

# **INTERIM JOINT COMMITTEE ON TOURISM, SMALL BUSINESS, AND INFORMATION TECHNOLOGY**

## **Minutes of the 4th Meeting of the 2018 Interim**

**September 20, 2018**

### **Call to Order and Roll Call**

The 4th meeting of the Interim Joint Committee on Tourism, Small Business, and Information Technology was held on Thursday, September 20, 2018, at 10:00 AM, in Covington, KY. Representative Diane St. Onge, Chair, called the meeting to order, and the secretary called the roll.

Present were:

Members: Senator Alice Forgy Kerr, Co-Chair; Representatives Diane St. Onge, Co-Chair; Senators Perry B. Clark, Wil Schroder, and Mike Wilson; Representatives Larry Brown, George Brown Jr, Jeffery Donohue, Chris Fugate, Robert Goforth, David Hale, Angie Hatton, Richard Heath, Kim King, Michael Meredith, Melinda Gibbons Prunty, Brandon Reed, Bart Rowland, and Jill York.

Guests: Joseph Meyer, Mayor of Covington; Brian Mefford, Executive Director of the Office of Entrepreneurship, Kentucky Cabinet for Economic Development; John Putnam, Senior Program Manager, Cincinnati Bell; Chuck Scheper, Chairman of the Board, Bexion Pharmaceuticals; Jeanne Schroer, President/CEO, Catalytic Development Funding Corporation of Northern Kentucky; Rosanna Robertson, Program Manager of Chem-Biodefense, U.S. Department of Homeland Security; Steve Dennis, Director, Data Analytics Engine, Homeland Security Advanced Research Projects Agency of the Science & Technology.

LRC Staff: Carla Montgomery, Chip Smith, Candice Smith, and Emma Mills.

### **Welcome to Covington**

Mayor Joseph Meyer welcomed the committee to Covington with remarks about the development of Covington as an innovation hub in Northern Kentucky. Mayor Meyer highlighted some programs that Covington offers start-up businesses, such as rent assistance, to foster a growing tech industry in the city.

Chairwoman St. Onge also extended a welcome to Rosanna Robertson, Program Manager of Chem-Biodefense, U.S. Department of Homeland Security, and Steve Dennis, Director, Data Analytics Engine, Homeland Security Advanced Research

Projects Agency of the Science & Technology, from Washington D.C. Ms. Robertson and Mr. Dennis made brief remarks about the Department of Homeland Security's interest in learning about different initiatives involving the Fentanyl crisis and greater opioid epidemic.

### **MIT Regional Entrepreneurship**

Brian Mefford, Executive Director of the Office of Entrepreneurship for the Kentucky Cabinet for Economic Development updated the committee on some of the activities of the Office of Entrepreneurship. Mr. Mefford talked about the Kentucky Innovation Network, a state-wide initiative established in 2001. While this initiative has worked well for the Northern Kentucky area, the Office of Entrepreneurship is taking requests for proposals from other regions of the Commonwealth on how to spend funds allocated to the Kentucky Innovation Network. Mr. Mefford indicated the Office of Entrepreneurship is interested in investing in logistics and the infrastructure needed to allow entrepreneurs to not be tied to a physical location.

Mr. Mefford discussed mobilizing capital. Access to capital is a real challenge for entrepreneurs and small companies. The Office of Entrepreneurship would like to improve access to capital by investing in companies to de-risk follow-on capital at the earliest stages of the company's life. For example, companies that have received grants from Small Business Innovation Research program (SBIR) through the federal government are eligible for matching funds through the Office of Entrepreneurship. Mr. Mefford asked the committee to re-evaluate the moratorium on the Angel Investor Tax Credit. The moratorium on the program has stifled the progress made with investors in the region.

Mr. Mefford discussed the transfer of technologies from Kentucky's universities into the private sector. The Office of Entrepreneurship is looking at how to best take advantage of talent and innovative ideas coming about of the university system in the state, as well as providing resources to students and graduates to help turn their ideas into businesses. The University of Kentucky and the University of Louisville already provide resources to students and graduates and the Office of Entrepreneurship would like to open those resources up to all of the state's universities.

Mr. Mefford discussed the MIT Regional Entrepreneurship Acceleration Program (MIT REAP). While the program is world-wide, Kentucky is the first region in the United States to be selected to participate in this program. MIT REAP provides opportunities for communities to engage with MIT in an evidence based, practical approach to strengthening innovation driven entrepreneurial ecosystems. The REAP team in Kentucky includes members from Kentucky's universities, the executive branch of government, risk capital entities, Kentucky corporations and regional entrepreneurs. The

idea is to bring regional stakeholders together with research, data, and mentoring from MIT to produce a plan for long-term, sustainable economic growth for the region. Mr. Mefford said the Office of Entrepreneurship is excited and dedicated to supporting this program.

Responding to a question about funding from Representative St. Onge, Mr. Mefford indicated there are two sources of revenue that have been allocated to these programs since 2001. The Office of Entrepreneurship gets about half of the revenue through the Cabinet for Economic Development. The other half comes from the Council for Post-Secondary Education. These funds had previously been outsourced to third parties for entrepreneurial planning, but as the new director and in order to evaluate the effectiveness of investments, Mr. Mefford says the Office of Entrepreneurship is assessing all of the funds that have been spent since 2001.

In response to an additional question from Representative St. Onge, Mr. Mefford discussed the MIT REAP process. Initially, MIT helps a team take stock of regional strengths and weaknesses, though no REAP region has the same plan going forward. Mr. Mefford indicated Kentucky's REAP team may focus on rural entrepreneurship and connecting those entrepreneurs with established resources in other parts of the region. Participants on the REAP team are public and private entities. The endeavor is largely independently funded, though they are eliciting funds to help fund the project.

In response to Representative Goforth, Mr. Mefford indicated the amount of funding for the Office of Entrepreneurship total to be about \$10 million. This budget helps fund programs such as the Kentucky Innovation Network, the funds that match federal funding to small businesses, and a high tech construction pool. There are funds available for early stage companies, previously known as the Kentucky Enterprise Fund, the Kentucky Innovation Fund, and the Rural Commercialization Fund. Over time, those funds coalesced under the Kentucky Science and Technology Corporation (KSTC) in Lexington, one of the third parties running these programs.

Responding to a question from Representative Donohue, Mr. Mefford indicated he did not have detailed data about return on investment from companies given state moneys with him but would be able to provide that to the representative at a later date. The Office of Entrepreneurship focuses on investing in high-growth companies to create net new jobs in Kentucky's economy, which is the best investment in these kinds of public dollars.

### **Cincinnati Bell Smart City Proactive Opioid Crisis Project**

John Putnam, Smart City Program Manager for Cincinnati Bell for the Northern Kentucky Region, discussed the smart city concept. The essential criteria for a smart city is free public Wi-Fi available within the community intended to drive economic

development in such a community. With the rise in smart city advancements, Mr. Putnam says he focused on how to apply smart city technology to the opioid crisis problem. Recognizing that text messaging is a preferred way of communicating, Mr. Putnam and Cincinnati Bell created a text messaging service to provide people with essential information about opioid related programs and topics. For non-life threatening situations, this program can send text messages to participants about needle exchanges, family counseling, rehab or recovery services can all be addressed with this text messaging service in partnership with a 24 hour traditional call center hotline.

This program uses artificial intelligence (AI) to process the contents of text messages and provide appropriate responses in order to alleviate the volume of calls coming into the traditional call center, however, operators at these call centers would have the ability to further localize the messages going out to participants. Mr. Putnam gave the example of a participant asking for nearby needle exchanges in from Cincinnati, but maybe the phone has a Kentucky area code, the operator can ask where the participant is located to find the actual nearest location. The service can also provide education videos about drug related topics for family members as well if requested from the participant.

Cincinnati Bell Smart City Proactive Opioid Crisis Project uses Google Analytics to evaluate what kind of sessions the project has experienced thus far. With this information, the project can further customize the AI for users. Mr. Putnam feels this can provide people with safe and readily available options that may eventually lead to recovery. If an individual asks for treatment options, the program will ask the person a series of questions and based on the answers provided, the program will provide four treatment facilities with beds available that day. In addition, after someone is discharged from a treatment facility, the program can provide support to that individual. Daily surveys are sent participants to evaluate their recovery progress. Survey questions ask if the person took the day's medicine, had spoken with a counselor, or felt like using drugs. If a participant does not answer the survey or gives an answer that may indicate a relapse, the program will send a message to the call center for a human to contact the participant to pass on preventative information to help prolong recovery.

The text messaging system also has a mass text messaging tool for providing pertinent information to all participants in a particular area. For example, if authorities are seeing an increase in overdoses due to heroine laced with Fentanyl, a mass text message can be sent to all participants warning of higher than normal potency drugs are on the street.

Responding to a question from Representative St. Onge about privacy, Mr. Putnam said this text messaging program uses the same privacy standards as a call center would use. Participants also have an opt-out option, which would cease any proactive

responses from the program. Pending federal funding, Cincinnati Bell intends to have this program running by the end of 2018.

### **Bexion Pharmaceuticals**

Chuck Scheper, Chairman of the Board of Bexion Pharmaceuticals, discussed Bexion Pharmaceuticals and how state funds have contributed to its success as a company. Bexion, formed in 2006, is a cancer treatment development company currently testing a drug to help cancer patients. The drug has had no serious adverse effects in clinical trials. While the drug is showing promising signs, direct development of these types of treatments takes a lot of capital and time. In 2006, Dr. Ray Takigiku, a former employee of Procter & Gamble, started Bexion to promote a new treatment being used at Children's Hospital in Cincinnati. The company started out with a little bit of seed money from Children's Hospital and received a Small Business Innovation Research (SBIR) grant to do further research. After being turned down by the state of Ohio for some matching funds, Mr. Scheper suggested applying for matching funds to the state of Kentucky, which was approved but only if the company relocated to the state, which it did.

In 2008, the company applied again to the state of Kentucky for Kentucky Enterprise Fund. The state approved \$400,000.00 upon the contingent that Bexion match the funds through another source. Mr. Scheper became involved with Bexion at this point to help raise the money. The company raised \$2.6 million instead. In 2016, the Enterprise Fund invested another \$350,000.00.

The company is about to start a Phase II trial and a pediatric trial, 13 employees and 4 trial sites, including the Markey Cancer Center in Lexington. Due to Bexion's success, the company has received additional grant matches from the state progress the research. Mr. Scheper noted that if it were not for that initial SBIR grant match from the state, Bexion probably would have remained in Ohio.

Responding to a question from Representative St. Onge, Mr. Scheper indicated Phase II of the clinical trial may take about two years. Mr. Scheper says Bexion plans to keep their Phase I B trial open for application of the drug to patients with other rare diseases.

### **Innovation District**

Jeanne Schroer, President/CEO of Catalytic Fund of Northern Kentucky, spoke to the committee about Covington's developing Innovation District. An Innovation District is a location within a city providing small businesses and start-up companies with access to services, mentoring, capital and physical space. Ms. Schroer noted that in order for these businesses to attract highly qualified college graduates, they need to be located in a quality location within three miles of a city center. She believes that Covington has the best fundamentals for an Innovation District in the Commonwealth of Kentucky, if not

the entire Midwest. The Catalytic Fund of Northern Kentucky was put together by local investors due to the potential of the Northern Kentucky area to attract place-based investments, job expansion and economic development. The Catalytic Fund invests hard capital in projects and provides real estate transaction structuring expertise. With support from companies like Bexion Pharmaceuticals and a supportive local government, the fund has invested \$4.7 million in selective real estate investments, which in turn has attracted more than \$150 million in total investment has been created in the Covington area. The fund invested in the conversion of buildings that were generating no tax revenue to high-tech, mixed use spaces for businesses, residential and entertainment venues.

Ms. Schroer talked about how the investments of the Catalytic Fund attracted other investors into the city. This led to more small business activity in the area, which lead to larger investments in the area, such as a \$70 million office complex update. With these updates came a robust job market. Ms. Schroer emphasized investments like these do require the continued support of state funded economic development programs such as the historic tax credit legislation, Kentucky's TIF program and the industrial bond revenue financing program. However, she emphasizes that for smaller investment projects like Hotel Covington, it is economic development programs like the historic tax credits that are most important for this type of investment.

There being no further business, the meeting was adjourned at 11:19 a.m.