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New York, March 15, 2023 -- Moody's Investors Service has affirmed the University of Washington's (UW) Aaa issuer and General Revenue Bonds ratings, the Aa1 on Lease Revenue Bonds and the P-1 on UW's Commercial Paper program. Total debt outstanding as of June 30, 2022 was \$3.3 billion. The outlook is stable.

RATINGS RATIONALE

The affirmation of University of Washington's Aaa issuer rating incorporates the synergies and strengths of its large-scale research, healthcare, and educational operations that support its excellent brand and strategic positioning. As the state's flagship university with a comprehensive array of programs, the university benefits from strong student demand. Its market position is bolstered by a prominent research profile enhanced by its sizable academic medical center. Overall wealth levels are considerable and growing, supported by strong fundraising, but lag Aaa-rated peers when measured against the university's growing scale. UW's governance and management are strong, including integrated planning and very active oversight. The university's primary credit challenge continues to be its exposure to the volatility and thinning margins of its healthcare enterprise's operations. Relatively high leverage including a large pension liability, is another offsetting credit consideration.

The affirmation of the Aaa rating on the General Revenue Bonds reflects the unsecured general obligation nature of the payment obligation and the Aaa issuer rating.

The affirmation of the Aa1 rating on the Lease Revenue bonds reflects the university's general credit quality along with a 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 rating reflects the complexity of the lease structure and less essential nature of the projects.

The P-1 short-term rating is based on the university's long term credit strength, excellent debt and treasury management, and ample university self-liquidity for maturing commercial paper.

RATING OUTLOOK

The stable outlook incorporates Moody's expectations that near-term weakening of UW Medicine's margins will not materially impact strengthened university-wide performance. It further incorporates expectations of a stabilization in UW Medicine's operating performance by fiscal 2024. Wealth levels will continue to benefit from strong fundraising and operating surpluses while additional borrowing will remain moderate.

FACTORS THAT COULD LEAD TO AN UPGRADE OF THE RATINGS

- Not applicable

FACTORS THAT COULD LEAD TO A DOWNGRADE OF THE RATINGS

- Further deterioration in healthcare entities' operating performance
- Sustained, weaker operating performance to below 10% EBIDA margins given already thinner than peers balance sheet reserves relative to operations and debt
- Material debt plans beyond those outlined or reduction in wealth/liquidity relative to debt and expenses
- For the short term rating, reduction in same day liquidity, increased calls on liquidity, or weakening of debt and treasury management

LEGAL SECURITY

The General Revenue Bonds and the General Revenue notes carry a pledge of General Revenues, including all non-appropriated and nonrestricted revenues and fund balances, with \$4.5 billion of pledged general revenues and \$2.4 billion of general revenue balances. There is no debt service coverage covenant, no debt service reserve fund, and no additional bonds test.

The Lease Revenue Bonds are secured by lease payments made by the University of Washington solely from its General Revenues under facilities lease between UW and the borrower for the bonds. Lease payments are not subject to appropriation or abatement. There is no debt service reserve fund for any bond series.

PROFILE

Founded in 1861, the University of Washington is the State of Washington's flagship university with fall 2022 full time equivalent students (FTEs) of 60,422 on its campuses in Seattle, Tacoma and Bothell. UW's operations are sizable with \$7.6 billion of operating revenue in

fiscal 2022. UW is also one of the nation's largest research universities with \$1.7 billion of research awards for fiscal 2022.

UW operates UW Medicine whose service area is broad as the only academic health system and Level 1 trauma care provider for Washington, Wyoming, Alaska, Montana and Idaho (WWAMI). The university's consolidated operations include the 810 bed University of Washington Medical Center (UWMC) which merged with Northwest Hospital (NWH) in January 2020. UW Medicine's Harborview Medical Center, owned by King County and managed by the university is not included in university results and Valley Medical Center, a public hospital district, managed by UW Medicine under a strategic alliance is reported as a component unit outside the consolidated results.

In fiscal 2022 the Fred Hutchinson Cancer Center (FHCC) (A2/stable) entered into a new comprehensive clinical affiliation with UWMC which will govern all of the adult cancer related clinical activities of both organizations. As a result, the FHCC is now reported as a component unit outside consolidated results.

METHODOLOGY

The principal methodology used in the long-term ratings was Higher Education Methodology published in August 2021 and available at <https://ratings.moodys.com/api/rmc-documents/72158>. The principal methodology used in the short-term rating was Short-term Debt of US States, Municipalities and Nonprofits Methodology published in July 2020 and available at <https://ratings.moodys.com/api/rmc-documents/67339>. Alternatively, please see the Rating Methodologies page on <https://ratings.moodys.com> for a copy of these methodologies.

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 on <https://ratings.moodys.com/rating-definitions>.

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