



# The Kentucky Small Business Innovation Research (SBIR) and Small Business Technology Transfer (STTR) Matching Funds Award Program Guidelines

## A. PURPOSE

The Kentucky SBIR/STTR Matching Funds Award Program is designed to award matching funds to for-profit, Kentucky-based companies that have been granted Federal Small Business Innovation Research Program or Federal Small Business Technology Transfer Program (the “Federal SBIR/STTR Program”) Phase I or Phase II Awards, and Fast-Track for research and technology development that are consistent with one or more of the five research and development Focus Areas as revised in the Kentucky Science and Innovation Strategy. The five Focus Areas are: (1) Agriculture and Bioscience, (2) Energy and Environmental Technologies, (3) Human Health and Personalized Medicine, (4) Information Technology and New Media, and (5) Materials Science and Advanced Manufacturing.

## B. GOALS

- Increase the number of applications for Federal research dollars submitted by Kentucky Small Businesses conducting research and technology development in one or more of the five KY Innovation Research Focus Areas;
- Help Kentucky companies bridge the funding gap period between the final Phase I payment and the first Phase II payment in the Federal SBIR/STTR Program;
- Increase the intensity of the research conducted under Phase I, and strengthen the commercialization plan, to make Kentucky Small Businesses more competitive for Phase II funds;
- Augment the funds available for Phase II projects, to help improve business development and commercialization efforts leading to product commercialization; and
- Encourage the establishment and growth of high-quality advanced technology companies in the Commonwealth of Kentucky.



## C. PROGRAM DETAILS

1. The eligible Matching Funds amount will be determined by the amount of remaining Federal funds at the time of the Matching Funds application. In the case of Phase I applicants, a verifiable unspent balance of at least 60% of the Federal Phase I amount will enable the applicant to request a total Matching Funds amount not to exceed the Federal Grant amount or \$150,000. In the case of Phase II applicants, a verifiable unspent balance of at least 80% of the Federal Phase II amount will enable the applicant to request a total Matching Funds amount not to exceed the Federal Grant amount up to \$500,000
2. If the verifiable Federal balance (unspent), pro-rated for each year, on the date of the Matching Funds application is less than the required 60% (Phase I) or 80% (Phase II), then the Matching Funds award amount will not exceed the amount remaining of the Federal Grant on the date of application for the Matching Funds.
3. Phase II year 1 will require additional non-federal capital (e.g. investment, bank, owner financing, revenue). Match funds can be awarded in a ratio of 10:1 (state: private), not to exceed the amount of federal funding received or \$500,000, whichever is less;
4. Phase II year 2 will require outside investment capital (e.g. investment, bank, owner financing, revenue). Match funds can be matched dollar for dollar with federal awards and with a required ratio of 5:1 (state: private), not to exceed the amount of federal funding received or \$500,000, whichever is less;
5. Eligible Phase IIb will require outside investment capital. Match funds can be matched dollar for dollar with federal awards and with a required ratio of 1:1 (state: private), not to exceed the amount of federal funding received or \$500,000;
6. Awards will take the form of a combination matching grant with a SAFE agreement (equity conversion amount not to exceed 20% of the match amount for Phase I and Phase II year 1 and 40% for Phase II year 2 and Phase IIb) and/or a limited revenue share provision. Value will be pegged to current value where a qualified third-party valuation has been completed. Where no qualified third-party valuation has been completed, valuation will be pegged at a future financing round or at a financing closed concurrently with the match award. Equity will be capped at 10% of total company equity (all match awards combined), with terms equivalent to other first entrant investor. Equity shall be held by an organization contracted by KY Innovation to administer SBIR/STTR funding or a designee.
7. KY Innovation will maintain right to call note if there is an event of default;
8. Phase 2, Year 1 awards will initiate an “observer seat” for KY Innovation or its designee with information access and future Board rights; at the time the SAFE agreement is triggered, until the sale of equity.
9. Phase II year 2, and Phase IIb awards will initiate a full board seat for KY Innovation or its designee; at the time the SAFE agreement is triggered, until the sale of equity.
10. Applicant must be a small, technology based business.
11. Applicant must meet the guidelines for Kentucky-based status OR must be willing to relocate to Kentucky to meet the guidelines for Kentucky-based status and have the Federal SBIR/STTR Program award transferred to Kentucky.



12. Applicant must be a Phase I, Phase II (year one or year two), Phase IIb, or a FastTrack federal SBIR/STTR award winner from one of the participating federal agencies. The date of the Federal award for the eligible year portion shall not be more than twelve months prior to the date of the application. The federal Phase II grant must be in active status at the time of the Kentucky SBIR Matching Funds application for Phase II applicants. For Phase I applicants the award date should be no more than one year prior to the application date, and the company must have not received notification of a follow-on Phase II federal award. The federal Phase I award does not have to be an active grant; however, the Phase I match applicant must provide evidence that they will pursue a Phase II federal grant. Additionally, the applicant company must not have received notice that its federal application for Phase II will not be awarded.
13. Phase II federal awards are split into two 1-year segments and a company is eligible to apply for a Kentucky SBIR/STTR Matching Funds Award based on year one and/or year two of the Federal SBIR/ STTR Phase II grant.
14. Applicant must not have failed to correct a material breach of a grant or award agreement under any program funded or administered by KY Innovation or the Cabinet for Economic Development.
15. Companies located outside of Kentucky and willing to move to Kentucky are eligible to apply.
  - The Award Agreement for out-of-state companies moving to Kentucky will include the stipulation that no funds will be disbursed until the company satisfies all the requirements set forth in these Guidelines. The company will have 90 days from the date of the Agreement to relocate to Kentucky and meet the other eligibility requirements for the Matching Funds Program. If the eligibility requirements are not met after 90 days, then the funds identified for the Award will be forfeited.
  - The company must also submit documentation showing acknowledgment from the Federal Agency regarding its physical relocation of the company headquarters to Kentucky and transfer of the Federal Grant to Kentucky. The company is also required to designate a Kentucky resident/employee as the PI or Co-PI as it relates to the state Matching Funds Award. The company must show documentation of how much Federal funding has been received and spent and what is the unspent balance remaining of the Federal Award on the Matching Funds Award application date.
16. Applicant may not receive more than two Matching Funds Awards per fiscal year, and only one per solicitation.
17. Whether the applicant receives an award will be subject to the discretion of the KY Innovation and the availability of funding.
18. A company that has received a FastTrack award may apply and receive either a Phase I or Phase II portion, but not both, of the Federal FastTrack award under a given solicitation cycle. The Phase II portion of the FastTrack award shall not be eligible for matching if Federal FastTrack award is terminated after Phase I.
19. The Matching Funds Program will not match a Federal agency non-SBIR program grant.

**In all cases, Kentucky SBIR/STTR Matching Fund Award amounts cannot exceed \$150,000 for Phase I and \$500,000 per year for a Phase II award.**



## D. ELIGIBLE COSTS

Allowable costs are those related directly to the project for which a Federal Phase I or Phase II Award has been received. These costs include but are not limited to costs for additional technical work, product testing and validation, intellectual property protection, market research, patent search, business plan development, hiring of new high-paying technical and business employees, reasonable travel related to the Matching Funds Grant, and other costs including rent, accounting, legal, purchase of small equipment (up to \$25,000 for Phase I and up to \$100,000 for Phase II), unless otherwise justified by the applicant and approved by KY Innovation.

Equipment purchased with Matching Funds may be subject to repossession by the Cabinet for Economic Development (CED) should the awardee be determined to be in default, the award is terminated, or the company goes out-of-business or becomes dormant for any reason within the award period timeline.

Companies are not allowed to charge a fee for their Matching Funds award as allowed under the Federal SBIR/STTR Program. Companies may charge fringe in the range of zero to 30% for employees that are paid via W2 payroll. Where allowed by law, companies may charge reasonable fringe for owners that are paid via a draw mechanism. Support documentation for fringe expenditures on behalf of employees paid via W2 payroll shall be provided to KY Innovation upon request. For fringe paid on behalf of owners that are paid via draw, supporting documentation must be provided to KY Innovation with the reimbursement request.

Any and all subcontracts proposed to be funded through the state funded Matching Funds Program shall be restricted to a maximum of 10% for indirect or overhead costs. This applies to Universities and any subcontracted entity. Contract Labor invoices must be prepared by each service provider and shall include service provider's name, address, phone number, date(s) of service, description of services, and signature of the service provider. Relocation costs are not allowed, except in the case of relocation of equipment.

All travel shall commence from Kentucky. Air travel should be limited to Coach Class, and companies shall use the per diem policy established by the Commonwealth of Kentucky. Personal Operating Vehicle (POV) mileage reimbursement shall also reflect current Commonwealth of Kentucky approved mileage rates which will be posted on the program websites.

## E. APPLICATION SUBMISSION, REVIEW AND APPROVAL PROCESS

When funds become available for the Kentucky SBIR/STTR Matching Funds Program, KY Innovation will issue a solicitation, inviting submission of application, for consideration of Matching Funds funding. The Program Solicitation will include but not be limited to opening and closing dates for accepting applications. The federal award must be dated within a year of the application date for the Kentucky Matching Funds. No applications or supplemental materials submitted in response to a Matching Funds Program Solicitation will be accepted after its closing date and time, except for supplemental material requested by KY Innovation. Email completed submissions to [SBIR@kyinnovation.com](mailto:SBIR@kyinnovation.com) KY Innovation is not responsible for applications or materials lost or delayed in transmission.

Applications will initially be reviewed to ascertain compliance with all the requirements in the Matching Funds Program Solicitation and guidelines. **Incomplete or non-compliant applications will not be considered.** Applications determined to be complete and in compliance will be reviewed. ***Application instructions and forms can be found at <https://www.kyinnovation.com/sbir-sttr-funding-and-match/> when solicitation windows are open.***



**For Phase I Applicants** the evaluation criteria will include:

- Technical merit;
- Commercial potential of the technology;
- Qualifications of the company's technical and business management team;
- Proposed budget and the potential for a Phase II follow on grant; and
- Phase I job creation.

**For Phase II Applicants** the evaluation criteria will include:

- Technical merit;
- Commercial potential of the technology;
- Qualifications of the company's management team;
- Proposed budget and amount of private investment to match the Matching Grant; and
- Phase II job creation.

Phase II applicants are required to seek third party capital commitment (year 1) and private investment, or adequate outside revenue (year 2 and Phase IIb).

## F. AWARD AGREEMENT

The terms under which a Matching Funds Award is made will be detailed in an Award Agreement with the company. Terms of performance in the Agreement will include but will not be limited to the following requirements. The company must:

- a. Remain in compliance with the Program Guidelines;
- b. Promptly submit quarterly reports;
- c. Promptly submit a detailed final technical and financial report;
- d. Comply with the audit policy of the Commonwealth of Kentucky and also provide KY Innovation with copies of any audits performed by the company;
- e. Reimburse the full amount of the Matching Funds Award in the event an audit determines fraudulent activities;
- f. Retain and certify annually, the company's Kentucky domicile unless negotiated otherwise in the equity agreement. KY Innovation reserves the right to request verification of the company's status at any time during the term of the agreement.

## G. DISBURSEMENT PROCESS

Award disbursements will be made on a quarterly basis, payable when disbursement request forms, and any necessary supporting documents, are submitted and have been reviewed and accepted. **Maximum Disbursement**

Maximum payment amounts are calculated by taking the approved award amount and subtracting 10% for final payment or mentor fee.

The final 10% will be reimbursed upon submission and approval of the final report.



## **Travel**

Travel costs will be reimbursed, on a quarterly basis, only if included in the approved Matching Funds application. Travel must commence from Kentucky.

All meetings where travel receipts are submitted should include the names of the travelers, purpose of the meeting, dates and shall include a detailed list of the items requested for reimbursement.

Only per diem rates apply to food purchases. These are currently \$8.00 for breakfast, \$10.00 for lunch and \$18.00 for dinner. In high-cost areas the amounts are \$10.00 for breakfast, \$11.00 for lunch and \$23.00 for dinner. No meal receipts are required when per diem rates apply.

Personal operating vehicle (POV) mileage rates shall be the approved State of Kentucky rate which is posted on <https://finance.ky.gov/Office%20of%20the%20Controller/ControllerDocuments/Mileage%20rate%20for%20website%2003222019.pdf>

## **Requesting Reimbursement**

To receive disbursements of a Matching Funds Grant the following documents must be submitted:

- a. KY SBIR/STTR Matching Funds Disbursement Request Form (provided to awardee);
- b. Reimbursement Worksheet (budget template);
- c. Supporting project updates, copies of paid invoices with proof of payment, and any travel documentation.
- d. If the awardee is relocating to Kentucky, out of state requirements must be met before funds are disbursed.

## **H. RELEASE OF INFORMATION**

All documents submitted to KY Innovation, including applications, are public records governed by Sections 61.872-61.884 of the Kentucky Revised Statutes and other applicable provisions of the Kentucky Revised Statutes protecting confidential information. When specific information in an application is regarded by the applicant as confidential and not subject to disclosure under the Kentucky Open Records Act, the applicant may specifically and clearly designate it as such in writing on that portion of the application in which the information appears. An applicant should provide an explanation for why particular information is regarded as confidential. Applications should not be indiscriminately marked as confidential. However, the provisions of the Kentucky Open Records Act shall govern any release of information.

## **I. DEFINITIONS**

1. *Administrative Official* – The individual with authority to legally bind the company. This individual is required to sign all applications, reports, invoices, and other certifications associated with participation in the Matching Funds Program.
2. *Applicant* – A small business that submits an application or white paper for a Matching Funds Award.
3. *Application* – The required form(s), electronic or otherwise, to be completed and any supporting materials submitted by an applicant in response to a Matching Funds Award Program solicitation.



4. *Award – For Phase I an award is considered a grant up to \$150,000. For Phase II an award is considered a grant up to \$500,000.*
5. *Cabinet for Economic Development (CED) – An agency of the Executive Branch of the Commonwealth of Kentucky established pursuant to Kentucky Revised Statutes Chapter 154 and responsible for administering economic development efforts.*
6. *Employee – An individual receiving W2 payroll compensation from the company OR an LLC or LLP member subject to self-employment tax under the Internal Revenue Code Section 1402 proposed regulations or subsequent guidance. (Payroll calculation shall include “Guaranteed Payment” income only.)*
7. *Equipment – Tangible property having a useful life of more than one year and a per-unit acquisition cost which equals or exceeds the lesser of the capitalization level established by the small business entity for financial statement purposes or \$5,000.*
8. *“FastTrack” Mechanism – A process available through selected Federal agencies that expedites the decision and award of SBIR Phase II funding for scientifically meritorious proposals that have a high potential for commercialization. FastTrack incorporates a submission and review process in which both Phase I and Phase II proposals are submitted and reviewed together. The Phase I portion of a FastTrack must specify clear, measurable goals (milestones) that should be achieved prior to initiating Phase II work. In addition, as is required for all Phase II proposals, the Phase II portion of the FastTrack proposal must present a commercialization plan that addresses specific points.*
9. *Federal SBIR/STTR Programs – Federal Small Business Innovation Research (SBIR) and/or Small Business Technology Transfer (STTR) Programs that provide for a three-phased approach to research and development projects: technological feasibility and concept development, the primary research effort, and the conversion of the technology to a commercial application.*
10. *Focus Areas – The five research and development Focus Areas as revised in the Kentucky Science and Innovation Strategy: (1) Human Health and Personalized Medicine, (2) Information Technology and New Media, (3) Agriculture and Bioscience, (4) Energy and Environmental Technologies, and (5) Materials Science and Advanced Manufacturing.*
11. *Grant Agreement – The agreement memorializing the Kentucky SBIR/STTR Matching Funds Phase I or Phase II Grant award, including but not limited to the provisions set forth in Section F hereof.*
12. *Kentucky-based – A business with its principal place of business in Kentucky, including no less than fifty-one percent (51%) each of its Property and Payroll (as defined in these Program Guidelines) located in Kentucky. Applicants and awardees shall provide, upon request, a certification letter from an independent Kentucky-based CPA.*
13. *Kentucky Resident – For the purposes of the Matching Funds Grant Program, a Kentucky resident is defined as someone who lives in Kentucky and pays Kentucky income taxes. KY Innovation has the right to request verification of the residency status of any employee, owner, or management member.*
14. *KY Innovation – An Office within CED, charged with leading the Commonwealth’s efforts to encourage, grow, and support small businesses and entrepreneurship.*



15. *Legal* – Individual to be notified in the event of a legal action, notice of pending legal action, notice of default, or other communication of a legal nature regarding the company.
16. *Matching Funds Award* – An amount up to \$150,000 for Phase I Awards and up to \$500,000 per year for Phase II Awards which supports complementary work on a federally-funded SBIR/STTR award.
17. *Matching Funds Program* – A Program funded by the Commonwealth of Kentucky, Cabinet for Economic Development (CED) - KY Innovation, which matches Federal SBIR/STTR awards for additional work, and is designed to strengthen Kentucky companies and their potential to receive Phase II Federal Awards and follow on commercialization efforts of the proposed technology. The main goal of the Program is to create new high technology jobs in Kentucky by increasing the number of and amount of Federal dollars through Federal SBIR/STTR Awards.
18. *Matching Funds Program Solicitation* – The announcement of the Kentucky SBIR/STTR Matching Funds Program for inviting applications. The Solicitation identifies the key solicitation period open and closing dates.
19. *Matching Funds Program Solicitation Period* – The length of time the Program is open for receiving applications and/or white papers online.
20. *Payroll* – The number of full-time employees working directly for the company, 51% or more of whom must be Kentucky residents; AND the gross payroll for the applicant, fifty-one percent or more of which must be paid to Kentucky residents.
21. *Phase IIb awards* – All Phase II requirements, stated in the guidelines, apply to Phase IIb awards, unless otherwise noted.
22. *Primary Contact* – Individual designated by the company to communicate with Program Staff regarding the Matching Funds application, award, reporting, site visits, etc.
23. *Principal Investigator* – Individual responsible for the oversight and execution of the technical and business tasks proposed in the Matching Funds application and is a Kentucky resident. This individual is primarily responsible for quarterly reporting during the term of the Matching Funds Award.
24. *Principal Place of Business* – The “nerve-center” of the corporation; the site where the company’s direction, control, and operational decisions take place. Typically, this location is where the corporation maintains its headquarters, the workplace for the company’s senior leaders, and the location where the company’s records are maintained. It is also the location where the federal and state grants/awards are managed.
25. *Private Investment* – An award or investment of private, non-state or non-federal funds to the applicant, which have been committed or received no more than six months prior to the date of an application. Documents considered as proof of private investment may include: Subscription Agreements, Bank Letters of Commitment, Convertible Notes, Legal Documents detailing financial obligations and arrangements, and Promissory Notes.
26. *Program Guidelines or Guidelines* – A detailed description of all regulations and requirements of the Kentucky Matching Funds SBIR/STTR Program.
27. *Property* – Includes real estate property and other business property subject to depreciation under the Federal Tax Code of 2001 and any amendments thereto.
28. *Recipient* – An applicant that has been approved to receive a Matching Funds Award.
29. *Small Business* – A small business concern is as defined under the Federal SBIR/STTR.

