S&P Global Ratings

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

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Credit Profile		
US$244.0 mil gen rev & rfdg bnds (taxable) ser 2021B due 04/01/2042		
Long Term Rating	AA+/Stable	New
US$81.165 mil gen rev & rfdg bnds ser 2021A dtd 03/04/2021 due 04/01/2051		
Long Term Rating	AA+/Stable	New
University of Washington CP nts		
Short Term Rating	A-1+	Affirmed
Washington Biomedical Research Facilities 3, Washington		
University of Washington, Washington		
Washington Biomedical Properties 3.1 (University of Washington) lse		
Long Term Rating	AA+/Stable	Affirmed

Rating Action

S&P Global Ratings assigned its 'AA+' long-term rating to the University of Washington's (UW or the university) $81.2 million series 2021A and $244.0 million series 2021B (taxable) general revenue and refunding bonds. Additionally, S&P Global Ratings affirmed its:

- 'AA+' long-term rating and underlying rating (SPUR) on UW's parity general revenue bonds, including the previously rated delayed delivery series 2020C general revenue bonds, which are closing in February 2021, and
- 'A-1+' short-term rating on UW's commercial paper (CP) notes.

The outlook, where applicable, is stable.

Proceeds from the series 2021 bonds will be used to fund certain projects totaling about $100 million and refund certain obligations totaling about $238 million. Securing the parity general revenue bonds 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 $3.8 billion in fiscal 2020, including student tuition and fees ($941 million), auxiliary services ($401 million), patient services revenue ($1.6 billion), grant and contract revenue ($276 million), sales and services revenue ($283 million), investment income ($94 million), and other operating revenues ($173 million). These bonds do not carry a coverage covenant, debt service reserve requirement, or additional bonds test. Following this issuance, total pro forma debt will be approximately $2.5 billion. We consider the security pledge to be equivalent to an unlimited student fee pledge.

While there is a high level of uncertainty regarding the duration and extent of the impact of the COVID-19 outbreak, we believe the university has taken prudent steps to address its COVID-19 concerns. The university transitioned to remote learning in mid-March, and it issued prorated refunds on the housing and dining fees to those no longer using the services. In fall 2020, more than 90% of class sections on the Seattle campus were held online, with only classes that cannot be taught remotely being held in person. Applications for fall 2020 were down 3.7%; however, fall 2020 full-time-equivalent (FTE) enrollment increased by 2.0% to a record high of 60,829. In fall 2020 undergraduate, graduate, and professional FTE each increased to historical levels, at 40,885 undergraduate FTE, 15,830 graduate FTE, and 4,114 professional FTE. We understand the freshman class enrollment in fall 2020 increased by 1.7% over fall 2019 enrollment. The overall percentage of in-state students, based on headcount, increased slightly to 66.9% from 66.1%. We understand international student FTE enrollment for fall 2020 was 8,752, down 6.4% relative to fall 2019.

UW has been awarded or allocated $228.2 million in COVID-19 grants and state allocations as of Dec. 8, 2020. The funds include $92.1 million in Coronavirus Aid, Relief, and Economic Security (CARES) Act Provider Relief Fund (public health and social services emergency fund), $19.9 million in CARES Act institutional support, $19.9 million in CARES Act Higher Education Emergency Relief Fund (HEERF) student aid, $75.7 million in state allocations, and $20.6 million in Federal Emergency Management Agency Public Assistance Program funding. Additionally, UW's deferred payments and advances as of Nov. 30, 2020, were $125.5 million through the Medicare Advanced Payment Program and $100.0 million in deferral of the employer's share of social security taxes. As part of the HEERF II, authorized by the Coronavirus Response and Relief Supplemental Appropriations Act 2021, the university will receive a total of $59.7 million; of that, $19.9 million will be used for grants direct to student.

State operating appropriations increased in fiscal 2020 to $415.0 million from $378.7 million in fiscal 2019 and are expected to increase in the state's 2021-2023 biennial budget. Approximately 6.3% of UW's adjusted operating revenues are from state operating appropriations. As a result of the revenue loss from elective procedures at UW Medicine, as well as expense increases and revenue loss across UW, the net operating margin for fiscal 2020 was negative 2.5%. We understand UW anticipates no liquidity issues and maintains next-day liquidity at about $1.7 billion. Additionally, the university has $200 million in lines of credit which are currently undrawn. We recognize that the system has taken prudent measures to address the current situation and continues to monitor the course of the pandemic, having fully evaluated additional measures that it could take to protect the health of the community and promote its core mission.

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 funding, and its financial profile as very strong, with conservative debt profile and adequate 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 and ability and experience to manage its own liquidity. In our view, the university demonstrates sufficient liquid assets of high credit quality to cover any unsuccessful CP rollovers. The university currently has $25 million of 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 over $1.6 billion in federal and nonfederal grant and contract awards in fiscal 2020;

- Solid enrollment and demand, with 60,829 FTE students for fall 2020, an increase of 2% over fall 2019;
- Manageable, 3% pro forma maximum annual debt service (MADS) burden; and
- Impressive fundraising efforts and a healthy endowment, with an estimated market value of $3.6 billion as of June 30, 2020.

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

- Track record of negative full-accrual operating performance through fiscal 2017, although results improved to just over break even in fiscals 2019 and 2018 before returning to negative in fiscal 2020, and
- Adequate available resource ratios for the rating category, with fiscal 2020 adjusted unrestricted net assets (UNA) equal to 34% of expenses and 92% of pro forma debt, slightly below category medians in fiscal 2019 of 37% and 93%, respectively.

The stable outlook reflects our expectation that the university will maintain or improve financial resource ratios, make progress in returning to break even or positive operating results, and sustain healthy demand metrics.

The 'A-1+' short-term rating reflects our view of UW's ability to meet liquidity needs using the liquid assets of its portfolio. The university currently has $25 million in CP outstanding, which will be refund ed by the series 2021 bonds. As of Sept. 30, 2020, UW had $1.57 billion in discounted assets with next day liquidity, which we consider ample.

The University of Washington is the largest of the state's four-year public higher education institutions. The University of Washington was founded in 1861 in Seattle and has two additional smaller campuses, in Tacoma and Bothell. The university provides baccalaureate, masters, doctoral, and professional degree programs, with 648 degree options across 319 programs. 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 US News and World Report.

Environmental, social, and governance (ESG) factors

In our view, the University of Washington, similar to other higher education institutions, faces elevated social risk due to the uncertainty on the duration of the COVID-19 pandemic. The university's management team implemented remote learning in spring 2020 and adopted a hybrid approach this past fall to protect the health and safety of students, faculty, and staff, and to limit the risk associated with the community spread of COVID-19. We view the risks posed by COVID-19 to public health and safety as a social risk under our ESG factors. Despite the elevated social risk, we believe the university's environmental and governance risk are in line with our view of the sector.

Stable Outlook

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. Further unforeseen pressures from the pandemic that cause material weakening of demand, finances, or the trajectory of the university's plan to mitigate the effects of the COVID-19 outbreak may also result in a negative rating action.

Upside scenario

A positive rating change is unlikely during the outlook period given UW's negative margins operations and balance sheet metrics. However, one could be considered over time if UW's operating performance steadily improves and balance sheet metrics increase to levels more in line with those of 'AAA' rated systems.

Credit Opinion

Enterprise Profile

Economic fundamentals

In our view, the university has good geographic diversity but a mostly regional draw. About 67% of students are from the state of Washington, and as a result, our assessment of UW's economic fundamentals is anchored by the state GDP per capita.

Market position and demand

As the flagship university in the state of Washington, UW's credit profile benefits from its healthy and stable demand and enrollment. FTE enrollment continues to increase, with 2.0% growth in fall 2020 to 60,829. 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, the school 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 67% of students coming from the state, which is consistent with its mission to educate Washingtonians. First-year applications fell by 3.7% in fall 2020 due to the effects of COVID-19 pandemic, following 15 years of growth to a high of 51,847 in fall 2019. Due to the growth in applications, the acceptance rate fell to 55% in fall 2019 from 61% in fall 2012, but due to the pandemic and fewer applications, the acceptance rate increased to 59.8% in fall 2020. The matriculation rate has declined over the past six years, but we still consider it good, at 29% for fall 2020. Student quality has improved and is strong, in our view, with the average fall 2020 SAT score of 1282. The retention rate is strong, at 91%, and the six-year graduation rate is stable at approximately 81%.

UW Medicine is a leading health care provider throughout Washington. UW Medicine, through the School of Medicine faculty practice plans (UW Physicians), has approximately 2,400 employed faculty physicians and other health care providers practicing across a broad range of specialties. 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 Neighborhood Clinics, and Airlift Northwest. Along with the Fred Hutchinson Cancer Research Center and Seattle Children's Hospital, UW Medicine also has a one-third ownership interest in the Seattle Cancer Care Alliance, while the university and Seattle Children's each has one-half ownership interest in the Children's University Medical Group. Additionally, it maintains strategic collaborations with Peace Health and Capital Medical Center.

Management and governance

The university is governed by a 10-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 university uses a five-year strategic capital plan, which it updates regularly and presents to the board on an annual basis. Furthermore, 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 management policies

The university has formal policies for investment management and debt. It operates according to a strategic framework called the Sustainable Academic Business Plan, which is updated every two years. The university meets annual disclosure requirements. The financial policies assessment is neutral, reflecting our opinion that, while there may be some areas of risk, the university's overall financial policies are not likely to negatively affect its future ability to pay debt service. Our analysis of financial policies includes a review of UW's financial reporting and disclosure, investment allocation and liquidity, debt profile, contingent liabilities, and legal structure, and a comparison of these policies with those of comparable institutions.

Financial performance

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 estimated operating loss in fiscal 2020 of $169 million, or a net operating income of negative 2.5%. Net operating income in fiscals 2019 and 2018 was just over break even at 0.4% and 0.3%, respectively. In fiscals 2017 and 2016, the net operating income was negative 4.6% and negative 3.4%, respectively. 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. UW Medicine's top strategic priority continues to be Project FIT, a multiyear financial improvement plan that focuses on initiatives designed to improve financial performance at UW Medicine, including clinical service growth, labor and productivity improvement, and supply chain standardization and cost reduction. While we expect management to make progress toward consistent positive operating performance, we expect fiscal 2021 will likely continue to be pressured.

In fiscal 2020, total adjusted revenue included 31.9% from patient services, 22.7% from grants and contracts, 19.1% from net tuition and student fees, 6.4% from auxiliary operations, and only 6.3% from state operating appropriations. Approximately 75% 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 4.6% for fiscals 2016 through 2020. 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 $415 million in funding for operations in fiscal 2020, a 9.5% increase from fiscal 2019 appropriations of $379 million. We understand the fiscal 2021 state operation support is likely to increase over fiscal 2020. Additionally, the governor did not propose any changes to the state's current tuition policy, with authorized annual increases. Fall 2020 resident tuition increased by 1.7%.

Consolidated endowment funds at June 30, 2020, totaled $3.6 billion. Management has implemented a phased investment rate reduction to 4.5% from 5.0% during fiscals 2020 to 2022. In fiscal 2020 the distribution was 4.9%, or $169 million, based on the 20-quarter average market value. The portfolio is diverse, in our opinion, with 50% developed and emerging markets, 15% private equity, 18% absolute return, 10% fixed income, 4% real assets, and 2% opportunistic as of June 30, 2020.

Available resources

S&P Global Ratings-adjusted UNA, adding UNA of component units and pension and OPEB liability adjustments, was $2.3 billion in fiscal 2020, an increase of 6.7% over fiscal 2019 and the historical high. In fiscal 2020, financial resources are adequate for the rating, in our opinion, with adjusted UNA equal to 34.0% of adjusted operating expenses ($6.7 billion in fiscal 2020) and 92.2% of pro forma debt.

Fundraising has been strong, in our opinion, reaching the $5 billion goal of the Be Boundless Campaign 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 is a record for public higher education institutions. Management is forecasting $600 million in fundraising receipts for fiscal 2021.

Debt and contingent liabilities

As of June 30, 2020, the university had $2.4 billion of total debt outstanding, and following the issuance of the series 2021 bonds, pro forma debt is expected to be $2.5 billion . In our opinion, the debt profile is conservative; the portfolio is approximately 95% fixed rate. The debt service schedule is front loaded, with pro forma MADS of $197 million in fiscal 2021. The pro forma MADS burden is manageable, in our opinion, at 3%. With current planned issuance almost balanced by debt retired, the total debt outstanding is expected to remain stable through fiscal 2025. We understand management is considering increasing the overall debt balance; once plans are finalized, we will evaluate the effects on the resource ratios and debt metrics.

Securing the parity general revenue bonds 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 revenues, and certain auxiliary revenues. For fiscal 2020, general revenues equaled $3.8 billion.

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 1.4%, which we view as manageable at this time and expected to remain manageable. For more information on the DRS-administered plans, please see the debt and liabilities section in the Washington state report published Jan. 27, 2020, on RatingsDirect.

University of Washington--Enterprise And Financial Statistics

	--Fiscal year ended June 30--					Medians for 'AA' rated public colleges & universities
	2021	2020	2019	2018	2017	2019
Enrollment and demand						
Headcount	60,418	59,381	59,252	57,855	56,809	MNR
Full-time equivalent	60,829	59,659	59,505	58,155	56,974	36,667
Freshman acceptance rate (%)	59.8	55.0	52.0	50.0	49.1	69.6
Freshman matriculation rate (%)	28.8	29.7	32.4	32.6	32.8	MNR
Undergraduates as a % of total enrollment (%)	71.3	71.6	71.9	72.0	71.9	78.8
Freshman retention (%)	91.4	92.5	92.0	92.0	92.0	85.7
Graduation rates (six years) (%)	80.8	81.3	80.8	82.0	83.0	MNR
Income statement						
Adjusted operating revenue ($000s)	N.A.	6,565,511	6,403,885	6,058,371	5,748,253	MNR
Adjusted operating expense ($000s)	N.A.	6,734,761	6,380,411	6,042,660	6,028,355	MNR
Net adjusted operating income ($000s)	N.A.	(169,250)	23,474	15,711	(280,102)	MNR
Net adjusted operating margin (%)	N.A.	(2.51)	0.37	0.26	(4.65)	1.50
Estimated operating gain/loss before depreciation ($000s)	N.A.	219,088	395,909	399,715	82,926	MNR
Change in unrestricted net assets (UNA; $000s)	N.A.	188,569	256,920	(1,617,706)	(295,479)	MNR
State operating appropriations ($000s)	N.A.	415,030	378,656	362,267	341,971	MNR
State appropriations to revenue (%)	N.A.	6.3	5.9	6.0	5.9	18.3
Student dependence (%)	N.A.	25.5	26.5	25.5	25.7	41.2
Health care operations dependence (%)	N.A.	31.9	33.4	33.1	33.6	MNR
Research dependence (%)	N.A.	22.7	22.3	23.3	23.6	MNR
Endowment and investment income dependence (%)	N.A.	2.6	2.5	2.5	2.5	1.4
Debt						
Outstanding debt ($000s)	N.A.	2,413,457	2,391,638	2,424,633	2,364,476	808,057
Proposed debt ($000s)	N.A.	325,165	N.A.	N.A.	N.A.	MNR
Total pro forma debt ($000s)	N.A.	2,484,137	N.A.	N.A.	N.A.	MNR
Pro forma MADS	N.A.	197,260	N.A.	N.A.	N.A.	MNR
Current debt service burden (%)	N.A.	2.84	3.43	3.47	3.89	MNR
Current MADS burden (%)	N.A.	2.93	3.01	3.62	3.44	3.60
Pro forma MADS burden (%)	N.A.	2.93	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
	2021	2020	2019	2018	2017	2019
Financial resource ratios						
Endowment market value ($000s)	N.A.	3,560,000	3,588,000	3,407,000	3,144,000	1,006,154
Related foundation market value ($000s)	N.A.	278,547	271,832	259,847	219,561	782,587
Cash and investments ($000s)	N.A.	6,713,328	6,077,352	5,801,625	5,370,871	MNR
UNA ($000s)	N.A.	(792,167)	(980,736)	(1,237,656)	380,050	MNR
Adjusted UNA ($000s)	N.A.	2,290,017	2,146,692	1,933,549	1,821,934	MNR
Cash and investments to operations (%)	N.A.	99.7	95.3	96.0	89.1	56.4
Cash and investments to debt (%)	N.A.	278.2	254.1	239.3	227.1	169.9
Cash and investments to pro forma debt (%)	N.A.	270.2	N.A.	N.A.	N.A.	MNR
Adjusted UNA to operations (%)	N.A.	34.0	33.6	32.0	30.2	36.7
Adjusted UNA plus debt service reserve to debt (%)	N.A.	94.9	89.8	79.7	77.1	92.9
Adjusted UNA plus debt service reserve to pro forma debt (%)	N.A.	92.2	N.A.	N.A.	N.A.	MNR
Average age of plant (years)	N.A.	13.1	13.2	12.0	11.8	13.2
OPEB liability to total liabilities (%)	N.A.	19.6	18.7	21.7	0.0	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 2.0: A Deeper Dive Into U.S. Public Finance Credit Factors, April 28, 2020

Ratings Detail (As Of January 28, 2021)		
University of Washington gen rev bnds		
Long Term Rating	AA+/Stable	Affirmed
University of Washington gen rev bnds		
Long Term Rating	AA+/Stable	Affirmed
University of Washington gen rev bnds		
Long Term Rating	AA+/Stable	Affirmed
University of Washington gen rev bnds		
Long Term Rating	AA+/Stable	Affirmed
University of Washington gen rev rfdg bnds		
Long Term Rating	AA+/Stable	Affirmed

Ratings Detail (As Of January 28, 2021) (cont.)		
University of Washington gen rev rfdg bnds		
Long Term Rating	AA+/Stable	Affirmed
University of Washington gen rev & rfdg bnds		
Long Term Rating	AA+/Stable	Affirmed
University of Washington PCU_USF		
Long Term Rating	AA+/Stable	Affirmed
Washington Econ Dev Fin Auth, Washington		
University of Washington, Washington		
Washington Econ Dev Fin Auth (University of Washington) lse 2004A (FGIC)		
Unenhanced Rating	AA+(SPUR)/Stable	Affirmed
Washington Econ Dev Fin Auth (University of Washington) PCU_USF		
Long Term Rating	AA+/Stable	Affirmed
Washington Econ Dev Fin Auth (University of Washington) PCU_USF (FGIC)		
Unenhanced Rating	AA+(SPUR)/Stable	Affirmed

Many issues are enhanced by bond insurance.