

FCR 8

Office of the President
February 17, 2023

Members, Board of Trustees:

APPROVAL TO ENTER INTO SWAP AGREEMENTS

Recommendation: that the Board of Trustees authorize the university or one or more of its affiliated corporations listed below to take all appropriate measures necessary to manage risks associated with variable rate bonds or other debt obligations (“Outstanding Variable Rate Debt”) held by the university’s affiliated corporations Royal Blue Health LLC and its subsidiaries, including Ashland Hospital Corporation dba King’s Daughters Medical Center (“KDMC”), as part of the KDMC Obligated Group (defined below), and assumed by the university as part of the member substitution transaction approved by the Board on October 27, 2022 and effective December 1, 2022.

Swap Agreements: Such actions include entering into or modifying an interest rate swap, cap, forward starting swap, option, swaption, rate lock or similar agreement or agreements (collectively, “Swap Agreement”) with a counterparty or counterparties to be selected as discussed below. Such Swap Agreement shall provide for payments to the counterparty related to interest on all or a portion of Outstanding Variable Rate Debt, at indexed or market established rates. For clarity, such actions may include, but are not necessarily limited to, entering into an agreement to novate and/or amend an existing interest rate swap agreement between KDMC Obligated Group and Barclays Bank PLC that contains a mandatory early termination date of March 8, 2023, in order to avoid or limit payment of an early termination fee and to minimize increases in interest payments. If necessary, such Swap Agreements may include executing a credit support annex arrangement as collateral.

These Swap Agreements may be entered into by the university in its own name or by one or more of the following affiliated corporations on behalf of the KDMC Obligated Group: Beyond Blue Corporation or Royal Blue Health LLC. The university’s treasurer and the KDMC Obligated Group may use a financial advisor with expertise in swap agreements to negotiate with potential counterparties. Documents needed to effectuate these actions may be executed by the Treasurer of the university (if in the university’s name) or the Treasurer of Beyond Blue Corporation (if in the name of one of the affiliated corporations).

Background: On October 27, 2022, in PR 1, the Board of Trustees authorized the acquisition of all membership interests in Royal Blue Health LLC, and designated Royal Blue Health LLC and all of its wholly owned subsidiaries to be affiliated corporations of the university to assist in carrying out its programs, missions or other functions. Effective

December 1, 2022, Beyond Blue Corporation, a subsidiary of the University of Kentucky became the owner of 100% of the interests in Royal Blue Health LLC.

As part of the acquisition, the Board authorized the assumption of all leases, debt instruments, and liabilities of Royal Blue Health LLC, and its wholly owned subsidiaries. As part of this assumption, and consistent with the member substitution documents, the university's affiliated corporation Beyond Blue Corporation became a member of the Obligated Group under a Master Trust Indenture dated March 1, 2010 (the "Original Master Trust Indenture") among KDMC, Royal Blue Health LLC and other related entities ("KDMC Obligated Group"), and U.S. Bank Trust Company National Association, as amended from time to time ("KDMC Master Indenture"). Among the debt obligations of the KDMC Obligated Group are variable rate Series 2016B bonds totaling \$42,437,902 as of Royal Blue Health's fiscal year end September 30, 2022. To hedge risk on these bonds, the KDMC Obligated Group entered into an interest rate swap agreement with Barclays Bank PLC, dated September 20, 2016, and amended and restated on February 8, 2019 and November 8, 2021. This swap agreement contains a mandatory early termination date of March 8, 2023.

To continue to hedge the rates on the underlying bonds, university and Royal Blue Health officials have worked with outside counsel and financial advisors with expertise in interest rate swaps to explore the best economic options for amending and/or novating the Barclays agreement. Based on the information provided by these officials and advisors, the President of Beyond Blue Corporation and the Chair of the Royal Blue Health Board of Governors recommend that amending and/or novating the swap agreement in lieu of a full refinancing of the underlying is in the best economic interest of the university, Beyond Blue, and Royal Blue Health at this time.

The General Assembly, at its 2022 Regular Session, authorized the university's assumption of all leases, debt instruments and liabilities of Royal Blue Health LLC and authorized the university to refinance such obligations.

Action taken: Approved Disapproved Other _____