attractive at current levels and recommend buying RCID taxable and tax-exempt bonds," the Barclays strategists wrote.

## **Bloomberg Markets**

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