

**Washington Economic Development  
Finance Authority  
University of Washington; CP; Lease;  
Public Coll/Univ - Unlimited Student  
Fees**

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# Washington Economic Development Finance Authority

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

### Credit Profile

|                                  |            |          |
|----------------------------------|------------|----------|
| University of Washington CP nts  |            |          |
| <i>Short Term Rating</i>         | A-1+       | Affirmed |
| University of Washington gen rev |            |          |
| <i>Long Term Rating</i>          | AA+/Stable | Affirmed |

### Credit Highlights

- S&P Global Ratings affirmed its 'AA+' long-term rating on the University of Washington's (UW or the university) outstanding general revenue bonds (GRB).
- Additionally, S&P Global Ratings affirmed its 'A-1+' short-term rating on UW's commercial paper (CP) notes.
- The outlook, where applicable, is stable.

### Security

Securing the GRB is a pledge of general revenue, which comprises all nonappropriated revenue not restricted by law or contract--excluding appropriations, grant direct costs, restricted gifts, some fees, Metro Tract revenue, and certain auxiliary revenue. General revenue totaled \$4.5 billion in fiscal 2022, including net patient services revenue (\$2.0 billion), student tuition and fees (\$1.0 billion), and auxiliary services (\$510.6 million). We consider the security pledge to be equivalent to an unlimited student fee pledge. Total debt in fiscal 2022 was approximately \$3.3 billion, including \$727.9 million in leases.

### Credit overview

We assessed the UW's enterprise profile as extremely strong, characterized by its impressive market position and demand as well as significant research activity, and its financial profile as very strong, with a conservative debt profile and solid available resources compared with the operating budget. We believe these credit factors, combined, lead to an indicative stand-alone credit profile 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 to manage its CP tender needs from its sufficient liquid assets of high credit quality that are part of its investment portfolio. As of Sept. 30, 2022, UW had \$2.0 billion in discounted assets with next-day liquidity, which we consider ample.

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 2022;

- Solid demand, with 60,421 full-time-equivalent students for fall 2022, the second-highest enrollment on record;
- Manageable, 3.6% maximum annual debt service (MADS) burden; and
- Impressive fundraising efforts and a healthy endowment, with an estimated market value of \$4.7 billion as of June 30, 2022.

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

- Historical variability in operating margins, and
- Health care risk with inflationary pressures.

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 No. 1 among 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. Health and safety risks, which we consider a social risk factor, have largely abated and are neutral in our credit rating analysis. All other environmental and governance credit factors are also neutral in our credit rating analysis.

## **Outlook**

The stable outlook reflects our expectation that the university will maintain or improve financial resource ratios, post positive operating results, and sustain healthy demand metrics.

### **Downside scenario**

Credit factors that could lead to a negative rating action include sustained operating deficits, issuance of substantial new debt that result in a high debt burden, or large declines in financial resource ratios relative to those of peer public flagship institutions.

### **Upside scenario**

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

## **Credit Opinion**

## Enterprise Profile

### Market position and demand

UW is the flagship university in the state of Washington, and its credit profile benefits from its healthy and stable demand and enrollment. Management expects demand and enrollment to remain stable 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 several graduate programs, it is still primarily undergraduate, with approximately 70% of the student body consisting of undergraduate students. Although the university draws students from across the nation, it is still largely regional, with approximately 65% 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 6.3% in fall 2022 to a record high of 58,999. Due to the growth in applications, the acceptance rate fell to 52% in fall 2022 from 61% in fall 2012. The matriculation rate improved to 29% for fall 2022. Student quality has improved and is strong, in our view, with the average fall 2022 SAT score of 1361. The retention rate is solid, at 92%, and the six-year graduation rate is stable at approximately 83%.

UW Medicine is a leading health care provider throughout Washington. 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, Valley Medical Center, University of Washington Physicians, University of Washington Primary Care, and Airlift Northwest. Additionally, it maintains strategic collaborations with Peace Health, Seattle Children's, Skagit Regional Health, Bloodworks Northwest, Hall Health Center, MultiCare Health System, NW Kidney Centers, and VA Puget Sound/Boise/American Lake.

### 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. The provost and executive vice president for academic affairs, Mark Richards, joined the university in July 2018; as provost, he is the university's chief academic and budget officer. 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.

## Financial Profile

### Financial performance

We estimate operating performance by removing unrealized gains/losses on investments and adjusting for pension and other postemployment benefits (OPEB) contribution net of expense, which resulted in estimated operating surplus in fiscal 2022 of \$371.1 million, or a net operating income of 5.1%, primarily due to growth in net patient revenue, grants and contracts revenue, and auxiliary enterprises. Net operating income in fiscal 2021 was also very strong at 4.1%, or a surplus of \$277.7 million. Net operating income in fiscal 2020 was negative 2.6% or a deficit of \$173.6 million; we understand fiscal 2020 results were significantly affected by COVID-19, with the cancellation of elective

procedures at UW Medicine as well as operating expense growth at the university as a result of the pandemic. Results for fiscal years 2019 and 2018 were just over break even at 0.4% and 0.3%, respectively. We understand fiscal 2023 results are likely to be challenged by inflation and high labor costs.

In fiscal 2022, total adjusted revenue included 31.7% from patient services, 22.0% from grants and contracts, 17.1% from tuition and student fees, 7.0% from auxiliary operations, and only 6.3% from state operating appropriations. Approximately 76% of grant and contract awards came from federal sources, with the School of Medicine being the biggest driver of research. The university is consistently among the nation's top university recipients for research grants and contracts each year. The compound annual growth rate in grant and contract awards has been 5.5% for fiscal years 2018 through 2022. We expect grant and research funding for the university will remain strong in the medium term.

State support has been somewhat variable historically, with the legislature increasing annual appropriations in exchange for the state public universities agreeing to limit the in-state undergraduate tuition rate. While considering the state's variability in support to be a credit risk, we recognize that appropriations have increased since fiscal 2015 and that state appropriations are only a small portion (6.3%) of the university's total adjusted revenue. The state provided the university \$485 million in operating support in fiscal 2022. Fiscal 2021 state appropriations totaled \$481 million in funding for operations. We understand the fiscal 2023 appropriations include funding for salary increases and will be an increase over fiscal 2022.

Consolidated endowment funds at June 30, 2022, totaled \$4.7 billion, flat relative to fiscal 2021 and up 31.4% from the fiscal 2020 endowment of \$3.6 billion. Management implemented a phased investment rate reduction to 4.5% from 5.0% during fiscal years 2020 to 2022. In fiscal 2022, the distribution was 4.5%, or \$182 million, based on the 20-quarter average market value.

### **Available resources**

S&P Global Ratings-adjusted unrestricted net assets (UNA), adding UNA of component units and pension and OPEB liability adjustments, was \$5.0 billion in fiscal 2022, up from \$3.0 billion in fiscal 2021, largely driven by increases in the pension and OPEB liability. In fiscal 2022, financial resources are solid for the rating, in our opinion, with adjusted UNA equal to 68.1% of adjusted operating expenses (\$7.3 billion in fiscal 2022) and 150.2% of debt (including leases).

Fundraising has been strong, in our opinion. Fiscal 2022 gifts and private grants were \$614 million, the highest being \$778 million in fiscal 2020. 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. The campaign concluded on June 30, 2020, with almost \$6.3 billion in commitments, which we understand was a record for public higher education institutions.

### **Debt and contingent liabilities**

As of June 30, 2022, the university had \$3.3 billion of total debt outstanding, including leases of \$727.9 million. In our opinion, the debt profile is conservative. The debt service schedule is front-loaded, with MADS of \$206 million in fiscal 2025. The MADS burden is manageable, in our opinion, at 3.6%. With current planned issuance almost balanced by debt retired, the total debt outstanding is expected to remain stable through fiscal 2026.

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). The university's pension and OPEB expense relative to adjusted operating expense is 2.6%, which we view as manageable and expect will remain manageable. For more information on the DRS-administered plans, see the debt and liabilities section in the Washington State report published Jan. 10, 2023, on RatingsDirect.

## University of Washington--Enterprise And Financial Statistics

|  | --Fiscal year ended June 30-- |           |           |           |           | Medians for 'AA' rated public colleges & universities |
|--|-------------------------------|-----------|-----------|-----------|-----------|---|
|  | 2023                          | 2022      | 2021      | 2020      | 2019      | 2021  |
| <b>Enrollment and demand</b>                               |                               |           |           |           |           |   |
| Headcount  | 60,081                        | 60,116    | 60,418    | 59,381    | 59,252    | 43,953  |
| Full-time equivalent                                       | 60,421                        | 60,359    | 60,829    | 59,659    | 59,505    | 37,225  |
| Freshman acceptance rate (%)                               | 52.0                          | 57.1      | 59.8      | 55.0      | 52.0      | 70.6  |
| Freshman matriculation rate (%)                            | 29.4                          | 27.7      | 28.8      | 29.7      | 32.4      | 28.0  |
| Undergraduates as a % of total enrollment (%)              | 70.9                          | 70.8      | 71.3      | 71.6      | 71.9      | 80.6  |
| Freshman retention (%)                                     | 91.5                          | 90.7      | 91.4      | 92.5      | 92.0      | 86.4  |
| Graduation rates (six years) (%)                           | 82.5                          | 82.3      | 80.8      | 81.3      | 80.8      | 70.0  |
| <b>Income statement</b>                                    |                               |           |           |           |           |   |
| Adjusted operating revenue (\$000s)                        | N.A.                          | 7,694,005 | 6,988,724 | 6,557,109 | 6,403,885 | MNR   |
| Adjusted operating expense (\$000s)                        | N.A.                          | 7,322,867 | 6,711,074 | 6,730,687 | 6,380,411 | MNR   |
| Net adjusted operating income (\$000s)                     | N.A.                          | 371,138   | 277,650   | (173,578) | 23,474    | MNR   |
| Net adjusted operating margin (%)                          | N.A.                          | 5.07      | 4.14      | (2.58)    | 0.37      | 3.50  |
| Estimated operating gain/loss before depreciation (\$000s) | N.A.                          | 819,330   | 655,488   | 214,760   | 395,909   | MNR   |
| Change in unrestricted net assets (UNA; \$000s)            | N.A.                          | 536,701   | 932,956   | 229,813   | 256,920   | MNR   |
| State operating appropriations (\$000s)                    | N.A.                          | 484,915   | 480,826   | 415,030   | 378,656   | MNR   |
| State appropriations to revenue (%)                        | N.A.                          | 6.3       | 6.9       | 6.3       | 5.9       | 16.5  |
| Student dependence (%)                                     | N.A.                          | 24.1      | 22.3      | 25.6      | 26.5      | 36.3  |
| Health care operations dependence (%)                      | N.A.                          | 31.7      | 31.6      | 31.9      | 33.4      | MNR   |
| Research dependence (%)                                    | N.A.                          | 22.0      | 22.4      | 22.7      | 22.3      | 12.9  |
| Endowment and investment income dependence (%)             | N.A.                          | 2.4       | 2.4       | 2.6       | 2.5       | 1.2   |
| <b>Debt</b>  |                               |           |           |           |           |   |
| Outstanding debt (\$000s)                                  | N.A.                          | 3,321,978 | 3,130,248 | 2,413,457 | 2,391,638 | 862,015   |
| Proposed debt (\$000s)                                     | N.A.                          | N.A.      | N.A.      | N.A.      | N.A.      | MNR   |
| Total pro forma debt (\$000s)                              | N.A.                          | 3,321,978 | N.A.      | N.A.      | N.A.      | MNR   |
| Pro forma MADS   | N.A.                          | 264,299   | N.A.      | N.A.      | N.A.      | MNR   |

University of Washington--Enterprise And Financial Statistics (cont.)

|  | --Fiscal year ended June 30-- |           |           |           |           | Medians for 'AA' rated public colleges & universities |
|--|-------------------------------|-----------|-----------|-----------|-----------|---|
|  | 2023                          | 2022      | 2021      | 2020      | 2019      | 2021  |
| Current debt service burden (%)                              | N.A.                          | 2.52      | 2.95      | 2.84      | 3.43      | MNR   |
| Current MADS burden (%)                                      | N.A.                          | 3.61      | 2.79      | 2.93      | 3.01      | 3.40  |
| Pro forma MADS burden (%)                                    | N.A.                          | 3.61      | N.A.      | N.A.      | N.A.      | MNR   |
| <b>Financial resource ratios</b>                             |                               |           |           |           |           |   |
| Endowment market value (\$000s)                              | N.A.                          | 4,678,000 | 4,712,000 | 3,560,000 | 3,588,000 | 1,204,034   |
| Related foundation market value (\$000s)                     | N.A.                          | 1,168,422 | 288,195   | 278,547   | 271,832   | 826,239   |
| Cash and investments (\$000s)                                | N.A.                          | 8,397,065 | 8,266,353 | 6,658,918 | 6,077,352 | MNR   |
| UNA (\$000s)   | N.A.                          | 718,734   | 182,033   | (750,923) | (980,736) | MNR   |
| Adjusted UNA (\$000s)  | N.A.                          | 4,990,253 | 3,017,709 | 2,331,261 | 2,146,692 | MNR   |
| Cash and investments to operations (%)                       | N.A.                          | 114.7     | 123.2     | 98.9      | 95.3      | 59.6  |
| Cash and investments to debt (%)                             | N.A.                          | 252.8     | 264.1     | 275.9     | 254.1     | 185.2   |
| Cash and investments to pro forma debt (%)                   | N.A.                          | 252.8     | N.A.      | N.A.      | N.A.      | MNR   |
| Adjusted UNA to operations (%)                               | N.A.                          | 68.1      | 45.0      | 34.6      | 33.6      | 43.3  |
| Adjusted UNA plus debt service reserve to debt (%)           | N.A.                          | 150.2     | 96.4      | 96.6      | 89.8      | 132.0   |
| Adjusted UNA plus debt service reserve to pro forma debt (%) | N.A.                          | 150.2     | N.A.      | N.A.      | N.A.      | MNR   |
| Average age of plant (years)                                 | N.A.                          | 13.6      | 14.4      | 13.1      | 13.2      | 13.7  |
| OPEB liability to total liabilities (%)                      | N.A.                          | 18.7      | 21.4      | 19.7      | 18.7      | MNR   |

N.A.--Not available. MNR--Median not reported. MADS--Maximum annual debt service. Total adjusted operating revenue = unrestricted revenue less realized and unrealized gains/losses and financial aid. Total adjusted operating expense = unrestricted expense plus financial aid expense. Net operating margin = 100\*(net adjusted operating income/adjusted operating expense). Student dependence = 100\*(gross tuition revenue + auxiliary revenue) / adjusted operating revenue. Current debt service burden = 100\*(current debt service expense/adjusted operating expenses). Current MADS burden = 100\*(maximum annual debt service expense/adjusted operating expenses). Cash and investments = cash + short-term and long-term investments. Adjusted UNA = Unrestricted net assets + unrestricted net assets of the foundation. Average age of plant = accumulated depreciation/depreciation and amortization expense.

Related Research

Through The ESG Lens 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors, March 2, 2022

Ratings Detail (As Of March 13, 2023)

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

**Ratings Detail (As Of March 13, 2023) (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   |            |          |
| <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 ser 2013 dtd 09/05/2013 due 07/01/2014-2034 2041 |            |          |
| <i>Long Term Rating</i>  | AA+/Stable | Affirmed |
| University of Washington PCU_USF   |            |          |
| <i>Long Term Rating</i>  | AA+/Stable | Affirmed |
| <b>Washington Biomedical Research Facilities 3, Washington</b>                         |            |          |
| University of Washington, Washington   |            |          |
| Washington Biomedical Properties 3.1 (University of Washington) lse                    |            |          |
| <i>Long Term Rating</i>  | AA+/Stable | Affirmed |
| <b>Washington Econ Dev Fin Auth, Washington</b>  |            |          |
| 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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