



**KY INNOVATION**

CABINET FOR ECONOMIC DEVELOPMENT

# The Kentucky Small Business Innovation Research (SBIR) and Small Business Technology Transfer (STTR) Matching Funds Award Program Guidelines 042-2023-002

## A. PURPOSE

The Kentucky SBIR/STTR Matching Funds Award Program is designed to award reimbursable matching funds grants 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 new economy focus areas as outlined in KRS 154.20-230(11)(a). The five focus areas are: (1) Bioscience, (2) Environmental and Energy Technology (3) Health and Human Development, (4) Information Technology and Communications, 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;
- Help Kentucky businesses 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 quantity and quality 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 Kentucky.

## C. DEFINITIONS

1. Equipment – Tangible property purchased by the applicant for use by the Kentucky-based business (not for resale or personal use) with an expected useful life of one year or more; or tangible property approved by KY Innovation.

2. Kentucky-based – An entity that: (i) has its principal place of business or operations in the Commonwealth; (ii) has more than fifty percent (50%) of both its property and payroll located in the Commonwealth; (iii) is registered with and in good standing with the Kentucky Secretary of State; and (iv) is current with its tax obligations to the Kentucky Department of Revenue.
3. Kentucky Resident – For the purposes of the Matching Funds Award Program, a Kentucky resident is defined as someone who lives in Kentucky and pays Kentucky income taxes; or is otherwise subject to individual Kentucky income tax. KY Innovation has the right to request verification of the residency status of any employee, owner, or management member.

## D. PROGRAM DETAILS

1. Applicant must be a Phase I, Phase II (year one or year two), or a FastTrack federal SBIR/STTR award winner from one of the participating federal agencies. 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 was not accepted. For Phase II applicants, the federal Phase II grant must be in active status at the time of the Kentucky SBIR Matching Funds Award Program application.
2. 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.
3. 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.
4. KY Innovation will maintain right to recuperate grant funding, along with any other applicable remedies, if there is an event of default.
5. Applicant must be in good standing with any program agreement under any program funded or administered by the Kentucky Cabinet for Economic Development or any Kentucky governmental agency.
6. Applicants, if awarded, must submit one Annual Report, each year for three years after the receipt of the final disbursement of Matching Funds. An Annual Report will be required for a period of three years, beginning from the final term date of the most recent Matching Funds Award.
7. Companies located outside of Kentucky and willing to move to Kentucky are eligible to apply, but are subject to the following:
  - The Grant 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 Grant Agreement to relocate to Kentucky and meet the other eligibility requirements for the Matching Funds Award Program. If the eligibility requirements are not met on or after 90 days, then the Matching Funds Award will be forfeited.
  - The out-of-state 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 as the Principal Investigator (PI) or Co-PI as it relates to the state Matching Funds Award.

- The out-of-state 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. 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 \$100,000 per year. 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 \$150,000 per year. 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.
8. Applicant may not receive more than one Matching Funds Award per year per project, and only one per solicitation.
  9. Applicants that have already received a total of four Kentucky SBIR/STTR Matching Funds Awards are not eligible to receive additional Matching Funds Awards.
  10. Whether the applicant receives an award will be subject to the discretion of KY Innovation and the availability of funding. Final award decisions may take into account whether applicants have previously received matching funds, geographic diversity of applicants and the federal awarding agency.
  11. 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.
  12. The Matching Funds Award Program will not match a federal agency non-SBIR program grant.
  13. **In all cases of Kentucky SBIR/STTR Matching Fund Awards, applicants cannot receive more than \$100,000 per year for Phase I and \$150,000 per year for a Phase II award, per project.**

## E. 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 Award, and other costs including rent, accounting, legal, purchase of equipment (up to 25% of Matching Funds Award), unless otherwise justified by the applicant and approved by KY Innovation.

Equipment purchased with Matching Funds may be subject to repossession by the Kentucky Cabinet for Economic Development should an event of default occur, 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 profit/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 Matching Funds Award 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.

## F. APPLICATION SUBMISSION, REVIEW AND APPROVAL PROCESS

When funds become available for the Kentucky SBIR/STTR Matching Funds Award Program, KY Innovation will issue a solicitation for companies to submit applications. The program solicitation will include but not be limited to opening and closing dates for accepting applications. The application and instructions will be available online during the program solicitation period. Phase I applications must have a federal Phase I award dated within one year of the application date for the Kentucky Matching Funds, Phase II applicants must have an active federal Phase II award. No applications or supplemental materials submitted in response to a Matching Funds Award Program Solicitation will be accepted after the 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 Award Program. **Incomplete or non-compliant applications will not be considered.** Applications determined to be complete and in compliance may be reviewed and scored by at least one independent reviewer. **Application instructions and the application form can be found at the following site when solicitation windows open:** <https://www.kyinnovation.com/sbir>

### **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.

Other evaluation criteria may consider whether applicants have previously received Matching Funds, geographic diversity of applicants and the federal awarding agency.

### **For Phase II 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 current or potential third-party capital commitment, private investment or adequate outside revenue; and
- Phase II job creation.

Other evaluation criteria may consider whether applicants have previously received Matching Funds, geographic diversity of applicants and the federal awarding agency.

## G. GRANT AGREEMENT

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

- Remain in compliance with the Program Guidelines;
- Promptly submit quarterly reimbursement requests for disbursement;
- Promptly submit a detailed final report;
- Upon request, provide quarterly financial statements including balance sheets, income statements, and cash flow statements;
- Promptly submit a detailed annual report for three years post award period;
- Provide KY Innovation with copies of any project audits performed; and
- Maintain Kentucky-based status during the term of the agreement. KY Innovation reserves the right to request verification of the company's status at any time during the term of the agreement.

## H. DISBURSEMENT PROCESS

Award disbursements will be made on a quarterly basis, payable when disbursement request forms, and any necessary supporting documents, including proof of payments, are submitted and have been reviewed and accepted.

### **Maximum Disbursement**

Maximum payment amounts are calculated by taking the approved award amount and subtracting 5% for final payment.

The final 5% 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 Award application. Travel shall not exceed 3% of total Matching Funds Award for Phase I or 2% of total Matching Funds Award for Phase II or FastTrack without special approval. All travel shall 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.

Air travel should be limited to Coach Class. 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 Commonwealth of Kentucky rate which is posted on <https://finance.ky.gov/services/statewideacct/pages/travel.aspx>

### **Requesting Reimbursement**

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

- a. KY SBIR/STTR Matching Funds Request for Disbursement Form;
- b. Reimbursement Worksheet (budget template);
- c. Copies of paid expense invoices with proof of payment, and any travel documentation; and
- d. If the awardee is relocating to Kentucky, out-of-state requirements must be met within 90 days before funds are disbursed.

### **Budget Modifications**

Provided the total approved budget amount remains unchanged, an awardee of the Matching Funds Award may reallocate up to 25% of the budget between line items. Any budget modification of more than 25% will require prior approval.

## I. RELEASE OF INFORMATION

All documents submitted to KY Innovation, including applications, are public records governed by the Kentucky Open Records Act, Kentucky Revised Statutes 61.870-884.884. KY Innovation is subject to the Kentucky Open Records Act. Information disclosed to KY Innovation that is generally recognized as confidential or proprietary is exempt from production under the Kentucky Open Records Act.