

Office of the President  
October 27, 2022

Members, Board of Trustees:

APPROVAL OF THE UNIVERSITY OF KENTUCKY'S  
ACQUISITION OF ROYAL BLUE HEALTH LLC  
AND ALL ITS SUBSIDIARY CORPORATIONS

Recommendation: that the Board of Trustees approve the University of Kentucky's Acquisition of Royal Blue Health LLC and all its subsidiary corporations. To accomplish this objective, the Board of Trustees should take the specific actions detailed below.

Background: On April 21, 2021, the University of Kentucky and King's Daughters Health System, Inc. established a joint venture. To create the joint venture, the university's affiliated corporation, Beyond Blue Corporation, and King's Daughters Health System, Inc. formed Royal Blue Health LLC. Most of the subsidiary corporations of King's Daughters Health System, Inc. were transferred to Royal Blue Health LLC and became wholly owned subsidiaries of Royal Blue Health LLC.

The university and King's Daughters Health System, Inc. agreed that the university would operate the Joint Venture. The parties further agreed that if certain performance metrics were met by September 30, 2022, the university would have the option of acquiring one hundred percent of Royal Blue Health LLC and its subsidiary corporations.

Based on the unaudited financial statements, the university has met the performance metric and has the option to acquire Royal Blue Health LLC and all its subsidiary corporations. The President recommends the university exercise the option.

By acquiring Royal Blue Health LLC and all its subsidiary corporations, the University of Kentucky will: (1) strengthen and improve access to high-quality, affordable healthcare services in northeastern Kentucky, southeast Ohio and West Virginia; (2) ensure that the healthcare needs in northeastern Kentucky continue to be met; (3) reduce the costs of providing health care through operational efficiencies; (4) improve care coordination between the two clinical enterprises; (5) develop the capabilities to respond to the evolving healthcare landscape in the Commonwealth; (6) create a relationship with sufficient flexibility for future strategic initiatives, as appropriate; and (7) preserve and grow the abilities to provide sustainable patient focused care in the Commonwealth.

The university's acquisition of Royal Blue Health LLC, including the assumption of leases, debt instruments and liabilities, is authorized by the 2022 Kentucky General Assembly in the 2022-2024 Executive Branch Budget.

Specific Actions: To benefit and further the university's clinical mission to increase healthcare access to quality healthcare for the Commonwealth of Kentucky, the Board of Trustees of the University of Kentucky takes the following actions:

1. Authorizes and approves the university's acquisition of Royal Blue Health LLC, using the "Initial Member Substitution Option" described below. This includes the following wholly owned subsidiaries of Royal Blue Health LLC: (1) Ashland Hospital Corporation; (2) Portsmouth Hospital Corporation; (3) King's Daughters Medical Specialties, Inc.; (4) Kentucky Heart Institute, Inc.; (5) Child Development Center Corporation; (6) Ashland Nursing Home Corporation; (7) Kentucky Heart Foundation; (8) Ashland Medical Properties, Inc.; and (9) Integrated Health Insurance, Ltd.<sup>1</sup>
2. Authorizes and approves, as part of the acquisition, the assumption of all leases, debt instruments, and liabilities of Royal Blue Health LLC, including those of the following wholly owned subsidiaries of Royal Blue Health LLC: (1) Ashland Hospital Corporation; (2) Portsmouth Hospital Corporation; (3) King's Daughters Medical Specialties, Inc.; (4) Kentucky Heart Institute, Inc.; (5) Child Development Center Corporation; (6) Ashland Nursing Home Corporation; (7) Kentucky Heart Foundation; (8) Ashland Medical Properties, Inc.; (9) Kentucky Medical Logistics, Inc.; and (10) Integrated Health Insurance, Ltd.<sup>2</sup>
3. Instructs the President to direct the Board of Directors of Beyond Blue Corporation, an affiliated corporation of the university, to take whatever steps are necessary to become the sole member of the Royal Blue Health LLC and exercise the Initial Member Substitution Option described in the Operating Agreement of Royal Blue Health LLC, dated January 29, 2021, as amended. By becoming the sole member of Royal Blue Health LLC, Beyond Blue Corporation will acquire Royal Blue Health LLC. Royal Blue Health LLC will be a wholly owned subsidiary of Beyond Blue Corporation as of the Initial Member Transfer Date stated in the Operating Agreement (December 1, 2022).
4. Exercises its powers under K.R.S. § 164A.610 and designates Royal Blue Health LLC as an affiliated corporation of the university to assist the university in carrying out its programs, missions, or other functions. As such, Royal Blue Health LLC is an alter ego of the University of Kentucky as of the Initial Member Transfer Date (December 1, 2022).
5. Exercises its powers under K.R.S. § 164A.610 and designates all wholly owned subsidiaries of Royal Blue Health LLC to be affiliated corporations of the university to assist the university in carrying out its programs, missions or other functions.

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<sup>1</sup> The acquisition of Integrated Health Insurance, Ltd. is contingent upon the approval of the Cayman Islands Monetary Authority.

<sup>2</sup> The assumption of all leases, debt instruments, and liabilities of Integrated Health Insurance, Ltd. is contingent upon the approval of the Cayman Islands Monetary Authority.

As such, each of the wholly owned subsidiaries of Royal Blue Health LLC is an alter ego of the University of Kentucky as of the Initial Member Transfer Date (December 1, 2022). Specifically, the following wholly owned subsidiaries of Royal Blue Health LLC are now affiliated corporations of the university: (1) Ashland Hospital Corporation; (2) Portsmouth Hospital Corporation; (3) King's Daughters Medical Specialties, Inc., (4) Kentucky Heart Institute, Inc.; (5) Child Development Center Corporation; (6) Ashland Nursing Home Corporation; (7) Kentucky Heart Foundation; (8) Ashland Medical Properties, Inc.; (9) Kentucky Medical Logistics, Inc.; and (10) Integrated Health Insurance, Ltd.<sup>3</sup>

6. Appoints the following individuals to serve on the Board of Governors of Royal Blue Health LLC: (1) the Executive Vice President for Finance and Administration; (2) the Executive Vice President for Health Affairs; (3) the Associate Vice President for Finance and Administration; (4) the Treasurer of the university; (5) the Vice President for Health System Administration and Chief of Staff for UK HealthCare; (6) the Senior Vice President and Chief Financial Officer for UK HealthCare; (7) Mr. Steve Addington; (8) Mr. Tom Burnette; (9) Mr. David Jones; and (10) Mr. John Stewart. The individuals who are University of Kentucky senior administrators will serve by virtue of their position. Should any of the University of Kentucky senior administrators leave their position, they will no longer serve on the Board of Governors and their successor in their senior administrative position will be appointed to the Board of Governors without further action by the University of Kentucky Board of Trustees. Otherwise, all individuals will serve at the pleasure of the University of Kentucky Board of Trustees and can be removed at any time for any reason.
7. Instructs the President to direct the Board of Directors of Beyond Blue Corporation, as the parent corporation of Royal Blue Health LLC, to appoint appropriate individuals to the boards of the following wholly owned subsidiaries of Royal Blue Health LLC: (1) Ashland Hospital Corporation; (2) Portsmouth Hospital Corporation; (3) King's Daughters Medical Specialties, Inc.; (4) Kentucky Heart Institute, Inc.; (5) Child Development Center Corporation; (6) Ashland Nursing Home Corporation; (7) Kentucky Heart Foundation; (8) Ashland Medical Properties, Inc.; (9) Kentucky Medical Logistics, Inc.; and (10) Integrated Health Insurance, Ltd.<sup>4</sup> The individuals appointed by the President will serve at the pleasure of the President or the University of Kentucky Board of Trustees. The Board of Beyond Blue Corporation or the President or the Board of Trustees can remove any individual from these boards at any time for any reason.
8. Instructs the President to direct the members of his Cabinet to ensure Royal Blue Health LLC and all its wholly owned subsidiaries comply with all state and federal

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<sup>3</sup> The designation of Integrated Health Insurance, Ltd. as an affiliated corporation of the University of Kentucky is contingent upon the approval of the Cayman Islands Monetary Authority.

<sup>4</sup> The appointment of individuals to the Board of Integrated Health Insurance, Ltd. is contingent upon the Cayman Islands Monetary Authority approving those individuals.

constitutional provisions, laws, and regulations applicable to the University of Kentucky and/or public entities operating within the Commonwealth of Kentucky.<sup>5</sup>

9. Declares that all hospital staff, nurses, nurses' aides, volunteer workers, employees and students, and all other persons involved in furnishing health care within the scope of their duties or courses of study in connection with Royal Blue Health LLC and all of its wholly owned subsidiaries are agents of the University of Kentucky for purposes of University of Kentucky Medical Center Malpractice Insurance Act, KRS §§ 164.939, *et seq.* as of the Initial Member Transfer Date (December 1, 2022).
10. Declares that all employees of Royal Blue Health LLC and its wholly owned subsidiaries are public employees as of the Initial Member Transfer Date (December 1, 2022). However, unless otherwise designated by the President, the employees of Royal Blue Health LLC and its wholly owned subsidiaries are not employees of the University of Kentucky. Rather, the employees of Royal Blue Health LLC and its wholly owned subsidiaries are employees of an affiliated corporation of the University of Kentucky.

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Action taken:     Approved     Disapproved     Other \_\_\_\_\_

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<sup>5</sup> Additionally, the Board instructs the President to direct the members of his Cabinet to ensure that Portsmouth Hospital Corporation complies with all applicable laws and regulations of the State of Ohio and that Integrated Health Insurance, Ltd. complies with all applicable laws and regulations of the Cayman Islands.