

CREDIT OPINION

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Contacts

Stephanie Levine +1.312.706.9979
Analyst
stephanie.levine@moody's.com

Gera M. McGuire +1.312.706.9977
Associate Managing Director
gera.mcguire@moody's.com

CLIENT SERVICES

Americas 1-212-553-1653

Asia Pacific 852-3551-3077

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Omaha Metropolitan Util. Dist., NE Water Ent.

Update to analysis

Summary

[Omaha Metropolitan Utility District, NE's Water Enterprise](#) benefits from a growing customer base, stable financial performance that produces sound debt service coverage and a strong cash position. The district's asset condition of 68 years exceeds peer medians and reflects management's proactive and ongoing approach to capital planning and maintenance. Liquidity is strong with cash on hand equivalent to roughly a year's worth of operating and maintenance expenses, though the district may draw down closer to its target of 180 days over several years.

Following the sale, debt to operating revenue will be about 1.9x and coverage will remain solid around 2.0x. The MUD has unlimited ratesetting authority and a track record of making annual adjustments that incorporate both operating growth and future debt service needs. The revenue bonds carry a rate covenant of 120% but do not have a debt service reserve requirement.

Credit strengths

- » Growing service area that includes the diverse economy in the Omaha (Aa2 stable) metro area
- » Strong liquidity
- » Unlimited rate-setting authority and consistent record of rate adjustments

Credit challenges

- » Moderate debt to operating revenue
- » While legal provisions are adequate, no debt service reserve fund is required

Rating outlook

The stable outlook reflects our expectation that the MUD's growing customer base and rate-setting track record will continue to support strong liquidity and debt service coverage.

Factors that could lead to an upgrade

- » Multi-year trend of liquidity above 300 days
- » Sustained decline of debt to operating revenue near 1.5x

Factors that could lead to a downgrade

- » Decline in liquidity below the MUD's target of 180 days

» Increase in debt nearing 4.0x revenue

Key indicators

Exhibit 1

Omaha Metropolitan Utilities District Water Enterprise, NE					
System Characteristics					
Asset Condition (Net Fixed Assets / Annual Depreciation)	68 years				
System Size - O&M (in \$000s)	\$104,718.67				
Service Area Wealth: MFI % of US median	109.19				
Legal Provisions					
Rate Covenant (x)	1.2x				
Debt Service Reserve Requirement	No DSRF (Baa and below)				
Management					
Rate Management	Aa				
Regulatory Compliance and Capital Planning	A				
Financial Strength					
	2020	2021	2022	2023	2024
Operating Revenue (\$000)	\$139,950	\$142,487	\$152,648	\$162,559	\$170,909
System Size - O&M (\$000)	\$85,621	\$92,089	\$90,292	\$97,764	\$104,719
Net Revenues (\$000)	\$54,888	\$50,923	\$63,430	\$70,205	\$71,561
Net Funded Debt (\$000)	\$213,342	\$200,565	\$249,479	\$234,140	\$217,222
Annual Debt Service (\$000)	\$19,815	\$19,879	\$20,399	\$24,345	\$25,734
Annual Debt Service Coverage (x)	2.8x	2.6x	3.1x	2.9x	2.8x
Days Cash on Hand	355.25	391.60	416.92	453.87	353.76
Debt to Operating Revenues (x)	1.52	1.41	1.63	1.44	1.27

Source: Moody's Ratings, audited financial statements, US Census Bureau

Profile

The Omaha Metropolitan Utilities District was created in 1913 as a political subdivision by the State of Nebraska to provide water and gas service to the Omaha metropolitan area. The district is governed by an elected board of directors that serve six year terms and is the only municipal utility district in the state. The district has about 230,000 residential, commercial and industrial customers and sells water to four wholesale operators.

Detailed credit considerations

Service area and system characteristics: growing service area covering the Omaha metro area

The water system's service area and customer base will likely continue expanding because of the continued growth in the Omaha metro area and surrounding communities. Omaha is the economic hub of eastern Nebraska and western Iowa. Several Fortune 500 companies and institutions anchor the regional economy such as Creighton University, the University of Nebraska Medical Center and the Offutt Air Force Base, which is the headquarters for US Strategic Command. The unemployment rate is consistently low while resident incomes are also somewhat lower than comparably rated cities.

The water enterprise covers more than 290 square miles, within Douglas, Sarpy and Washington Counties and provides water service to about 230,000 customers. The top 10 customers are diverse and represent about 6% of total revenue. Residential users make up about two thirds of revenue while commercial and industrial customers make up about one third of revenue.

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The water enterprise has three water treatment plants that treat both surface and ground water. The district recently completed a master plan that estimates capacity at the plants will accommodate growth through 2050. Given sufficient capacity, the district has been able to focus ongoing capital investment on maintaining existing facilities. Asset condition is very strong at 68 years, reflecting these investment efforts.

Debt service coverage and liquidity: solid debt service and liquidity

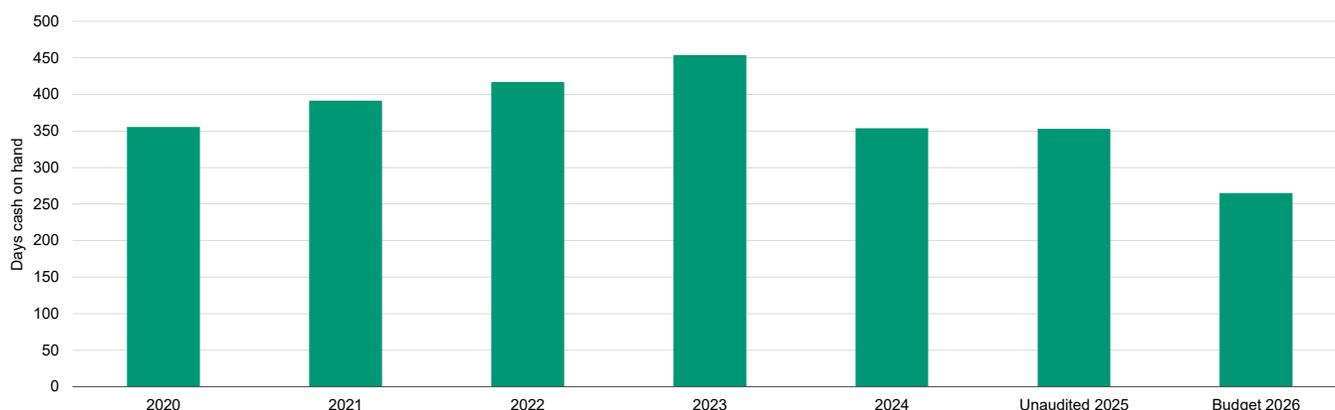
Debt service coverage and liquidity will remain solid, even with some planned draw down in cash reserves. Overall operations will remain stable because of the district's growing customer base and demonstrated track record of annual rate adjustments. Pro forma estimates indicate that 2026 net revenue will provide about 2.0x coverage of the annual debt service in 2026. Coverage will increase to 2.7x by 2030, the estimated year of maximum annual debt service. Unaudited results for fiscal 2025 indicate stable operating performance that will leave liquidity near a year's worth of cash on hand. The district may draw down cash closer to its cash target of 180 days over the next five years or so. The fiscal 2026 budget has a draw that would bring cash to about 265 days.

Liquidity

Fiscal 2024 closed with more than 350 days cash on hand. Management targets at least 180 days of O&M.

Exhibit 2

Days cash on hand will remain solid, even with some spend down



Source: Moody's Ratings and district budget documents

Debt and legal covenants: leverage to remain moderate supported by satisfactory legal provisions

Leverage will likely remain moderate because of the district's routine of issuing debt every four years or so, which is then spent over several years to support the five-year capital improvement plan. Annual improvements are financed with pay-go funds, as well as bond proceeds and state loans where applicable. The district is in the process of refinancing most of its outstanding revenue debt for about \$3 million in present value savings. The district is concurrently issuing about \$140 million in new debt to finance improvements to all three water treatment plants, begin planning and construction on a new reservoir and to make pump station upgrades.

Following the upcoming sale, debt to operating revenue will be equal to about 1.9x. The leverage trend goes through cycles and is likely near its peak given the district's multiyear borrowing routine. Over the longer-term, the ratio will likely moderate as revenue grows. Outstanding debt carries a rate covenant of 120%. The system's bonds do not have a debt service reserve.

Legal security

Outstanding debt and the upcoming Series 2026 bonds are backed by the net revenue of the water enterprise.

Debt structure

All debt backed by net revenue of the water enterprise is fixed rate and long term.

Debt-related derivatives

The district is not a party to any derivative agreements.

Pensions and OPEB

The district maintains a single-employer defined benefit pension plan for all full-time employees of the water and gas departments, administered by a third-party administrator. An employee of the district is eligible for coverage at the time of employment and vesting is achieved upon the completion of five years of service. The plan had more than 880 active employee participants and about 730 beneficiaries receiving benefits as of January 2024. Moody's three-year average adjusted net pension liability (ANPL) for the system is \$83 million, equal to about 0.5x operating revenue. Moody's ANPL reflects the use of a market-based discount rate to value pension liabilities rather than the assumed rate of investment return on plan assets.

ESG considerations**Environmental**

As an environmental utility, environmental considerations are considered in the utility district's credit profile. Water intensive facilities, such as those involved in manufacturing or energy production, are often dependent upon local water availability. The district does not have economic concentration in those sectors. The district has a comprehensive Water Alert Emergency Plan to manage water consumption in times of drought. Based on the district's current projections, the system has enough capacity to accommodate growth through 2050.

Social

The system provides an essential public service that is critical to community health and well-being. It must balance rate increases that cover debt service with service affordability and customer access. Median family income is equal to about 109% of the nation. The system benefits from a growing customer base and it covers the Omaha metropolitan area, which is the economic engine for the State of Nebraska.

Governance

The Board of the Metropolitan Utilities District has unlimited rate-setting authority. Management's cash policy targets at least 180 days of O&M. Most of the district's employees are represented by one local union. The current contract is settled through March 31, 2026. Under Nebraska law, unions and their members are not permitted to strike or otherwise disrupt the operations of a public utility service. The district maintains a five-year capital improvement plan. The board has the authority to set rates for multiple years but typically approves rates on an annual basis in conjunction with the budget process.

Rating methodology and scorecard factors

The US Local Government General Obligation Debt methodology includes a scorecard, a tool providing a composite score of a local government's credit profile based on the weighted factors we consider most important, universal and measurable, as well as possible notching factors dependent on individual credit strengths and weaknesses. Its purpose is not to determine the final rating, but rather to provide a standard platform from which to analyze and compare local government credits.

Exhibit 3

Omaha Metropolitan Util. Dist., NE Water Ent.

Rating Factors	Input	Weight	Score
System Characteristics (30%)			
Asset Condition (Years of Annual Depreciation)	68	10%	Aa
System Size (O&M in Thousands of Dollars)	\$104,719	7.5%	Aaa
Service Area Wealth (Median Family Income as % of US)	109%	12.5%	Aa
Financial Strength (40%)			
Annual Debt Service Coverage (x)	2.8	15%	Aaa
Days Cash on Hand	353.8	15%	Aaa
Debt to Operating Revenue (x)	1.3	10%	Aaa
Management (20%)			
Rate Management	Aa	10%	Aa
Regulatory Compliance and Capital Planning	A	10%	A
Legal Provisions (10%)			
Rate Covenant (x)	1.2	5%	A
Debt Service Reserve Requirement	Baa and Below	5%	Baa
Scorecard-Indicated Outcome			
			Aa1
Assigned Rating			
			Aa2

Source: US Census Bureau, Omaha Metropolitan Util. Dist., NE Water Ent.'s financial statements and Moody's Ratings

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REPORT NUMBER 1473785

Contacts

Stephanie Levine
Analyst
stephanie.levine@moodys.com

+1.312.706.9979

Gera M. McGuire
Associate Managing Director
gera.mcguire@moodys.com

+1.312.706.9977

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