MOODY'S
INVESTORS SERVICE

HIGH PROFILE RATING UPDATE

Moody's Affirms University Of Washington's Aaa Rating; Outlook Revised To Stable From Negative

University Has $1.6 Billion Of Rated Debt Outstanding Including Commercial Paper Program At Full Authorized Amount

Key Facts (as of 6/30/2010 unless otherwise noted)	
Expendable Financial Resources:	$2.25 billion
Pro Forma Direct Debt (following issuance of Series 2011A General Revenue and Refunding Bonds and commercial paper program at full size of $250 million)	$1.75 billion
Unrestricted Monthly Liquidity	$1.05 billion
Expendable Financial Resources to Operations	0.65 times
Operating Cash Flow Margin	13.0%
Monthly Days Cash on Hand	119 days
Reliance on Grants & Contracts/Patient Care Revenues/Tuition & Auxiliaries/State Appropriations	33%/29%/ 17%/10%

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Moody's Investors Service has affirmed the University of Washington's Aaa issuer rating and Aaa long-term rating on its outstanding General Revenue Bonds. The University also has outstanding debt rated Aa1, Aa2 and commercial paper rated P-1 as detailed in the RATED DEBT section. The rating outlook has been revised to stable from negative.

On July 28, 2011, University of Washington's (UW's) Aaa rating was placed on Watchlist for possible downgrade following Moody's placement of the U.S. government on Watchlist for possible downgrade on July 13, 2011. The review process was intended to assess the University's direct and indirect linkage with the U.S. government in the event of a downgrade of the United States' Aaa rating. On August 4, 2011, UW's Aaa rating was confirmed and the outlook revised to negative, following Moody's confirmation of the United States' Aaa rating and revision of its outlook to negative from stable.

The revision of the University of Washington's outlook to stable from negative despite the continuation of the negative outlook on the U.S. government's rating reflects Moody's expectations that the University of Washington will be able to manage through any expected federal funding cuts, absorb the planned additional debt issuance and successfully integrate its growing healthcare operations with minimal diminutive impact on UW's operating performance and cash flow generation despite revenue pressures from Medicare and Medicaid reimbursement.

Summary Ratings Rationale

The Aaa rating for the University of Washington reflects its excellent market position as the flagship public university for the State, its status as one of the largest research enterprises in the country, its presence as one of the two largest healthcare providers in the Seattle region (and the only academic medical center in the northwestern United States), its good balance sheet flexibility and the generally balanced operating performance due to well-diversified revenue streams. Offsetting challenges are the University's growing healthcare operations, high reliance on federal research funding and rising debt levels.

Strengths

» Leading national research enterprise with $1.4 billion in sponsored research grants and contracts during fiscal year (FY) 2011 including over $163 million of ARRA research awards.

» Good oversight of research operations to manage infrastructure and expense loads and ability to activate contingency plans, if necessary. Operations of research are relatively flexible due to the largely variable expense structure giving the University the ability to respond quickly to possible cuts in research awards in the face of looming federal budget reductions. Contingency plans are in place in the event of funding cuts and include eliminating leased space, the lack of guaranteed salaries for non-tenured track faculty and tenured track faculty salaries paid from UW's funds rather than research funds.

» Flagship university for Washington, with Fall 2011 total enrollment of over 50,000 full-time equivalent (FTE) students; major clinical care provider to the region through UW Medicine and medical education as the sole public medical school for the states of Washington, Wyoming, Alaska, Montana and Idaho.

» Active management of debt issuance and capital projects, with ability to defer projects as necessary through Board-required checkpoints and "off ramps" to determine whether a project should proceed or be delayed. Projects are centrally managed (One Capital Plan) and include financial review of sources for funding debt service repayment with related scenarios including a three-year "look-back" and 10-year projections.

» Good financial flexibility, with $1.4 billion unrestricted financial resources out of $3.7 billion of total financial resources for FY 2011 based on preliminary financial results; monthly operating liquidity for FY 2010 is $1.05 billion or 119 monthly days.

» Positive operating performance, with a projected three-year average operating margin of 3.4% for fiscal years 2009-2011, derived from a well-diversified revenue stream and solid 13% operating cash flow margin.

Challenges

» 35% of UW's preliminary FY 2011 operating revenues derived from federal sources - $1.1 billion of research funding (83% of research grants) and $485 million of Medicare and Medicaid for health care services (38% of patient care revenues).

» Significant and increasing healthcare exposure with the recent acquisition of two community hospitals. Patient care revenues represented 29% of total operating revenues for preliminary FY 2011; inclusive of Northwest Hospital (brought into UW Medicine in 2009) and Valley Medical Center (brought into UW Medicine in July 2011), patient care represents nearly 40% of total operating revenues in FY 2011 on a pro forma basis. In addition to operating the 450-bed flagship University of Washington Medical Center (UWMC), the University also manages the 413-bed county-owned Harborview Medical Center.

» Substantial debt increase in recent years reflecting the University's investment in strategic initiatives, with total pro forma direct debt of $1.7 billion compared to $844 million in FY 2006. The University has significant debt plans over the next four years, with plans to issue up to $250 million in February 2012 and up to $275 million through 2013 to fund campus projects.

» Nearly 50% cut (or $190 million) in state funding (State of Washington rated Aa1 with a stable outlook) over the course of three years, reducing total state funding to $212 million in FY 2012 from $402 million in FY 2009, with an additional $37 million announced for FY 2013. However, state appropriations account for only 10% of FY 2010 revenues as calculated by Moody's and declined further since then. The University intends to partially offset the loss in state funding with a 16% tuition increase for FY 2012 and FY 2013 and with a variety of expense cutting measures.

Detailed Credit Discussion

Legal Security

Security of the University's General Revenue Bonds (rated Aaa) are the General Revenues of the University, including all non-appropriated and non-restricted revenues and fund balances. There is no debt service coverage covenant, no debt service reserve fund, and no additional bonds test. The pledge of General Revenues is subordinate to pledges on $33.3 million of outstanding indebtedness. The University will refinance certain series of outstanding bonds under existing indentures when possible to bring them under the General Revenue platform.

Debt-Related Derivative Instruments

None

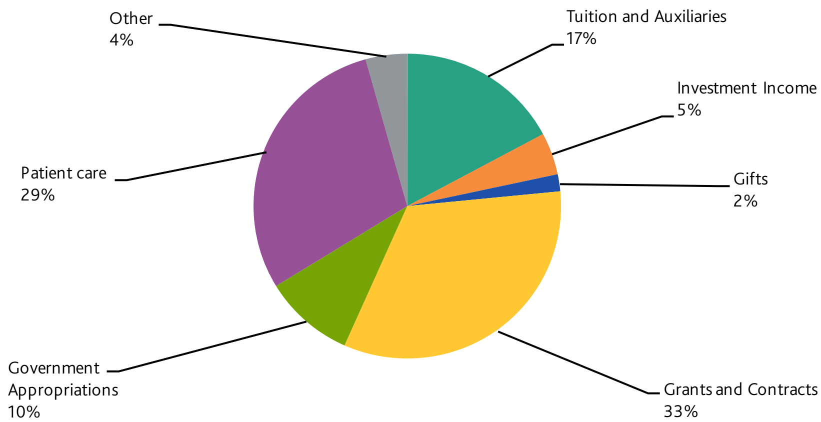
Recent Developments/Update

Summary

University of Washington's Aaa rating reflects the synergies of its large-scale research, healthcare and educational operations as well as the strength of each of its diversified revenues. It is a leading research university in the United States, with some fields of research unique, in part, due to the breadth of the research activity permitting large-scale, interdisciplinary projects. Also it benefits from its main campus in Seattle as an attractive location for faculty due to its proximity to large supportive corporations such as Microsoft and Boeing as well as being in the Pacific Northwest with its unique geographical or climate opportunities. The University also has a culture of encouraging cross-disciplinary research that is increasingly supported by federal grants and many researchers find attractive. As the largest healthcare provider in the Seattle market, UW Medicine provides not only opportunities for high-end quaternary services, but also the ability to conduct translational research across the University departmental boundaries. All provide a platform, with its status as the flagship university for the State of Washington, for UW to attract high quality undergraduate and graduate students for the academic experience and research opportunities.

Leading National Research Position To Continue Despite Challenges from Federal Funding Pressure

FIGURE 1
Revenue Sources Reflect UW's Large Research Enterprise



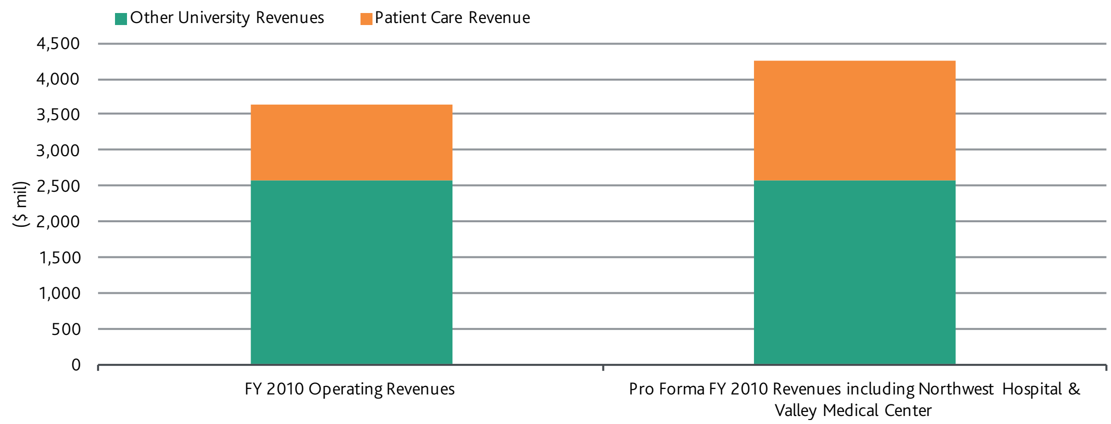
Based on FY 2010 Data
Total Operating Revenues of $3.64 Billion

University of Washington is a leading research enterprise, with over $1.4 billion of research grants in FY 2011, of which $1.1 billion is from federal agencies. With the size of its research activities, the University has the ability to focus on research areas (including global issues) which smaller organizations would be unable to address. With its healthcare operations, the University provides a setting for translational research, while its culture enables cross-disciplinary research – both areas of increased focus for research awards at the NIH and other federal agencies.

The University has close oversight of its research operations, monitoring and managing its infrastructure and expense loads to address potential funding reductions either from reduced Congressional budgeting or failure to successfully convert proposals to awards. Included in its management are contingency plans to address such events, if triggered. UW has substantial operating flexibility as its expense structure is largely variable, providing the ability to manage research costs. Operational flexibility includes the ability to eliminate leased space and to shift projects and researchers into University-owned facilities; funding tenured track faculty's salaries from general operating funds so that they would not be affected by a reduction in research grants; the ability to shift or scale back the number of post doctoral students or similar support for completed projects or those for which funding has been curtailed. UW also has contingency plans in place to cope with the need for liquidity in the event of a shutdown of the federal government as threatened in 2011 and as occurred in 1995.

Growing Healthcare Operations Able to Manage Medicare and Medicaid Funding Reduction Risk

FIGURE 2
Growing Healthcare Operations Through Strategic Alliances



Based on FY 2010 Data

The breadth of UW Medicine's service area is substantial, serving as the only academic health system and Level 1 trauma care provider for the northwestern states of Washington, Wyoming, Alaska, Montana and Idaho (WWAMI), providing critical care air medical transport to patients in the region. Further, UW's School of Medicine is the only public medical school for the region.

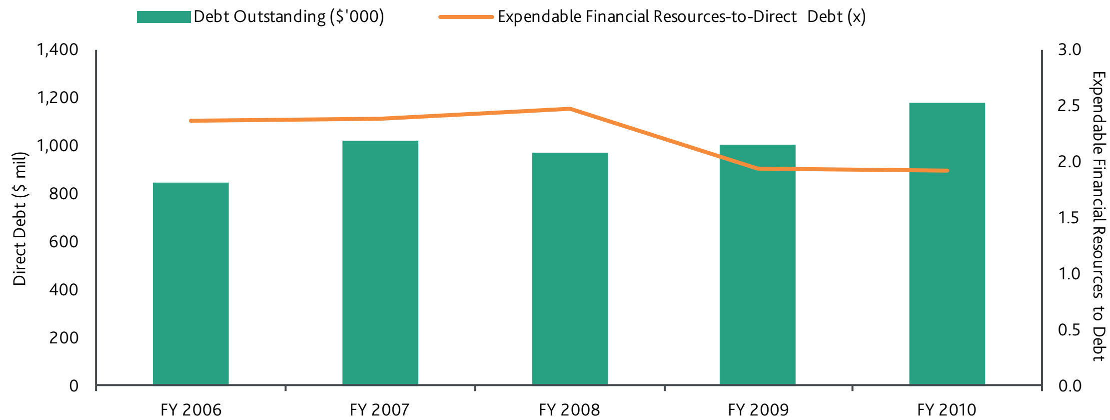
UW's Board has invested in its healthcare operations both in capital and through strategic alliances. UW Medicine is comprised of four hospitals, including UWMC. In 2009, UW brought Northwest Hospital & Medical Center, a 281-bed community hospital, into the UW Medicine system and, in July 2011, it entered into an alliance with Valley Medical Center, a district hospital with 303 beds. UW Medicine also includes operation of Harborview Medical Center, a county hospital managed by UWMC under a management agreement. Further, UW shares ownership of the Seattle Cancer Care Alliance (rated A3/stable) together with Fred Hutchinson Cancer Research Center (A2/negative) and Seattle Children's Hospital (Aa3/stable). As a result of the overall expansion of the healthcare enterprise, UW's FY 2011 patient care revenues were $1.83 billion on a pro forma basis inclusive of Northwest Hospital and Valley Medical Center, pushing UW's share of total revenues derived from patient care to 40% from the 29% based on the preliminary financial results.

Despite the expanding healthcare enterprise, UW is expected to ably manage through possible federal budget cuts to Medicaid funding and Medicare rates. On a pro forma consolidated basis, with current reimbursement rates, Moody's calculates about 31% of UW Medicine's net patient revenues would be from Medicare while 17% would be from Medicaid. For preliminary FY 2011, UW reports that Medicare and Medicaid accounted for $485 million of patient care revenues - a significant 38% of patient care revenues, but only 12% of UW's FY 2011 total operating revenues. UW is focused on both revenue enhancements and expense management efforts, as well as strategic initiatives to build its provider network and relationships with other hospitals. Further, it has mitigation strategies to address possible reductions in government-paid reimbursement. With its breadth of services – from primary care to quaternary – and active management and Board attention to enterprise risk, we believe UW will be able to manage its healthcare operations to provide continued favorable operating performance with no negative impact on the University's operations.

Additional Debt Plans To Further Leverage Balance Sheet Resources

FIGURE 3

Rising Debt Adds to Balance Sheet Leverage



Source: Moody's MFRA

UW has reported a substantial rise in debt to $1.75 billion (following the issuance of the Series 2011A General Revenue and Refunding Bonds and assuming full issuance of the commercial paper program) from $844 million from FY 2006. Further, the University has significant debt plans over the next four years, including plans to issue up to $250 million in February 2012 and up to $275 million through 2013 to fund campus projects. Included in the planned issuance is funding for student housing under a long-term master plan approved by the Board of Regents, with estimated total costs of $850 million entirely debt funded, some of which was already issued.

UW's Board of Regents has a thorough review and approval process for all capital projects and for all debt issuance. The Board often requires that projects be staged, requiring checkpoints and "off ramps" at various points in the process, and prior to the issuance of additional debt. Capital projects are integrated into, and centrally managed in, UW's "One Capital Plan". The process includes financial review of revenue sources of funding for debt service repayment and related scenarios. The "One Capital Plan" is reviewed at least annually by the Board. The upcoming projects, including the next phase of student housing, will be reviewed to determine if it should proceed or be delayed.

Assuming continued growth in balance sheet resources and in revenues, Moody's believes debt plans are manageable. Moody's will monitor the University's capital and debt plans as they develop to determine any impact on the rating or the outlook as a result of the potential substantial increase in debt, particularly in light of the financial resource cushion and operating cash flow.

Outlook

The stable outlook reflects expectations of a continued strong research profile, solid student demand, good gift revenues, and manageable near-term borrowing plans.

What Could Make the Rating Go UP

Not applicable for the Issuer Rating

What Could Make the Rating Go DOWN

Downgrade of U.S. government's Aaa rating; significant reduction in research funding and revenues, particularly with failure to adjust operating expenses for the revenue loss; borrowing plans beyond those outlined without commensurate growth of financial resources and revenue; sustained deterioration in operating performance and cash flow from medical center operations; deterioration in student market position as evidenced by weakened selectivity or lower yield.

Key Indicators (FY 2010 financial results; Fall 2011 enrollment data)

» Total Enrollment: 50,528 full-time equivalent students

» Total Pro Forma Direct Debt: $1.75 billion (following issuance of Series 2011A General Revenue and Refunding Bonds and commercial paper program at full size of $250 million)

» Total Comprehensive Pro Forma Debt: $1.91 billion (following issuance of Series 2011A General Revenue and Refunding Bonds and commercial paper program at full size of $250 million)

» Expendable Financial Resources: $2.25 billion

» Total Financial Resources: $3.21 billion

» Total Revenues: $3.64 billion

» Expendable Financial Resources to Pro Forma Direct Debt: 1.3 times

» Expendable Resources to Operations: 0.6 times

» Unrestricted Monthly Liquidity: $1.05 billion

» Monthly Days Cash on Hand (unrestricted funds available within 1 month divided by operating expenses excluding depreciation, divided by 365 days): 119 days

» Three-Year Average Operating Margin: 2.5%

» Reliance on State Funding: 9.5% of Total Operating Revenues

» State of Washington G.O. Rating: Aa1, stable

Rated Debt

» University of Washington Issuer Rating: Aaa

» General Revenue and Refunding Bonds, Series 2011A: rated Aaa

» General Revenue Bonds, Series 2009, 2009B Taxable, 2010A, 2010B (Taxable): rated Aaa

» General Revenue Refunding Bonds, Series 2008: rated Aaa

- General Revenue Bonds, Series 2007: rated Aaa, insured by Ambac
- General Revenue Notes: P-1 (based on self-liquidity)
- Lease Revenue Bonds, Series 2010A, 2010B, 2010C: rated Aa1
- Lease Revenue Bonds, Series 2006J: rated Aa1, insured by National Public Finance Guarantee
- TSB Properties Lease Revenue Bonds, Series 2006: rated Aa2, insured by National Public Finance Guarantee
- Lease Revenue Bonds, Series 2005E: rated Aa1, insured by National Public Finance Guarantee
- Student Facilities Fee Refunding Revenue, Series 2005: rated Aa1, insured by Financial Security Assurance
- Lease Revenue Bonds, Series 2004A: rated Aa1, insured by Financial Guaranty Insurance Company
- Student Facilities Fee Revenue, Series 2000: rated Aa1; insured by Ambac (to be refunded with current issue)
- Parking System Bonds, Series 2004: rated Aa1, insured by Ambac
- Housing and Dining Revenue Bonds, Series 2004, 2002: rated Aa1; insured by Ambac
- Housing & Dining Revenue Bonds, Series 1991: rated Baa2 based on insurance by National Public Finance Guarantee

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Fiscal Year	2006	2007	2008	2009	2010	2010 Sensitivity Post June 2011 Issuance Plus Full Commercial Paper Issuance
Key Ratios						
Debt Outstanding ($'000)	843,964	1,018,745	971,720	1,002,320	1,173,983	1,749,622
Indirect Debt ($'000)	120,190	113,939	116,772	217,188	163,014	163,014
Comprehensive Debt ($'000)	964,154	1,132,684	1,088,492	1,219,508	1,336,997	1,912,636
Unrestricted Financial Resources ($'000)	854,914	951,851	1,007,610	930,163	1,162,966	1,162,966
Expendable Financial Resources ($'000)	1,997,456	2,416,886	2,403,385	1,935,317	2,252,430	2,252,430
Total Financial Resources ($'000)	2,720,099	3,228,742	3,306,020	2,819,259	3,211,872	3,211,872
Total Cash & Investments ($'000)	2,874,238	3,389,653	3,384,750	2,941,420	3,266,072	3,266,072
Monthly Liquidity ($000)				884,417	1,046,193	1,046,193
Annual Liquidity ($000)				884,417	1,046,193	1,046,193
Operating Revenue ($'000)	2,912,660	3,102,704	3,286,326	3,440,734	3,642,867	3,642,867
Total Expenses ($'000)	2,893,306	3,042,272	3,254,348	3,402,298	3,442,416	3,442,416
Total Gift Revenue ($'000)	219,167	181,028	189,452	152,290	125,248	125,248
Average Gift Revenue (3yr avg) ($'000)	171,088	190,627	196,549	174,257	155,663	155,663
Market						
Total Enrollment FTE	42,389	43,626	46,228	47,835	49,294	49,294
Total Enrollment that is Undergraduate (%)	67.8	68.4	67.7	67.1	67.0	67.0
Primary Selectivity (%)	68.1	64.6	60.8	57.7	56.8	56.8
Primary Matriculation (%)	47.9	45.9	45.8	43.5	42.4	42.4
Net Tuition per Student ($)	7,619	8,156	8,392	8,912	9,869	9,869
Educational Expenses per Student ($)	36,595	38,084	39,444	39,215	37,631	37,631
Total Tuition Discount (%)	26.6	26.4	27.7	27.2	27.1	27.1
State Appropriation per Student ($)	8,196	8,629	8,905	8,324	7,263	7,263
Capital						
Unrestricted Financial Resources-to-Direct Debt (x)	1.01	0.93	1.04	0.93	0.99	0.66
Expendable Financial Resources-to-Direct Debt (x)	2.37	2.37	2.47	1.93	1.92	1.29
Total Financial Resources-to-Direct Debt (x)	3.22	3.17	3.40	2.81	2.74	1.84
Expendable Financial Resources-to-Comprehensive Debt (x)	2.07	2.13	2.21	1.59	1.68	1.18
Total Financial Resources-to-Comprehensive Debt (x)	2.82	2.85	3.04	2.31	2.40	1.68
Direct Debt-per-Student ($)	19,910	23,352	21,020	20,954	23,816	35,494
Debt to Operating Revenues (x)	0.29	0.33	0.30	0.29	0.32	0.48
Debt Service to Operations (%)	5.0	2.6	2.0	2.8	2.5	2.5
Variable Rate Exposure - Before Swaps (%)	0.0	0.0	0.0	3.4	2.6	14.2
Monthly Liquidity to Demand Debt (%)				2,465.5	3,487.3	3,487.3
Capital Spending Ratio (x)				1.56	1.54	1.54
Age of Plant (Number of Years) (x)	9.34	10.81	11.02	11.36	11.06	11.06

Fiscal Year	2006	2007	2008	2009	2010	2010 Sensitivity Post June 2011 Issuance Plus Full Commercial Paper Issuance
Balance Sheet						
Expendable Financial Resources-to-Operations (x)	0.69	0.79	0.74	0.57	0.65	0.65
Total Financial Resources-to-Operations (x)	0.94	1.06	1.02	0.83	0.93	0.93
Monthly Days Cash on Hand (x)				101.0	118.8	118.8
Monthly Liquidity as % of Total Cash & Investments (%)				30.1	32.0	32.0
Total Financial Resources-per-Student ($)	64,170	74,010	71,516	58,937	65,157	65,157
Operating Ratios						
Operating Margin (%)	0.7	1.9	1.0	1.1	5.5	5.5
Average Operating Margin (%)	0.3	0.9	1.2	1.3	2.5	2.5
Operating Margin Excluding Gifts (%)	-3.0	-0.8	-1.1	-0.0	3.8	3.8
Operating Cash Flow Margin (%)	8.8	9.4	8.3	8.4	13.0	13.0
Change in Net Tuition Revenue (%)	7.8	9.7	5.9	12.5	14.6	14.6
Debt Service Coverage (x)	1.76	3.67	4.14	3.08	5.45	5.45
Average Gifts per Student ($)	4,036	4,370	4,252	3,643	3,158	3,158
Research Expense as a % of Total Expenses (%)	20.7	19.6	19.1	18.8	20.3	20.3
Sources of Revenue						
Tuition and Auxiliaries (%)	15.0	15.5	15.6	16.3	17.2	17.2
Investment Income (%)	3.8	4.2	4.6	4.7	4.4	4.4
Gifts (%)	3.6	2.8	2.0	1.1	1.8	1.8
Grants and Contracts (%)	33.4	31.5	31.4	31.5	33.3	33.3
Government Appropriations (%)	11.6	11.8	11.8	11.2	9.5	9.5
Patient care (%)	28.7	29.0	29.5	30.1	29.3	29.3
Other (%)	3.9	5.2	5.1	5.0	4.4	4.4

Moody's Related Research

Rating Methodology:

» U.S. Not-for-Profit Private and Public Higher Education, August 2011 (134044)

Industry Outlook:

» 2011 Outlook for U.S. Higher Education, January 2011 (129939)

Special Comments:

» U.S. Research Universities Face Looming Federal Funding Cuts, but Remain Well Positioned to Withstand Credit Challenges, December 2011 (138109)

» Implications of a U.S. Rating Action for Aaa-rated Municipal Credits, July 2011 (134369)

» Most Aaa-Rated State and Local Governments Revert to Stable Outlooks Despite Negative Pressure on U.S. Government Rating, December 2011 (137806)

Rating Announcements:

» Moody's Places Aaa Rating on 177 U.S. Public Finance Issuers on Review for Possible Downgrade Due to Review of U.S. Government's Aaa Rating, July 2011

» Moody's confirms Aaa ratings of 5 U.S. states and 303 other public finance issuers indirectly linked to U.S. Government bond rating; negative outlooks assigned, August 2011

» Moody's Places U.S. Aaa Government Bond Rating and Related Ratings on Review for Possible Downgrade, July 2011

» Moody's confirms US Aaa rating, assigns negative outlook, August 2011

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