

University of Washington; CP; Lease; Public Coll/Univ - Unlimited Student Fees

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Credit Profile		
US\$337.41 mil gen rev and rfdg bnds ser 2025A dtd 04/03/2025 due 04/01/2045		
Long Term Rating	AA+/Stable	New
University of Washington CP nts		
Short Term Rating	A-1+	Affirmed
Washington Biomedical Research Fac 3, Washington		
University of Washington, Washington		
Washington Biomedical Properties 3.1 (University of Washington) lse		
Long Term Rating	AA+/Stable	Affirmed

Credit Highlights

- S&P Global Ratings assigned its 'AA+' long-term rating to the University of Washington's (UW) approximately \$337.4 million series 2025A general revenue and refunding bonds (GRBs).
- At the same time, we affirmed our 'AA+' long-term rating on the UW's outstanding GRBs.
- Additionally, we affirmed our 'A-1+' short-term rating on UW's commercial paper (CP) notes.
- The outlook, where applicable, is stable.

Security

Securing the GRBs is a pledge of general revenue, which is made up of all non-appropriated revenue not restricted by law or contract--excluding appropriations, grant direct costs, restricted gifts, some fees, Metro Tract revenue, and certain auxiliary revenue. We consider the security pledge equivalent to an unlimited student fee pledge. General revenue in fiscal 2024 totaled \$5.5 billion, including net patient services revenue (\$2.4 billion), student tuition and fees (\$1.0 billion), and auxiliary services (\$520.4 million).

Pro forma debt at fiscal year ended June 30, 2024, was approximately \$3.3 billion including the net effect of the series 2025 issuance, and \$767.2 million of leases, \$148.2 million of notes payable and \$98.0 million of subscription-based IT arrangements (SBITA) with no outstanding CP. The series 2025A GRBs are being issued to refund the university's general revenue bonds series 2009B taxable (Build America Bonds-Direct Payment) and general revenue refunding series 2015B bonds, and Washington Economic Development Finance Authority lease revenue refunding bonds series 2013 (Washington Biomedical Research Properties I) and 2014A (Washington Biomedical Research Properties II), and Washington Biomedical Research Properties 3.2, lease revenue bonds series 2015A as well as to provide about \$45 million for various capital projects.

Credit overview

We assessed the UW's enterprise risk profile as extremely strong, characterized by its role as the flagship higher education institution of Washington with a firm enrollment trend and impressive other demand metrics and a major

research and health care focus with its UW Medical Center and associated facilities d/b/a UW Medicine having a broad market position of the Pacific Northwest while we assessed its financial risk profile as very strong, with ample financial resources, a conservative debt profile, and somewhat recent weak financial performance. We believe these credit factors, combined, lead to an anchor of 'aa+' and a final rating of 'AA+'.

The 'A-1+' short-term rating on the CP (up to \$250 million in authorized amount) reflects our view of the university's general credit strengths, including its ability and experience managing its CP tender needs from its sufficient liquid assets of high credit quality that are part of its investment portfolio. As of Sept. 30, 2024, UW had \$1.7 billion in discounted assets with same-day liquidity, which we consider ample, and no CP outstanding.

The 'AA+' unlimited student fee ratings reflect our view of the university's:

- Position as one of the nation's top research universities, with \$1.7 billion in federal and nonfederal grant and contract awards in fiscal 2024;
- Recent rising enrollment with 62,054 full-time-equivalent (FTE) students for fall 2024 up 2.6% from fall 2023's 60,494;
- Manageable 3.4% pro forma maximum annual debt service (MADS) burden; and
- Impressive fundraising efforts and a healthy endowment, with an estimated market value of \$5.5 billion as of June 30, 2024, contributing to an overall cash and investment position of \$9.4 billion.

Partly offsetting credit factors, in our opinion, are the university's:

- Historical variability in operating margins with deficits recorded in each of the two most recent fiscal years and surpluses recorded in the preceding two years; and
- Health care risk more prone to inflationary pressures and variable reimbursement methodologies.

The University of Washington is the largest of the state's four-year public higher education institutions. It was founded in 1861 in Seattle and has two additional smaller campuses, in Tacoma and Bothell. The university provides baccalaureate, master's, doctoral, and professional degree programs, with over 600 degree options. UW is a major research institution, ranked fifth in the nation among private and public institutions for externally funded sponsored project expenditures based on National Science Foundation data, and UW Medical Center is ranked as the top hospital in the state by "U.S. News and World Report."

Environmental, social, and governance

We analyzed the university's environmental, social, and governance credit factors pertaining to its market position, management and governance, and financial performance. The region has exposure to environmental risk with rising sea levels and earthquakes, but we feel the university's location and building standards mitigate some of this risk. We view UW's social and governance factors as neutral in our credit rating analysis.

Outlook

The stable outlook reflects our expectation that the university's enrollment trend will remain firm, its financial resources will remain ample, and its debt burden will stay low to moderate while financial performance continues to exhibit some variability but not weaken key balance-sheet metrics.

Downside scenario

Credit factors that could lead to a negative rating action include an unexpected drop in student demand, leading to large operating deficits that weaken key financial resource ratios or a significant increase in debt that does the same.

Upside scenario

A positive rating action could be considered if UW's operating performance is positive on a sustained basis and balance-sheet metrics increase to levels more in line with those of 'AAA' rated peer institutions.

Credit Opinion

Enterprise Risk Profile--Extremely Strong

Market position and demand

UW is the flagship university in the state of Washington with a healthy enrollment trend and mostly favorable other student demand metrics. Management expects enrollment to remain stable for fall 2025 and in the near future. UW has effectively capped enrollment at its main campus, although there is the possibility of limited expansion at the Bothell and Tacoma campuses. While the university has well recognized graduate programs, it is still primarily an undergraduate institution, with approximately 67.5% of the student body consisting of undergraduate students. Although the university draws students from across the nation, it is still largely regional, with approximately 63% of students coming from the state, which is consistent with its mission to educate Washingtonians.

Combining metrics for the three UW campuses, first-year applications increased by 19.3% in fall 2023 and 11.4% in fall 2024 to a record high of 78,418 compared to 70,365 in fall 2023. Due to the growth in applications, the acceptance rate fell to 45% in fall 2024 from 48% in fall 2023 and 59.8% in fall 2020. The matriculation rate was 26% in both fall 2023 and fall 2024 and is considered somewhat below that of a number of similarly rated colleges and universities. Student quality has improved and is strong, in our view, with the average fall 2024 ACT score of 30 and SAT score of 1,360. The retention rate is solid and steady, at 93%, and the six-year graduation rate is stable at approximately 83%.

UW Medicine is a leading health care provider throughout the WWAMI region (Alaska, Idaho, Montana, Washington, and Wyoming). Key services include cardiology, trauma, oncology, transplants, and a broad array of adult and pediatric medical and surgical specialty and subspecialty services. UW Medicine includes the University of Washington School of Medicine, Harborview Medical Center, University of Washington Medical Center (UWMC), Valley Medical Center, UW Physicians, UW Medicine Primary Care, and Airlift Northwest. UWMC realized FEMA recoveries for costs associated with the pandemic of \$43.4 million and \$68.6 million in fiscal years 2023 and 2024, respectively. It also received Medicaid Directed Payments of \$46.4 million and \$123.9 million in fiscal years 2023 and

2024, respectively, and anticipates receiving \$152 million in fiscal 2025. In addition, UW Medicine was successful in late 2024 in garnering from King County a new tax that is estimated to be \$87 million on an annual basis to support the operating and capital costs of Harbor View Medical Center.

We understand in December 2024, Valley Medical Center's elected board of commissioners voted to end its strategic affiliation with UW Medicine effective Dec. 31, 2026. Management does not believe this development will have a material effect on UW Medicine. Other strategic collaborations exist with Fred Hutchinson Cancer Center (FHCC or Fred Hutchinson; a major cancer and infectious diseases research and patient care organization), Peace-Health, Seattle Children's, Skagit Regional Health, Bloodworks Northwest, Husky Health Center, MultiCare Health System, NW Kidney Centers, and VA Puget Sound/Boise/American Lake. As part of the restructure related to the FHCC merger and new corporate structure, Fred Hutchinson is a clinically integrated component of UW Medicine. Together, Fred Hutchinson and UW Medical Center operate a clinically integrated adult oncology program that operates at both Fred Hutchinson's facilities and UWMC (a separately licensed hospital) and its clinics. Fred Hutchinson and UWMC share in the combined net revenue of both of the oncology programs.

Management and governance

The university is governed by an 11-member board of regents and managed by President Ana Mari Cauce, who was named to the position in October 2015 and has been a member of the UW faculty since 1986. President Cauce is stepping down from the presidency this coming summer and the university just announced Feb. 3, 2025 that its next president will be Mr. Robert J. Jones, Ph.D., the current chancellor of the University of Illinois Urbana-Champaign. Tricia Serio began serving as the provost and executive vice president for academic affairs on Aug. 1, 2023; as provost, she is the university's chief academic and budget officer. Dr. Timothy H. Dellit was named CEO of UW Medicine, executive vice president for medical affairs, and dean of the UW Medical School on Nov. 28, 2023, having held those same roles on an interim basis since July 1, 2022. The regents review and approve all large capital projects. In our view, the culture of planning regarding debt issuance allows for a certain degree of predictability.

FHCC and UW have been the subject of a class action lawsuit related to a cyber breach that occurred at FHCC in late 2023. Unauthorized third parties accessed and obtained some patient data FHCC obtained from UW as part of their affiliation. We understand no UW systems or facilities were compromised and a final settlement is expected in May 2025 with the King County Superior Court already having granted preliminary approval.

Financial Risk Profile--Very Strong

Financial performance

After reporting operating surpluses in fiscal years 2021 and 2022, UW has posted operating deficits for the past two fiscal years while showing improved financial results for the first five months of fiscal 2025. For fiscal 2024, we estimate operating performance by removing unrealized gains/losses on investments and adjusting for pension and other postemployment benefit (OPEB) contribution net of expense, which resulted in an operating deficit of \$358.9 million (negative 3.97%) and a deficit of \$214.6 million (negative 2.54%) in fiscal 2023. We understand these recent deficits are largely the result of inflation and higher labor and benefit costs.

For fiscal 2025 through the five months ended Nov. 30, 2024, UW reports improved financial performance compared

to the same period in the prior year, with salaries expense moderating somewhat and results that are slightly positive to budget, although overall the recent financial pressure experienced by UW hasn't abated. Management is pursuing an enterprise-wide financial resilience initiative dubbed "Together We Thrive" that was kicked off in December 2024 and is designed to address ongoing concern about expense growth possibly outpacing revenue growth. In our opinion the initiative is largely aspirational now, but additional details will likely be forthcoming as the current fiscal year winds down and the new one begins.

The fiscal 2025 approved operating budget calls for revenue of \$11.75 billion and expenses of \$11.82 billion for a slight \$67 million deficit.

Revenue sources are diverse, in our view, and include health care revenue (35%), student-dependent revenue (22%), research grants and contracts (19%), and state operating appropriations (7%), in addition to other sources. UW's low 13% tuition discount rate is a bright spot for student-dependent revenue and is well below average relative to peers and the 'AA' category median of 28%.

Approximately 70% of grant and contract awards came from federal sources, with the School of Medicine being the biggest generator of research expenditures. The university is consistently among the nation's top college and university annual recipients for research grants and contracts. Grants and contracts revenue declined slightly, however, in fiscal 2024 to \$1.7 billion from \$1.9 billion in fiscal 2023 largely due to anticipated lower federal grant and contract revenue derived from COVID-19 disaster relief. Nevertheless, we expect grant and research funding for the university will remain strong in the near-to-medium term with the university poised to act quickly should it have to curtail research expenses if there is a funding disruption at the federal level.

State support has been solid, growing consistently since 2015 to a total of \$604 million in fiscal 2024, up from \$532 million in operating support in fiscal 2023. For fiscal 2025, UW is anticipating state operating appropriation of \$609.9 million. While the legislature has limited the growth in the in-state undergraduate tuition rate, it has permitted a 3% rise in recent years, including academic years 2023-2024 and 2024-2025.

Consolidated endowment funds on June 30, 2024, totaled \$5.5 billion a new record high, up from \$4.9 billion in fiscal 2023. Management implemented a phased spending rate reduction to 4.5% from 5.0% during fiscal years 2020 to 2022. In fiscal 2022, the total distribution was 4.5%, or \$182 million, based on the 20-quarter average market value. In fiscal years 2023 and 2024, the endowment draw for each year was 3.6%, equating to \$202 million and \$217 million, respectively.

Financial resources

UW's financial resources are ample and have demonstrated continuous growth over the past four fiscal years. Financial resources as measured by cash and investments are sound for supporting the university's operations and capital needs, augmented from time to time with a modest amount of new debt issuance to support the capital plan. Cash and investments totaled \$9.4 billion at fiscal year-end 2024, up 10.8% from the \$8.5 billion on hand at fiscal year-end 2023. While both cash and investments to operations and cash and investments to debt trail very slightly the medians for the rating category, it's our belief that the reason for this reflects the size of the university and its large research and health care operations. Cash and investments relative to operations for fiscal 2024 stood at 104.2% compared with the rating category median of 116.16%. Cash and investments relative to pro forma debt at fiscal

year-end 2024 stood at 283.0% compared with the rating category median of 290.2%.

Fundraising has been strong, in our opinion. Fiscal 2024 gifts and private grants were a significant \$632million. While not currently in a campaign, the most recent campaign, "Be Boundless," reached its \$5 billion goal two years ahead of schedule as of October 2018. For fiscal 2025, the university has a \$700 million fundraising goal which includes gifts, grants, pledges, and bequest intentions. Foundational pre-campaign planning work is underway across all three campuses, plus UW Medicine.

Debt and contingent liabilities

As of June 30, 2024, the university had pro forma debt of \$3.3 billion after giving effect to the series 2025A bonds issuance. In our opinion, the debt profile is conservative with virtually almost all debt fixed rate and a low-to-moderate debt burden. The debt service amortization schedule is also front-loaded. By our estimate, UW will pay down approximately 40% of outstanding debt principal in the next 10 years, thereby providing opportunities for additional debt issuance over that period. Approximately, excluding anticipated the bond premium, \$292.0 million of the series 2025A bond proceeds are slated for use to refund outstanding debt issues (general revenue bonds series 2009B taxable (Build America Bonds-Direct Payment) and general revenue refunding series 2015B bonds, and Washington Economic Development Finance Authority lease revenue refunding bonds series 2013 (Washington Biomedical Research Properties I) and 2014A (Washington Biomedical Research Properties II), and Washington Biomedical Research Properties 3.2, lease revenue bonds series 2015A for savings and \$45.4 million of bond proceeds are funding various capital projects.

The university provides retirement benefits through four contributory pension plans: the Washington State Public Employees' Retirement System (PERS) plan, the Washington State Teachers' Retirement System (TRS) plan, the Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF) plan, and the University of Washington Retirement Plan. PERS, TRS, and LEOFF are cost-sharing multiple-employer defined-benefit pension plans administered by the Washington State Department of Retirement Systems (DRS). Both pension and OPEB expense were accretive, i.e., lowered rather than added to expense, in fiscal 2024 and are manageable, in our view.

University of Washington--Enterprise and financial statistics

	--Fiscal year ended June 30--					Medians for 'AA' category rated public colleges & universities
	2025	2024	2023	2022	2021	2023
Enrollment and demand						
Full-time-equivalent enrollment	62,054	60,494	60,421	60,359	60,829	38,162
Undergraduates as a % of total enrollment	67.5	66.9	66.5	66.5	67.2	80.2
First-year acceptance rate (%)	44.8	47.7	52.0	57.1	59.8	73.7
First-year matriculation rate (%)	25.7	26.4	29.4	27.7	28.8	27.1
First-year retention rate (%)	92.6	92.6	91.5	90.7	91.4	85.6
Six-year graduation rate (%)	83.3	82.4	82.5	82.2	80.8	71.0
Financial performance						
Adjusted operating revenue (\$000s)	N.A.	8,689,709	8,246,657	7,972,503	6,988,724	MNR
Adjusted operating expense (\$000s)	N.A.	9,048,577	8,461,270	7,615,975	6,711,164	MNR

University of Washington--Enterprise and financial statistics (cont.)

	--Fiscal year ended June 30--					Medians for 'AA' category rated public colleges & universities
	2025	2024	2023	2022	2021	2023
Net adjusted operating margin (%)	N.A.	(4.0)	(2.5)	4.7	4.1	2.1
Estimated operating gain/loss before depreciation (\$000s)	N.A.	148,532	308,681	819,363	655,398	MNR
Tuition discount (%)	N.A.	13.2	13.5	14.4	18.3	28.2
Student dependence (%)	N.A.	22.1	22.6	23.5	22.3	36.2
State appropriations to revenue (%)	N.A.	7.0	6.5	6.1	6.9	17.2
Health care operations dependence (%)	N.A.	35.1	31.1	30.6	31.6	MNR
Research dependence (%)	N.A.	19.5	22.6	20.8	22.4	14.5
Financial resources						
Endowment market value (\$000s)	N.A.	5,457,000	4,940,000	4,678,000	4,712,000	1,291,622
Cash and investments (\$000s)	N.A.	9,431,887	8,511,873	8,397,065	8,266,353	2,690,303
Cash and investments to operations (%)	N.A.	104.2	100.6	110.3	123.2	116.1
Cash and investments to debt (%)	N.A.	283.8	249.9	252.8	264.1	290.2
Cash and investments to pro forma debt (%)	N.A.	283.0	N.A.	N.A.	N.A.	MNR
Debt						
Total debt (\$000s)	N.A.	3,323,017	3,405,926	3,321,978	3,130,248	985,387
Proposed debt (\$000s)	N.A.	337,410	N.A.	N.A.	N.A.	MNR
Total pro forma debt (\$000s)	N.A.	3,332,497	N.A.	N.A.	N.A.	MNR
Current MADS burden (%)	N.A.	3.5	3.5	3.5	2.8	3.5
Pro forma MADS burden (%)	N.A.	3.4	N.A.	N.A.	N.A.	MNR
Average age of plant (years)	N.A.	14.0	12.4	13.2	14.4	12.7

N.A.--Not available. MNR--Median not reported.

Ratings Detail (As Of February 3, 2025)

University of Washington gen rev <i>Long Term Rating</i>	AA+/Stable	Affirmed
University of Washington gen rev <i>Long Term Rating</i>	AA+/Stable	Affirmed
University of Washington gen rev <i>Long Term Rating</i>	AA+/Stable	Affirmed
University of Washington gen rev <i>Long Term Rating</i>	AA+/Stable	Affirmed
University of Washington gen rev <i>Long Term Rating</i>	AA+/Stable	Affirmed
University of Washington gen rev <i>Long Term Rating</i>	AA+/Stable	Affirmed
University of Washington gen rev <i>Long Term Rating</i>	AA+/Stable	Affirmed

Ratings Detail (As Of February 3, 2025) (cont.)

University of Washington gen rev		
<i>Long Term Rating</i>	AA+/Stable	Affirmed
University of Washington gen rev		
<i>Long Term Rating</i>	AA+/Stable	Affirmed
University of Washington gen rev		
<i>Long Term Rating</i>	AA+/Stable	Affirmed
University of Washington gen rev		
<i>Long Term Rating</i>	AA+/Stable	Affirmed
University of Washington gen rev bnds		
<i>Long Term Rating</i>	AA+/Stable	Affirmed
University of Washington gen rev rfdg bnds		
<i>Long Term Rating</i>	AA+/Stable	Affirmed
University of Washington PCU_USF		
<i>Long Term Rating</i>	AA+/Stable	Affirmed
Washington Economic Development Finance Authority, Washington		
University of Washington, Washington		
Washington Econ Dev Fin Auth (University of Washington) PCU_USF		
<i>Long Term Rating</i>	AA+/Stable	Affirmed

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