NEW YORK, September 02, 2015 --Moody's Investors Service assigns a Aaa rating to University of Washington's (UW) $186 million of General Revenue and Refunding Bonds, Series 2015 C&D (maturing 2045). We also affirm the university's issuer level and debt ratings. The outlook is stable.

SUMMARY RATING RATIONALE

The University of Washington's (UW) Aaa rating reflects the synergies and strengths of its large-scale research, healthcare and educational operations and revenues. UW is one of the nation's largest research enterprises and one of the two largest healthcare providers in the Seattle region (and the only academic medical center in a five-state region) with generally balanced operating performance and well-diversified revenue streams.

Offsetting challenges are growing healthcare operations with narrower margins, high reliance on federal research funding and rising debt levels.

The Aa1 rating on the Lease Revenue Bonds, one level below the General Revenue Bonds, reflects the lease structure for the transaction with no abatement risk, including a ground lease for privately-owned property and a facilities lease with a sole purpose corporation.

The Aa2 rating for the Series 2006 TSB Properties Lease Revenue Bonds reflects non-renewal risk of the lease in 2021 and abatement risk.

The P-1 short-term rating reflects ample university self-liquidity for maturing commercial paper.

OUTLOOK

UW's stable outlook reflects expectations of a strong market position supported by its large national research profile, strong student demand and regional health care presence as well as good gift revenue, manageable near-term borrowing plans and operational flexibility to cope with constrained federal research funding. It also
incorporates expectations of growing balance sheet resources that will provide a growing cushion for debt and operations.

WHAT COULD MAKE THE RATING GO UP

Not applicable

WHAT COULD MAKE THE RATING GO DOWN

- Growth in balance sheet resources lower than Aaa-rated peers, resulting in relatively weaker balance sheet metrics
- Material debt plans beyond those outlined
- Significant reduction in research funding and revenue
- Sustained deterioration in university or medical center operations and cash flow

STRENGTHS

- Significant national research profile, good student demand, major clinical care provider for the Pacific Northwest
- Integrated planning, active debt and project management, and very good disclosure
- Good financial flexibility, with $1.6 billion of unrestricted financial resources
- Consistently favorable operations, with a 10.5% operating cash flow margin for FY 2014

CHALLENGES

- Increasing leverage, debt issuance outpacing growth of financial resources and revenues
- Slowing growth in net tuition revenues, with the state re-assuming full tuition-setting authority for in-state undergraduate tuition
- Increasingly competitive research funding environment
- Significant healthcare exposure with lower margins and liquidity

RECENT DEVELOPMENTS

Recent developments are included in DETAILED RATING RATIONALE.

DETAILED RATING RATIONALE

MARKET POSITION: LEADING NATIONAL RESEARCH PROFILE AND STATE'S FLAGSHIP PUBLIC UNIVERSITY

University of Washington (UW) will maintain its strong market position, anchored by its large, national research enterprise and good student demand as the state's flagship university. UW is a leading research enterprise, with a substantial $1.3 billion in research awards in FY 2015. While the research environment is increasingly competitive, UW is well positioned given the scale, diversity, and reputation of its research program. Further, UW has contingency plans to cope with grant reductions and has operating flexibility from its largely variable expense structure.

Student demand will remain healthy, based on the university's academic reputation and diversified undergraduate and graduate programs. Total enrollment has grown by over 9.5% in the last five years. While growth in net tuition revenue has been favorable in recent years due to this enrollment growth and tuition increases, we expect net tuition revenue to moderate over the next several years. The state has re-assumed in-state undergraduate tuition setting authority, and is requiring a 15% decrease in resident undergraduate tuition over the next two years. Increases in state funding will offset this move in the short term, but loss of tuition setting flexibility is a credit negative in the longer term. A partial mitigant is UW's diverse enrollment, with about 30% of incoming freshmen are non-resident and one-third of total enrollment at the graduate and professional level.

Growing healthcare enterprise
UW's significant healthcare enterprise is a key strategic focus tied to research and medical education. With a breadth of services, active management, and university board attention to enterprise risk, we anticipate that healthcare activities will continue to generate positive cash flow and remain a credit additive.

Patient care is substantial with $1.2 billion or 27% of FY 2014 UW's revenues (up to $2.0 billion or 38% when including Northwest Hospital and Valley Medical Center, both components units). The 450-bed University of Washington Medical Center (UWMC) is the flagship facility and an operating division of the university. UW Medicine's service area is substantial as the only academic health system and Level 1 trauma care provider for Washington, Wyoming, Alaska, Montana and Idaho (WWAMI). UW's School of Medicine is also the only public medical school for the region, with over 4,700 clinical faculty.

UW's board invested in the healthcare operations through capital investment and strategic alliances. UW shares ownership of the Seattle Cancer Care Alliance (A2 positive) with Fred Hutchinson Cancer Research Center (A3 stable) and Seattle Children's Healthcare System (Aa2 stable). It is one of two preferred partners for The Boeing Company, one of two Accountable Care Programs for state employees in a 5 county area beginning January 2016 and the preferred complex tertiary/quaternary health system for PeachHealth hospitals (not rated).

OPERATING PERFORMANCE, BALANCE SHEET, AND CAPITAL PLANS: GOOD CASH FLOW FROM DIVERSIFIED REVENUE STREAMS; RESOURCES PROVIDE GOOD FINANCIAL FLEXIBILITY; LEVERAGE INCREASING

UW will continue to produce good operating cash flow, in the 10-12% range, from its diverse revenues, reflecting strong fiscal oversight offsetting thin-margined research and healthcare operations and low tuition increases. Expense pressures come from higher pension costs and non-capitalized capital expenses.

UW projects FY 2015 to be at least comparable to FY 2014 with improved margins at UW Medicine. UW Medicine exceeded budgeted performance in FY 2015 with strong performance at UWMC, with good demand expected to continue following the opening of significant components of UWMC's tower expansion this year (final completion of the project is expected in October 2017).

The State of Washington (rated Aa1, stable) provides only 6% of Moody's-calculated operating revenue. State funding increased nearly 20% to $292 million for the current FY 2016-2017 biennium, with the increase largely offsetting the tuition reduction. The increase also provided for general wage increases and for STEM and healthcare education funds. However, pressure on the state budget may arise as the state looks to fully fund K-12 education costs as compelled under the Supreme Court of Washington's "McCleary" ruling.

The University of Washington's financial assets provide excellent flexibility, with $4.9 billion of total financial resources at the end of FY 2014, $1.7 billion of which was unrestricted. Total financial resources have grown by nearly 50% over the past five years, and are expected to increase further based on cash flow and fundraising.

Although currently not in an active comprehensive campaign, UW continues to generate strong gift flow, averaging $180 million annually over the three years ended June 30, 2014. The university reports another strong year for FY 2015. UW is in the early stages of a comprehensive campaign, with a tentative $4.0 billion goal.

Capital spending has been high as the university has invested in student housing among other initiatives, with over $2.4 billion invested in plant over from FY 2010-2014. While the university has benefitted from a mix of funding sources, outstanding debt has increased substantially over this same time frame, from a comparatively low $1.2 billion in FY 2010 to over $2.5 billion on a pro-forma basis. Pro-forma debt includes the Series 2015 GRBs, assuming full issuance of $250 million of Commercial Paper and the upcoming $130 million Series 2015 Lease Revenue Bonds to finance the fourth phase of UW's biomedical research facilities in South Lake Union.

While this debt level currently remains manageable, with maximum debt service consuming less than 5% of operations, UW's leverage metrics are now at the lower end of the Aaa-rating category. Debt issuance is expected to moderate following the Series 2015 issuance, with management projecting to issue about $70 million in new debt through FY 2018 for campus projects. This would more than be offset by principal repayments. However, material issuance above the current plans given the increase in leverage over the past five years could result in rating or outlook pressure.

Liquidity

UW holds $1.6 billion in operating funds, largely cash and treasuries/agencies. FY 2014 unrestricted monthly liquidity of $1.6 billion translated to 146 days, lower than other Aaa-rated institutions, in part reflecting the large
The research base funded by reimbursable research grants and expanding healthcare operations normally with lower liquidity. Liquidity is projected to be higher for June 30, 2015.

At March 31, 2015, UW's Consolidated Endowment Fund (CEF) increased to $3.0 billion from $2.8 billion at June 30, 2014. The portfolio allocations are generally consistent with other large endowment portfolios. UW Investments Office is appropriately staffed for the complexity of the endowment, with over 20 investment and operational professionals, and additional oversight and expertise provided by investment advisory committee members and external investment professionals.

UW's Commercial Paper (CP) program is currently authorized at $250 million and is rated P-1 based on the university's self-liquidity. At June 30, 2015, UW reported $1.01 billion of discounted daily liquidity, including Aaa-mf rated money market funds and US treasuries and agencies. The internal daily liquidity provides a strong 4.9 times assuming issuance of the full $250 million authorized amount of CP.

**DEBT STRUCTURE AND LEGAL COVENANTS**

*Debt Structure*

All of UW's long term debt is fixed rate. The university does use its $250 million commercial paper program as an interim financing vehicle, introducing some variable rate exposure but with deminimus risk given the good liquidity and only modest budget exposure.

*Debt-Related Derivatives*

None

*Pensions and OPEB*

UW has significant pension and benefit costs which represent a credit challenge. The university expensed a total of $467 million for pension and healthcare benefits, $179 million and $288 million respectively, for FY 2014. This amounts to a very substantial 11% of operating expenses. However, most of the payment for healthcare benefits was for current employees, with UW paying only a $150 subsidy per retiree.

UW offers two contributory pension plans - the Washington State Public Employees Retirement System ("PERS") plan, a defined-benefit retirement plan with three levels, and the University of Washington Retirement Plan ("UWRP"), a defined-contribution plan. The University of Washington Supplemental Retirement Plan, a defined-benefit plan, is closed to employees who were not active participants on February 28, 2011. UW contributes to PERS, a cost-sharing, multiple-employer, defined-benefit pension plan administered by the State Department of Retirement Systems ("DRS"). For FY 2016, UW's contribution is 11.18% of payroll.

For June 30, 2014 PERS Plan 1 has a participating employers' net pension liability of $5.04 billion, representing 61% funding. PERS Plan 2 and Plan 3, with a defined contribution plan, have a participating employers' net pension liability of $2.02 billion with over 90% funding. UW projects it will report a $830 million decrease in its Fiscal Year 2015 Beginning Unrestricted Net Position due to the implementation of GASB 68, which includes approximately $250 million for Harborview, a related party owned by King County and excluded from UW's financial results. However, as all of the Harborview employees are university employees, UW is required to include the Harborview employees in the related pension liability in its financial results.

UW employees are provided OPEB retirement benefits through the Washington State Health Care Authority. Premiums are calculated on a pay-as-you-go basis. UW is only required to pay a $150 subsidy for each retiree.

**GOVERNANCE AND MANAGEMENT: ACTIVE CENTRAL GOVERNANCE AND MANAGEMENT, WITH STRONG BUDGETING AND FINANCIAL OVERSIGHT**

University of Washington's governance and management are excellent, contributing to its Aaa rating. The Board of Regents is comprised of 10 members, including one student, and includes leaders of major corporations located in the state. The board thoroughly reviews all capital projects and planned borrowings to finance the projects, both through debt issuance or borrowing from UW's internal bank, including financial review of projects' revenue sources for debt service repayment and project staging, checkpoints and "off ramps". Capital projects are integrated into and centrally managed in UW's "One Capital Plan", its comprehensive 10-year strategic plan.

UW provides excellent bondholder disclosure that is posted to both EMMA and its own website. The university has external audits done for its separate organizations, including the healthcare organizations, the General
Revenues fund and the internal lending bank.

KEY INDICATORS (FY 2014 financial data, fall 2014 enrollment data)

- Full-Time Equivalent Enrollment: 54,857 students
- Total Financial Resources: $4.9 billion
- Total Cash & Investments: $4.8 billion
- Total Pro-Forma Direct Debt: $2.5 billion
- Total Operating Revenue: $4.4 billion
- Reliance on Grants and Contract Revenue (% of Moody's Adjusted Operating Revenue): 29%
- Reliance on Patient Care Revenue (% of Moody's Adjusted Operating Revenue): 27%
- Reliance on Tuition & Auxiliaries Revenue (% of Moody's Adjusted Operating Revenue): 23%
- Monthly Days Cash on Hand: 146 days
- Operating Cash Flow Margin: 10.5%
- Three-Year Average Debt Service Coverage: 3.6 times
- State of Washington Rating: Aa1, stable outlook

OBLIGOR PROFILE

Founded in 1861, University of Washington is the state's flagship university with more than 50,000 FTE students on its campuses in Seattle, Tacoma and Bothell. UW's operations are sizable with $4.4 billion of operating revenues. UW is also one of the nation's largest research universities with $1.3 billion of research awards for fiscal year 2015. The university operates UW Medicine, with nearly $2 billion of revenues and includes University of Washington Medical Center.

LEGAL SECURITY

Security of the General Revenue Bonds and the General Revenue Notes are General Revenues, including all non-appropriated and non-restricted revenues and fund balances, with $2.64 billion of pledged general revenues and $1.6 billion of general revenue balances. There is no debt service coverage covenant, no debt service reserve fund, and no additional bonds test.

The Aa1-rated Lease Revenue Bonds are secured by UW lease payments from General Revenues to WBRP-3.1. Lease payments are not subject to appropriation or abatement. The lease structure for the transaction includes a ground lease between City Investors XII, a non-affiliated land owner and WBRF3; and a facilities lease between WBRF3 and University of Washington. There is no debt service reserve fund.

The Aa2-rated TSB Lease Property Revenue Bonds are secured by UW lease payments from General Revenues to TSB Properties. There is a debt service reserve fund equal to maximum annual debt service. The lease is subject to abatement in the event of damage or destruction of the facilities. There is risk of non-renewal of the lease in year 2021, although we think this risk is very low given the importance of the financed facility that houses UW's central technology function and other university offices. The bonds were advanced refunded with proceeds of the Series 2015A/B GRBs issued in January 2015 and all callable maturities are escrowed to an April 1, 2016 call date.

USE OF PROCEEDS

Proceeds of the Series 2015C/D GRBs will fund a number of capital projects, refund outstanding commercial paper that financed university capital projects and refunded Northwest Hospital debt, and pay issuance costs.

RATING METHODOLOGIES

The principal methodology used in these ratings was U.S. Not-for-Profit Private and Public Higher Education published in August 2011. An additional methodology used in rating the Commercial Paper debt was Rating
Methodology for Municipal Bonds and Commercial Paper Supported by a Borrower's Self-Liquidity published in January 2012. An additional methodology used in rating the Lease-Backed debt was The Fundamentals of Credit Analysis for Lease-Backed Municipal Obligations published in December 2011. Please see the Credit Policy page on www.moodys.com for a copy of these methodologies.

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