New York, April 26, 2022 -- Moody's Investors Service has affirmed Reedy Creek Improvement District, Florida's Aa3 issuer rating and Aa3 general obligation limited tax rating. Concurrently, Moody's affirmed the A1 rating on Reedy Creek Improvement District, FL Combined Utility Enterprise's utility revenue bonds. Moody's also revised the outlook on the district and the combined utility to developing from stable. The district has approximately $956 million of debt outstanding.

RATINGS RATIONALE

The Aa3 issuer rating reflects the district's large and growing tax base that is almost entirely dependent on The Walt Disney Company (A2 stable), strong reserve levels supported by conservative fiscal management, elevated debt burden, and moderate pension burden. The rating also incorporates a substantial amount of headroom under the district's 30 mill property tax cap, which offers a significant amount of financial flexibility. In the wake of the State of Florida's (Aaa stable) recent decision to dissolve the district by June 2023, the rating also considers the State's non-impairment pledge to bondholders of the district by June 2023, the rating also considers the State's non-impairment pledge to bondholders of the district as outlined in the district's enabling act.

The Aa3 rating on the district's general obligation limited tax debt is at the same level as the district's issuer rating because of the substantial amount of headroom available under the district's 30 mill property tax cap.

The A1 rating on the district's utility revenue bonds incorporates the combined utility system's extremely high reliance on The Walt Disney Company (A2 stable), sound financial position that temporarily weakened in fiscal 2020 during the height of the coronavirus pandemic but largely recovered in fiscal 2021; adequate liquidity position that reached a record level in fiscal 2021; and moderate debt burden. The rating also reflects the district's unlimited rate setting authority, a debt service reserve requirement that is cash funded at maximum annual debt service, and adequate capacity across the utility's various systems.

RATING OUTLOOK

The developing outlooks reflect uncertainty surrounding the State of Florida's recent decision to dissolve the district during a special legislative session. The dissolution is scheduled to occur on June 1, 2023, until which time the district expects to continue operating as it historically has. State statute dictates that the assets and liabilities of a dissolved special district be assumed by the local general-purpose government; however, four local general-purpose governments exist within the district and the ultimate division of district assets and liabilities is currently unknown. The four local governments include Orange County (Aaa stable, 95% of Reedy Creek's assessed value), Osceola County (Aa2, 5% of Reedy Creek's assessed value), the City of Bay Lake (unrated), and the City of Lake Buena Vista (unrated). Additionally, a successor special district could be created to replace Reedy Creek Improvement District. Depending on the ultimate dissolution plan, the credit quality of Reedy Creek Improvement District's debt could improve, remain the same, or weaken.

FACTORS THAT COULD LEAD TO AN UPGRADE OF THE RATINGS

- Material expansion and diversification of the revenue base, either through organic growth or integration of the district and Orange and Osceola Counties

- Increased credit quality of The Walt Disney Company

FACTORS THAT COULD LEAD TO A DOWNGRADE OF THE RATINGS

- Diminished revenue base, either through operating weakness at The Walt Disney Company or through an unfavorable dissolution proceeding
- Weakened credit quality of The Walt Disney Company

LEGAL SECURITY

The bonds are backed by a lien on the total (debt service and operations) ad valorem tax levy, subject to a statutory 30 mill limit, with the first dollars being directed to the sinking fund to fully fund annual debt service, prior to the release of funds for general operations.

The utility revenue bonds are secured by a first lien on net revenues of the district's combined utility system.

PROFILE

Reedy Creek Improvement District is a public corporation, created by a Special Act of the Florida Legislature in 1967 to provide municipal services within its boundaries, primarily for one customer, Walt Disney World. The Walt Disney World Resort Complex - its theme parks, recreational facilities, hotels and film studio - dominates the 40 square mile district and comprises a significant majority of taxable values. Reedy Creek Improvement District provides a range of municipal services within its boundaries including public safety, transportation, utility service, and other general governmental services. The district employs approximately 400 staff.

METHODOLOGY


REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found at: https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_79004.

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