S&P Global
Ratings

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Summary:

Omaha Metropolitan Utility District, Nebraska; Water/Sewer

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Credit Profile		
Omaha Metro Util Dist wtr rev bnds		
Long Term Rating	AA+/Stable	Upgraded

Credit Highlights

- S&P Global Ratings raised its long-term rating to 'AA+' from 'AA' on Omaha Metropolitan Utilities District (OMUD), Neb.'s water revenue bonds.
- The outlook is stable.
- The upgrade reflects the utility's strong revenue generation, which supports robust liquidity levels and the maintenance of all-in debt service coverage (DSC) of at least 2x in historical years. It also supports continued robust coverage as the utility increases its debt burden by about 49% by 2029 to address its infrastructure replacement and growth needs, which we expect to continue based on management's comprehensive planning.

Security

We view the legal provisions for the bonds as adequate and credit-neutral. A pledge of the district's net water revenues secures the bonds. The 2015 bond resolution includes a rate covenant requiring the district to set rates that generate net revenues of at least 120% average annual debt service and 100% of the current-year debt service and other fixed obligations. The resolution also requires that the district may only issue bonds if net revenues from 12 consecutive months of the past 18 provide at least 1.2x coverage of average annual pro forma debt service (adjusted by approved rates or additional connections). Total debt outstanding as of fiscal year 2023 was $246 million.

Credit overview

The rating is anchored by the water system's history of proactive rate increases that support capital needs, reserves, and robust DSC. It also reflects the system's generally affordable rates and comprehensive long-term planning to address lead pipe replacement and water supply infrastructure updates to support the growing customer service territory. In December 2024, the district's board approved a 5% rate increase to the average residential customer's bill effective Jan. 2, 2025 and anticipates increasing rates at approximately the same rate annually for the next four years, which establishes a reasonable trajectory for near-term financial performance, in our view. Management reports that operating revenues are trending above the adopted budget and estimates that fiscal 2024 will end with coverage and liquidity in line with historically strong results.

The five-year capital improvement plan (CIP) is significant at about $658 million (including $111 million reimbursed through developer fees) from 2025 to 2029; this will increase the district's adjusted debt by about $240 million and worsen its debt burden, which we have factored into our analysis. OMUD intends to fund $307 million of the CIP on a pay-go-cash basis, and incorporates a fixed charge for water infrastructure replacement to fund capital costs within its water bill. Despite its higher leverage position, we view the district's asset management planning as contributing to the stability of future financial performance by addressing regulatory compliance and efficiency needs. The CIP includes construction of two new reservoirs, 88 miles of pipe replacement, a leak detection program, and capital improvements at three treatment plants. OMUD has begun its lead pipe replacement in 2024 and has until 2034 to replace approximately 16,000 lead pipes, per the Environmental Protection Agency (EPA) 10-year timeline.

The rating further reflects our view of the water system's:

- Diverse and primary residential customer base, which provides revenue stability. The system serves the city of Omaha as well as surrounding communities, with a total estimated population of 700,000. Over the last five years the metropolitan statistical area population has grown by about 11%; however, the utility's current financial forecast is conservative, and assumes 0.8% annual growth in water sales through 2029;
- Good market position, with an average monthly bill of $36.68, which we consider affordable at 0.7% of median household effective buying income. Based on management's projected future rate increases of about 5% annually for the average residential customer through 2029, we anticipate the bill will remain affordable;
- Despite planned drawdowns in liquidity to fund its CIP, we anticipate days' cash of operating expenses to be at least 200. Based on its planned years of reserve draws and subsequent years of building reserves, the district will use about $29.6 million of reserves between 2025 and 2029.
- DSC that is projected to remain at extremely strong levels through the forecasted years, even in a stress scenario with no impact fee revenue. OMUD posted DSC of above 3x in fiscal year 2023 and expects to end fiscal year 2024 with DSC of over 3x;
- Strong operational management practices addressing aged infrastructure, water redundancy, cyber security, and assessments of climate risk;
- Good financial management policies and practices, including maintenance of long-term planning and regular budget updates, ensuring a strong financial position, but lacking a formalized debt management plan and liquidity policy; and
- Debt-to-capitalization ratio of 32% that we expect to worsen as OMUD layers on additional debt per the CIP, although a manageable debt burden given its strengths in financial performance.

Environmental, social, and governance

Overall, we believe the utility has mitigated most environmental, social, and governance risk through management's proactive approach to capital and its adherence to operating policies and procedures. While the system is facing a long and costly water main replacement program, management has identified key risks and a sustainable funding plan that in our view will not unduly pressure water bill affordability.

Outlook

The stable outlook reflects our view that management will continue to make rate adjustments to support strong DSC while funding 36% of its 2025-2029 CIP with debt, and that both the financial and economic factors supporting the rating should remain at levels consistent with historical trends during the outlook period.

Downside scenario

We could lower the rating if DSC or liquidity metrics weaken materially due to higher-than-expected capital costs or insufficient rate increases. In addition, there could be downward pressure if larger than planned debt needs cause financial margins to deteriorate.

Upside scenario

Given the utility's substantial capital plan we do not anticipate raising the rating; however, we could do so if OMUD maintains robust coverage and liquidity metrics and as it progresses through its CIP and its debt burden moderates.

Omaha Metropolitan Utilities District, Nebraska--Economic and financial data

		Fiscal year-end			
	Most recent	**2023**	**2022**	**2021**	**Median (AA+)**
Economic data					
MHHEBI of the service area as % of the U.S.	95.0				112.0
Unemployment rate (%)	2.6				3.4
Poverty rate (%)	12.2				10.2
Water rate (6,000 gallons or actual) ($)	36.7				33.9
Sewer rate (6,000 gallons or actual) ($)	0.0				38.6
Annual utility bill as % of MHHEBI	0.7				1.0
Operational management assessment	Strong				Good
Financial data					
Total operating revenues ($000s)		162,559	152,648	142,482	41,982
Total operating expenses less depreciation ($000s)		89,923	87,741	73,386	31,740
Net revenues available for debt service ($000s)		78,046	65,982	69,654	--
Debt service ($000s)		25,371	23,656	18,475	--
S&P Global Ratings-adjusted all-in DSC (x)		3.1	2.8	3.8	2.5
Unrestricted cash ($000s)		121,569	103,137	98,799	55,536
Days' cash of operating expenses		493	429	491	650
Total on-balance-sheet debt ($000s)		245,972	262,925	210,954	74,352
Debt-to-capitalization ratio (%)		32.01	35.9	33.0	25.0
Financial management assessment	Good	--	--	--	Good

Note: Most recent economic data available from our vendors. MHHEBI--Median household effective buying income. DSC--Debt service coverage.