Moody's Investors Service

New Issue: MOODY'S ASSIGNS Aa1 RATING TO THE UNIVERSITY OF WASHINGTON'S GENERAL REVENUE BONDS, 2009B TAXABLE (BUILD AMERICA BONDS - DIRECT PAYMENT); RATING OUTLOOK IS STABLE

Global Credit Research - 11 Nov 2009

UNIVERSITY WILL HAVE $1.27 BILLION OF RATED DEBT OUTSTANDING WITH COMMERCIAL PAPER PROGRAM AT FULL SIZE

Higher Education
WA

Moody's Rating

<table>
<thead>
<tr>
<th>ISSUE</th>
<th>RATING</th>
</tr>
</thead>
<tbody>
<tr>
<td>General Revenue Bonds, Series 2009B Taxable (Build America Bonds - Direct Payment)</td>
<td>Aa1</td>
</tr>
</tbody>
</table>

| Sale Amount | $77,710,000 |
| Expected Sale Date | 11/17/09 |
| Rating Description | Public Higher Education Revenue |

Moody’s Outlook  Stable

Opinion

NEW YORK, Nov 11, 2009 -- Moody's Investors Service has assigned an Aa1 rating to the University of Washington's General Revenue Bonds, 2009B Taxable (Build America Bonds - Direct Payment). At this time we have affirmed the University’s Aa1 issuer rating as well as the ratings on various other debt securities detailed at the end of this report. The rating outlook is stable.

USE OF PROCEEDS: Proceeds from the bonds will be used to pay, or to pay commercial paper notes issued to finance, a portion of the cost of capital improvements to a number of University facilities (the "Project") and to pay costs of issuance.

LEGAL SECURITY: The 2009B Taxable bonds are payable from General Revenues of the University, including all non-appropriated and non-restricted revenues and fund balances. General revenues totaled $806 million in FY 2008, with $501 million of general revenue balances. For FY 2009, the University is adding to the pledged revenues its auxiliary systems, including the University of Washington Medical Center, the parking system, the intercollegiate athletic system, and the housing and dining system. If added in 2008, the pledged revenues would increase to $1.94 billion; the general revenue balances would increase to $885 million. The Aa1 rating for the General Revenue Bonds reflects the broad revenue pledge, the University's debt management practices, and frequent need for market access by the University. There is no coverage covenant, no debt service reserve fund, and no additional bonds test.

It is currently intended that the 2009B Taxable Bonds will be issued as "Build America Bonds" under the American Recovery and Reinvestment Act of 2009 (ARRA). The University will receive from the federal government a credit subsidy of 35% of the amount of each interest payment on the taxable bonds. The bonds will be fixed rate with a bullet principal payment due in 2036.

For other series of debt, please see SECURITY PLEDGE section for specific debt service coverage levels.

DEBT RELATED DERIVATIVE INSTRUMENTS: None

STRENGTHS

* Excellent market position as the flagship public university for Washington - with Fall 2009 enrollment of 47,835 full-time equivalent (FTE) students in its diversified undergraduate and graduate programs at three campuses and a provider of medical education and clinical care to the region through its Medical Center,
although undergraduate enrollment will be constrained due to state funding cuts.

* Nationally prominent research enterprise with an estimated $1.15 billion in annual grants and contracts during fiscal year (FY) 2009 and expectations of equal or higher grant activity for the current FY 2010.

* Good financial flexibility, with total financial resources reaching over $2.8 billion estimated for FY 2009 and nearly $1.0 billion of unrestricted resources.

* Generally balanced operating performance, with a three-year operating margin of 1.3% based on preliminary 2009 operating results, derived from a well-diversified revenue stream.

CHALLENGES

* Substantial debt increase in recent years reflecting the University’s investment in strategic initiatives, with total pro-forma direct debt of $1.29 billion assuming $250 million of full issuance of its commercial paper program. The University has modest debt plans over the next twelve months and is currently assessing the timeframe for debt and capital projects going forward.

* Significant cuts in state funding (State of Washington rated Aa1 with a stable outlook) approved for the current 2010-2011 biennium - 26%; the University intends to offset the reduction in part with a 14% tuition increase per year, resulting in a net decrease of $50 million for each year.

* Exposure to health care sector at University of Washington Medical Center (UWMC), with patient care revenues representing 30% of total operating revenues for FY 2009. UWMC intends to make major investments in its facilities, expected to total $250 million over two phases.

MARKET/COMPETITIVE POSITION: FLAGSHIP PUBLIC UNIVERSITY FOR STATE AND ONE OF NATION’S LEADING RESEARCH ORGANIZATIONS

We believe the University's excellent market position - anchored by good underlying student demand and strong research fundamentals - will be maintained for the foreseeable future. As the flagship public university for the State, the University offers a broad array of undergraduate, graduate and professional programs, with graduate and professional enrollment accounting for 32% of total enrollment in Fall 2009. For Fall 2009, the University reported 47,835 FTE students at its three campuses in Seattle, Bothell, and Tacoma. The University shows an over-enrollment of 1,200 students from State-subsidized enrollment. As a result, the University will work towards decreasing enrollment in state-subsidized programs over a two to four year period to achieve an enrollment in line with the level funded by the State.

The University is one of the nation's largest research organizations, receiving over $1.15 billion in sponsored research grants in FY 2009. Of the research awards, about 50% was awarded by the Department of Health and Human Services (HHS). With its strong reputation and research faculty, programmatic and funding diversification, as well as planned capital expenditures for research facilities, we believe the University remains well-positioned to attract increased research funding for the foreseeable future, albeit at slower growth levels primarily because of a slowdown in federal funding in the near-term. The University expects an increase in funding for the current FY 2010 as it benefits from the NIH grant funding as part of the federal stimulus package.

The University of Washington Medical Center, which is consolidated in the University’s financial statements, is a 450 bed academic medical center, nationally ranked and offering tertiary/quaternary services. As an enterprise, University of Washington's health care activities are substantial, with net patient revenues alone standing at an estimated $1 billion for FY 2009 or 30% of total operating revenues for the consolidated entity. The University's faculty physicians are the exclusive providers of its health care services, with over 4,800 clinical faculty. The University's Board of Regents has approved extensive capital plans for the health care enterprise amounting to a projected total of $250 million to be phased over two phases. Also, the University has announced that Northwest Hospital & Medical Center, a 281-bed full service acute hospital, will become a part of UW Medicine health system by December 31, 2009. The Hospital will expand UW health system's market, particularly as a community hospital. We do not expect the addition of Northwest Hospital to have an impact on the University's credit profile.

OPERATING PERFORMANCE: BALANCED OPERATING PERFORMANCE AND GOOD CASH FLOW GENERATION, WITH DIVERSIFIED REVENUE STREAMS AND SOLID DEBT SERVICE COVERAGE
The University has consistently generated balanced operating performance, with a three year average operating margin of 1.3% for FY 2009 based on preliminary results. Solid operating performance was driven in large part by growth in tuition revenue, and favorable medical center performance. In addition, the University benefits from its diversified revenue base, with the largest contributors being 32% from grants and contracts, 30% from patient care, 16% from student charges, and 11% from state appropriations. State operating funding for the 2010-2011 biennium was reduced by 26% while approving the University to increase undergraduate tuition up to 14% for both FY 2010 and FY 2011. As a result, the University will incur a net revenue loss of about $50 million for each year, and is taking steps to address the revenue shortfall such as hiring freezes, leaving open positions unfilled, and direct layoffs. We expect the University to continue to produce generally balanced operating performance going forward.

The University’s healthcare operations have performed well, experiencing modestly growing utilization and producing operating surpluses and good operating cash flow. Admissions for University of Washington Medical Center have risen to nearly 19,000 in FY 2008 from 18,121 in FY 2006 and have risen modestly for the recently ended FY 2009. For FY 2009, total revenues related to patient care were $1.04 billion, with the Medical Center accounting for about $700 million of total revenue; the remainder is related to revenues of the faculty practice plan. UWMC’s operating margin was 4.5% for FY 2008, with expectations of another good operating year for FY 2009; debt service coverage has likewise been strong at 5.2 times for FY 2008, with expected strong coverage for FY 2009. We expect the healthcare enterprise to continue to perform generally well financially with the University’s oversight, and will continue to be an important strategic component of the University’s overall market position, both in terms of research and clinical operations.

Pledged General Revenues in support of debt service grew to $806 million for FY 2008 and provided nearly 15 times coverage for the debt service. In FY 2009, the University expanded its General Revenues pledge to the bonds to include all of its auxiliary systems, including the University of Washington Medical Center, the parking system, the intercollegiate athletic system, student services and the housing and dining system. As a result, FY 2008 general revenues would have risen to $1.9 billion. The University will refinance certain series of outstanding bonds under existing indentures when possible to bring them under the General Revenue platform.

The State of Washington currently has an Aa1 G.O. rating with a stable outlook. The rating and outlook reflect institutionalized conservative budgetary controls, improved financial flexibility with an increased rainy day fund, strong demographic trends and maintenance of sound liquidity levels despite recessionary stresses. Offsetting these strengths are noted challenges of economic weakness and a steeper-than-forecasted housing downturn which could hurt economic and revenue performance, significant use of one-time actions to balance current biennial budget that reduces flexibility to address unexpected revenue shortfalls, exposure to the cyclical commercial aerospace industry; debt ratios above average and likely to increase, and fiscal uncertainty due to voter initiative activity. For more information on the State, please see Moody’s report of October 15, 2009.

BALANCE SHEET POSITION: GROWING RESERVES PROVIDE SIGNIFICANT FINANCIAL CUSHION AND FLEXIBILITY

Total financial resources steadily grew to $3.3 billion at the end of FY 2008 from $2.2 billion in FY 2007, driven by investment performance and gift revenues. Based on preliminary FY 2009 results, estimated total financial resources declined 15% to $2.8 billion. The balance sheet profile continues to strengthen in part due to the large amount of unrestricted financial resources, $922 million or 33% of total resources for FY 2009, which provides significant flexibility. We expect stable to modest growth in financial resources from volatile investment performance and ongoing fundraising. FY 2009 expendable resources provide a good cushion of 1.5 times of total proforma debt and 0.6 times for annual operations.

The twelve month annual return on investments for FY 2009 was a loss of 23.3% on its Consolidated Endowment Fund. The endowment portfolio’s allocation is 14% in domestic equities; 23% in international equities; 21% in absolute return, 16% fixed income, 10% in real assets, and 15% in non-marketable alternatives. The University has Cambridge Associates as its investment advisor. In addition to the endowment, the University has nearly one-third of its operating funds, or about $885 million in its cash and liquidity pool, which is largely in cash and treasuries/ agencies.

The University currently plans to issue about $195 million in debt during the next FY 2011. However, this amount is subject to change depending upon board approval and the timing of other proposed projects. The Board of Regents have reviewed the student housing master plan to add up to 4,150 new beds by
2020 to the University’s housing system and approved Phase 1 for $160M. Total costs for all phases are currently estimated to be $850 million with an intention to fully fund the project costs through debt issuance. Any impact on the University’s credit profile will be determined once plans are finalized regarding the amount and timing of the debt issuances, as well as operating performance and cash flow for the University coupled with the revenue stream and reserve balances for the General Revenue pledge.

SHORT-TERM RATIONALE:

The University of Washington has its $250 million of General Revenue Notes program, rated P-1, supported by its self-liquidity; there is no other variable rate debt outstanding. The University has a limit of no more than $100 million that can mature in a single five day period.

At September 30, 2009, the University held $535 million in investments with same-day liquidity on a non-discounted basis: $36 million in the Aaa-rated SSgA US Treasury Money Market Fund and $485 million in US Treasury and Agency securities held in custody in its own name. Additionally, the University has approximately $278 million of investments on a non-discounted basis that can be accessed within one week. We note that the funds are from the University’s operating funds and exclude investments in its Consolidated Endowment Fund.

Moody's applies its Standard Approach to the self-liquidity analysis, as detailed in our November 2006 report, "Variable Rate Debt Instruments Supported By An Issuer’s Own Liquidity." Under the Standard Approach, the University of Washington's same-day liquid investments must cover its daily and weekly liabilities (i.e. its commercial paper); as of September 301 2009, coverage is 4.7 times of the $100 million that can mature in a single five day period. Additionally, the University's same-day and weekly liquid investments must cover its daily and weekly liabilities; as of September 30, 2009, the coverage is 6.4 times. Moody's believes the University's treasury and financial management closely monitor and plan for the commercial paper's maturity dates and will ensure sufficient same day liquidity in advance of maturing CP should a remarketing not occur. Moody’s will monitor the investments to insure sufficient levels of same-day liquidity are held to meet the coverage tests.

SECURITY PLEDGE: PLEDGED REVENUES PROVIDE ADEQUATE SECURITY UNDER VARIOUS REVENUE SECURITIES

Moody’s approach to rating the University’s various series of bonds includes analyzing both the sufficiency of legally pledged revenues as well as the essentiality of the financed projects to the University. The University is expected to continue to produce sound debt service coverage from pledged revenues on its outstanding bonds. Debt service coverage for specific pledges are below (FY 2009 estimates are not available).

* Lease Revenue Bonds are secured by lease payments made by the University. Lease payments will be made from General Revenues of the University, including all non-appropriated and non-restricted revenues and fund balances.

* Student Facilities Fee Revenue Bonds are secured by a mandatory student fee charged to all full and part-time students for student services; the bonds have a first claim on those revenues. For FY 2008, pledged revenues were $15.4 million providing 4.5 times debt service coverage.

* Parking System Bonds are secured by the net revenues of the parking system and have a first claim on those revenues before inclusion in the General Revenues pledge. For FY 2008, pledged revenues totaled $9.2 million and provided coverage of 6.9 times.

* Housing and Dining Revenue Bonds are secured by a pledge of the net revenues of the housing and dining system and have a first claim on those revenues before inclusion in the General Revenues pledge. For FY 2008, pledged revenues totaled $14.3 million and provided 2.5 times debt service coverage.

Outlook

The stable rating outlook reflects the University's continued strong market, good operating cash flow and manageable debt plans.

What could change the rating-UP

Substantial growth in financial reserves, with limited additional borrowing.
What could change the rating—DOWN

Notable deterioration in medical center operations, significant expansion of borrowing plans.

KEY INDICATORS (FY 2008 Financial results (with estimated FY 2009 expendable and total financial resources based on preliminary results), Fall 2009 enrollment data)

Total Enrollment: 46,228 full-time equivalent students

Total Proforma Direct Debt: $1.29 billion (including commercial paper program at full size of $250 million)

Expendable Financial Resources: $1.9 billion

Total Financial Resources: $2.8 billion

Total Revenues: $3.3 billion

Expendable Financial Resources to Proforma Direct Debt: 1.5 times

Expendable Resources to Operations: 0.6 times

Three-Year Average Operating Margin: 1.2%

Reliance on State Funding: 12% of Total Operating Revenues

State Rating: Aa1, stable

RATED DEBT

University of Washington Issuer Rating: Aa1.

General Revenue Notes: P-1 (based on self-liquidity).


General Revenue Bonds, Series 2007: rated Aa1, insured by Ambac (Current financial strength rating is Caa2 with a developing outlook).

Lease Revenue Bonds, Series 2006J: rated Aa2, insured by National Public Finance Guarantee (Current financial strength rating is Baa1 with a developing outlook).

TSB Properties Lease Revenue Bonds, Series 2006: rated Aa3, insured by National Public Finance Guarantee (Current financial strength rating is Baa1 with a developing outlook).

Lease Revenue Bonds, Series 2005E: rated Aa2, insured by National Public Finance Guarantee (Current financial strength rating is Baa1 with a developing outlook).

Student Facilities Fee Refunding Revenue, Series 2005: rated Aa2, insured by Financial Security Assurance (Current financial strength rating is Aa3 on Watchlist for possible downgrade).


Student Facilities Fee Revenue, Series 2000: rated Aa2; insured by Ambac (Current financial strength rating of Caa2 with a developing outlook).

Parking System Bonds, Series 2004: rated Aa2, insured by Ambac (Current financial strength rating is Caa2 with a developing outlook).

Housing and Dining Revenue Bonds, Series 2004, 2002: rated Aa2; insured by Ambac (Current financial strength rating is Caa2 with a developing outlook).

(Current financial strength rating is Baa1 with a developing outlook).

State of Washington General Obligation Bonds: rated Aa1 long-term (Secured by State but University pays actual debt service)

CONTACTS

University: Chris Malins, Senior Associate Treasurer, (206) 616-1103.


METHODOLOGY

The principal methodology used in rating University of Washington was Moody's Rating Methodology for Public Colleges and Universities published in November 2006 and available on www.moodys.com in the Rating Methodologies sub-directory under the Research & Ratings tab. Other methodologies and factors that may have been considered in the process of rating this issuer can also be found in the Rating Methodologies sub-directory on Moody's website.

The last rating action was on June 25, 2009 when the ratings and outlook of the University of Washington were affirmed.

Analysts

Diane F. Viacava
Analyst
Public Finance Group
Moody's Investors Service

Amy Tanaka
Backup Analyst
Public Finance Group
Moody's Investors Service

Contacts

Journalists: (212) 553-0376
Research Clients: (212) 553-1653

CREDIT RATINGS ARE MIS'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES. MIS DEFINES CREDIT RISK AS THE RISK THAT AN ENTITY MAY NOT MEET ITS CONTRACTUAL, FINANCIAL OBLIGATIONS AS THEY COME DUE AND ANY ESTIMATED FINANCIAL LOSS IN THE EVENT OF DEFAULT. CREDIT RATINGS DO NOT ADDRESS ANY OTHER RISK, INCLUDING BUT NOT LIMITED TO: LIQUIDITY RISK, MARKET VALUE RISK, OR PRICE VOLATILITY. CREDIT RATINGS ARE NOT STATEMENTS OF CURRENT OR HISTORICAL FACT. CREDIT RATINGS DO NOT CONSTITUTE INVESTMENT OR FINANCIAL ADVICE, AND CREDIT RATINGS ARE NOT RECOMMENDATIONS TO PURCHASE, SELL, OR HOLD PARTICULAR SECURITIES. CREDIT RATINGS DO NOT COMMENT ON THE SUITABILITY OF AN INVESTMENT FOR ANY PARTICULAR INVESTOR. MIS ISSUES ITS CREDIT RATINGS WITH THE EXPECTATION AND UNDERSTANDING THAT EACH INVESTOR WILL MAKE ITS OWN STUDY AND EVALUATION OF EACH SECURITY THAT IS UNDER CONSIDERATION FOR PURCHASE, HOLDING, OR SALE.

© Copyright 2009, Moody's Investors Service, Inc. and/or its licensors including Moody's Assurance Company, Inc. (together, "MOODY'S"). All rights reserved.