

RatingsDirect®

Summary:

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

Primary Credit Analyst:

Jessica A Matsumori, San Francisco (1) 415-371-5083; jessica.matsumori@standardandpoors.com

Secondary Contact:

Charlene P Butterfield, New York (1) 212-438-2741; charlene.butterfield@standardandpoors.com

Table Of Contents

Rationale

Outlook

Related Criteria And Research

Summary:

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

Credit Profile

US\$109.67 mil lse rev bnds ser 2015A due 01/01/2048

Long Term Rating AA+/Stable New

US\$24.455 mil lse rev bnds ser 2015B due 03/01/2018

Long Term Rating AA+/Stable New

University of Washington CP Program Notes due 06/30/2036

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

Rationale

Standard & Poor's Ratings Services assigned its 'AA+' long-term rating to Biomedical Research Properties 3.2, Wash.'s approximately \$134 million series 2015A and 2015B lease revenue bonds, issued on behalf of the University of Washington. At the same time, Standard & Poor's affirmed its 'AA+' long-term rating and underlying rating (SPUR) on the university's outstanding revenue debt, its 'AA' long-term rating and SPUR on the university's series 2006 lease revenue bonds, and its 'A-1+' short-term rating on the university's commercial paper (CP) outstanding. The outlook, where applicable, is stable.

The ratings reflect our view of the transaction's strong lease provisions without appropriation or abatement risk; facilities and ground lease that runs 48 years, well beyond the life of the 30-year bonds; lease payments that begin on the earlier of final completion of the project or March 1, 2018, regardless of completion of the project; and unconditional obligation to make lease payments from its general revenues, reflecting its general strengths. As such, we consider this pledge to be equivalent to an unlimited student fee pledge and rate this transaction on par with the university's outstanding lease revenue bonds and general revenue debt, with the long-term rating reflecting the general credit strength of the institution.

The 'AA+' long-term unlimited student fee rating reflects our view of the university's:

- Position as one of the nation's top research universities, with an estimated \$1.385 billion in federal and nonfederal grant and contract awards in fiscal 2014;
- Diverse revenue base, including health care revenues (27.1% of 2014 revenues) and state appropriations (5.9% of revenues) from the state of Washington (AA+/Stable general obligation rating);
- Manageable 4.4% pro forma maximum annual debt service burden;

- Impressive fundraising efforts and a healthy endowment, with an estimated market value of \$3 billion as of March 31, 2015; and
- Solid enrollment and demand.

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

- Break-even operating results;
- Adequate financial resources for the rating category, with 2014 unrestricted net assets equal to 38.8% of expenses and 74.9% of pro forma debt; and
- Approximately \$80 million of approved additional debt plans during the next three years.

We expect bond proceeds will be used to finance further construction and development of the biomedical research facility on the university's South Lake Union campus, which was previously funded through the biomedical research project I, II, and III bonds. Standard & Poor's also rates the university's outstanding lease revenue bonds outstanding for biomedical research project I, II, and III (AA+), which collectively had \$308.2 million of debt outstanding as of June 30, 2014. Following the issuance of the series 2015A and 2015B lease revenue bonds, the university will have approximately \$450 million of lease revenue bonds outstanding. Lease payments are made from the university's general revenues and are treated similarly by university management. The biomedical research I and II properties' lease extends through the life of the bonds.

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 had \$161.5 million of CP outstanding as of Sept. 1, 2015.

Securing the parity general revenue bonds is a pledge of general revenue, which comprises all non-appropriated revenue -- excluding appropriations, grant direct costs, restricted gifts, some fees, and auxiliary revenues. The auxiliary system includes the University of Washington Medical Center (UW Medicine), the parking system, the intercollegiate athletics system, and the housing and dining system. General revenue totaled an estimated \$2.64 billion in fiscal 2014, including student tuition and fees (\$734 million), grant indirect cost recovery (\$243 million), sales and services revenue (\$212 million), investment income (\$40 million), and auxiliary and patient services revenue (\$1.33 billion).

For additional information on the university, please refer to the articles published Sept. 1, 2015, and Jan. 15, 2015, on RatingsDirect.

Outlook

The stable outlook reflects our expectation that, during the next two years, the university and UW Medicine will continue to post break-even operating results, financial resource measures will steadily strengthen, demand and enrollment measures will remain solid, and total debt levels will remain flat.

We could take a positive rating action in time if UW's operating performance steadily improves and balance sheet metrics increase to bring the university more in line with other 'AAA' rated credits, or if major sources of revenue improve significantly and are sustained at a higher level. We do not consider a negative rating action likely during the

outlook period.

Related Criteria And Research

Related Criteria

- USPF Criteria: Higher Education, June 19, 2007
- USPF Criteria: Commercial Paper, VRDO, And Self-Liquidity, July 3, 2007
- USPF Criteria: Appropriation-Backed Obligations, June 13, 2007
- USPF Criteria: Assigning Issue Credit Ratings Of Operating Entities, May 20, 2015
- Criteria: Use of CreditWatch And Outlooks, Sept. 14, 2009

Ratings Detail (As Of September 18, 2015)

University of Washington gen rev bnds		
<i>Long Term Rating</i>	AA+/Stable	Affirmed
University of Washington gen rev bnds ser 2015A due 12/01/2044		
<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 gen rev bnds ser 2008		
<i>Long Term Rating</i>	AA+/Stable	Affirmed
Univ of Washington gen rev ser 2007		
<i>Unenhanced Rating</i>	AA+(SPUR)/Stable	Affirmed
TSB Properties, Washington		
University of Washington, Washington		
TSB Properties (Univ of Washington) lse rev bnds ser 2006		
<i>Unenhanced Rating</i>	AA(SPUR)/Stable	Affirmed
Washington Econ Dev Fin Auth, Washington		
University of Washington, Washington		
Washington Econ Dev Fin Auth (University of Washington) lse rev rfdg bnds ser 2013		
<i>Long Term Rating</i>	AA+/Stable	Affirmed
Washington Econ Dev Fin Auth lse ser 2004		
<i>Unenhanced Rating</i>	AA+(SPUR)/Stable	Affirmed
Washington Econ Dev Fin Auth (University of Washington) lse rev bnds ser 2004A		
<i>Unenhanced Rating</i>	AA+(SPUR)/Stable	Affirmed
Washington Econ Dev Fin Auth (Univ of Washington) (WA Biomed Research Prop II) lse ser 2005E 2006J		
<i>Unenhanced Rating</i>	AA+(SPUR)/Stable	Affirmed

Many issues are enhanced by bond insurance.

Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com. All ratings

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

affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com. Use the Ratings search box located in the left column.

Copyright © 2015 Standard & Poor's Financial Services LLC, a part of McGraw Hill Financial. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED, OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses, and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw, or suspend such acknowledgement at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal, or suspension of an acknowledgement as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain nonpublic information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, www.standardandpoors.com (free of charge), and www.ratingsdirect.com and www.globalcreditportal.com (subscription) and www.spcapitaliq.com (subscription) and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at www.standardandpoors.com/usratingsfees.