Rating Action: Moody's affirms University of Puget Sound's (WA) A1 and A1/VMIG 1; outlook stable

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New York, May 17, 2018 -- Moody's Investors Service has affirmed the University of Puget Sound's A1 on $47 million of debt issued through the Washington Higher Education Facilities Authority. The short-term portion of the A1/VMIG 1 rating on the Series 2001 bonds based on self-liquidity was also affirmed. The outlook is stable.

RATINGS RATIONALE

The University of Puget Sound's A1 reflects its ample balance sheet reserves, strong liquidity, and consistently positive operating performance. The rating favorably incorporates the university's conservative and prudent financial management and its very good strategic positioning as an urban liberal arts college in the economically vibrant Pacific Northwest. Offsetting challenges include a fiercely competitive student market, variable rate debt and interest rate swap exposure, and relatively modest operating size.

The VMIG 1 rating on the Series 2001 Variable Rate Bonds is based on the university's strong self-liquidity coverage of those bonds, with active management and clear policies and procedures around liquidation and maintaining coverage.

RATING OUTLOOK

The stable outlook reflects expectations of continued strong liquidity and financial resource cushions supporting debt and operations. The outlook also assumes ongoing donor support, maintenance of favorable net tuition per student, continued healthy cash flow generation and no near-term plans for additional debt.

FACTORS THAT COULD LEAD TO AN UPGRADE

- Substantial growth of cash and investments outpacing that of peers
- Strengthening in student demand, evidenced by improved yield and continued net tuition per student growth

FACTORS THAT COULD LEAD TO A DOWNGRADE

- Inability to meet enrollment and net tuition revenue targets
- Sustained reduction of unrestricted liquidity
- Material increase in leverage absent growth in financial reserves

LEGAL SECURITY

All bonded debt is on parity and is a general obligation of the university.

PROFILE

The University of Puget Sound is a private liberal arts institution with a largely undergraduate student body, located in Tacoma, Washington. For fiscal 2017, the university had total operating revenues of $130 million and in fall 2017 served over 2,600 full-time equivalent (FTE) students.

METHODOLOGY

The principal methodology used in the long term ratings was Higher Education published in December 2017. The principal methodology used in the short term rating was Municipal Bonds and Commercial Paper Supported by a Borrower's Self-Liquidity published in March 2018. Please see the Rating Methodologies page on www.moodys.com for a copy of these methodologies.

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