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

## Minutes of the 5th Meeting
## of the 2019 Interim

## October 3, 2019

**Call to Order and Roll Call**

The 5th meeting of the Interim Joint Committee on Tourism, Small Business, and Information Technology was held on Thursday, October 3, 2019, at 3:00 PM, in Room 154 of the Capitol Annex. Senator Danny Carroll, Chair, called the meeting to order, and the secretary called the roll.

Present were:

Members: Senator Danny Carroll, Co-Chair; Representatives Phillip Pratt, Co-Chair, and Tommy Turner, Co-Chair; Senators Ernie Harris, Jimmy Higdon, Wil Schroder, Mike Wilson, and Max Wise; Representatives Lynn Bechler, Terri Branham Clark, George Brown Jr, Jeffery Donohue, Deanna Frazier, Chris Fugate, Robert Goforth, Jim Gooch Jr., David Hale, Richard Heath, Kim King, Bobby McCool, Charles Miller, Ruth Ann Palumbo, Josie Raymond, Brandon Reed, Steve Sheldon, Maria Sorolis, Cherlynn Stevenson, Ashley Tackett Laferty, Nancy Tate, Rob Wiederstein, and Les Yates.

Guests: Monica Bilak, Board of Directors Chair, Sprocket Inc.; Dr. Michael Ramage, Vice Chair, Sprocket Inc.; Hank Phillips, President and CEO, Kentucky Travel Industry Association; Paul Buta, Special Agent, United States Secret Service.

LRC Staff: Andrew Manno, Chip Smith, Candice Messer, and Sasche Allen.

**Approval of Minutes**

A motion to approve the minutes of the September 12, 2019 meeting was made by Representative Bobby McCool, seconded by Representative Deanna Frazier, and approved by voice vote.

**Sprocket Inc.**

Sprocket is a non-profit 501(c)(3) organization based in Paducah, Kentucky that develops innovative programs in education, entrepreneurship, and community learning to create talent pipelines mainly in the growing sector of technology. The original focus was the educational aspect in elementary through high school students but evolved over time to a possible solution to a workforce shortage in the technology field. Sprocket began offering cyber camps and entrepreneurial experiences to children to expand their knowledge of technology and running a business in the real world. Eventually adults took an interest in

Sprocket which led to the organization crating partnerships with companies and individuals in the technology field to assist innovative entrepreneurs with new business ventures that could lead to potential job creation.

Sprocket has partnered with a company called Codefi that will provide funds and training to technology entrepreneurs to start their businesses partially through a grant from Codefi and the Economic Development Administration. Sprocket is working to construct an 8000 square foot co-work space and a 1500 square foot makerspace. Also being developed is a 20 week programming boot camp, a regional youth coding league, and a First $50,000 Startup Competition. Sprocket will be working along with local resources such as the library system and school system and envisions this footprint working in other smaller communities across the state.

In response to Representative Bobby McCool, Dr. Ramage said that finding technology teachers is always a difficult task at any level. He also said that Sprocket would like to include certifications within their courses they plan to offer to youth participants to provide a clear pathway when they transition into postsecondary education.

**Kentucky Travel Industry Association**
Mr. Hank Phillips, President and CEO of the Kentucky Travel Industry Association, said it is often forgotten that the tourism industry is a major economic driver in the Commonwealth. The tourism industry bought 71.6 million visitors to the state in 2018 and had an economic impact of $11.2 billion. The industry also provides over 94,500 jobs and $787 million in local and state taxes. Three main categories of the tourism industry are service providers, experience providers, and destination marketing organizations. Service providers are businesses that supply the basic needs of travelers such as hotels, restaurants, and retail stores. Experience providers are those businesses and locations that are delivering the attractions such as the state's distilleries, museums, historical sites, and recreational sites. Destination marketing organizations are the promotors of the tourism industry such as the Kentucky Department of Tourism, the local tourism commissions, and local convention and visitors bureaus.

The Department of Tourism receives its administrative funding from the General Fund and receives funding for marketing from the one percent statewide transient room tax. The local tourism commissions across the state receive funding from the local transient room taxes, restaurant taxes in some smaller cities, and limited matching funds from the Department of Tourism. The tourism industry faces challenges such as workforce shortages, a backlog of needed repairs at some of the state parks, limited internet access in some areas, and, specific to the western part of the state, the Asian Carp crisis. However, there have recently been funds appropriated for the needed updates to some of the state parks, and there have also been new ways formulated to handle the Asian Carp crisis. Furthermore, tourism faces intense competition from other states and competition for industry legitimacy. There are unrealized economic activity, jobs, and tax revenue for

Kentuckians due to insufficient traveler awareness of Kentucky tourism products. In addition, concerning possible tax reform, a reduction or redirection of existing funds will jeopardize existing benefits of the industry.

Representative George Brown Jr. thanked Mr. Phillips for his work and voiced that he believes the state has untapped tourism potential that should be taken advantage of.

Replying to Representative Robert Goforth, Mr. Phillips explained that independent auditors appointed by local officials perform annual financial audits of local tourism commissions. Conversely, these are not programming audits and what qualifies as a tourism expense can be subjective. Tourism commissions are special purpose government entities, therefore, their budgets and audits are public information.

Representative David Hale spoke briefly about the tourism in his district that contains a portion of Red River Gorge.

**Cyber Security**
The United States Secret Service is responsible for protecting financial infrastructure, and recently business email compromises and ransomware have become a larger area of concern. Business email compromise is a type of scam that targets companies or individuals that conduct wire transfers and work with entities or individuals in countries outside of the U.S. Ransomware is a type of malware designed to deny access to a computer or data until a ransom is paid. Mr. Paul Buta, a Special Agent with the U.S. Secret Service, said one of the most important tools that is used to combat business email compromise and ransomware is the financial fraud kill chain. The financial fraud kill chain is a series of events that must transpire very quickly in order for companies and individuals to have the best chance of recovering any lost funds and consists of cooperation between victims, law enforcement, and the victim's financial institutions. The best chance of regaining any lost funds is within the first 72 hours with the chances decreasing about 15 percent every 12 hours. There are three conditions that effectuate the financial fraud kill chain. The wire must be sent from a foreign financial institution; the wire must be more than $50,000; and the notification of the wire transfer to law enforcement must be made within the first 72 hours. Mr. Buta said his agency offers education to financial institutions, chambers of commerce, various civic groups, and businesses to increase awareness of these crimes.

Answering a question from Senator Wil Schroder, Mr. Buta said that public service announcements and education are ways to prevent these crimes from happening. One method to adopt is to trust but verify sources. He said that cyber security may not be taught in school but may be a way to educate the public. Word of mouth is a simple way to spread awareness along with investing money in security resources. There is more than likely not a legislative solution but the Secret Service does do educational outreach about business email compromises and ransomware.

Responding to Representative Steve Sheldon, Mr. Buta said that there are online resources that list malicious IP addresses and the location of origin can often be an indicator of potential criminal activity. Businesses can protect themselves through redundant backups.

Addressing concerns from Co-Chair Phillip Pratt, Mr. Buta explained that regular assessments of a business's cyber security can help to protect information and avoid business email compromises and ransomware. There are companies that will evaluate businesses' systems and suggest ways to improve security.

In response to Representative Lynn Bechler, Mr. Buta said that a series of events usually contributes to business email compromises and ransomware crimes. Generally, the easiest target of these crimes are individuals, but there are times that someone working for the financial institution may have made a mistake that leads to these crimes. He said that you can eliminate most threats by using a virtual private network (VPN) and two factor authentication.

Co-Chair Danny Carroll announced that the next meeting of the Interim Joint Committee on Tourism, Small Business, and Information Technology will be November 21, 2019 at 3:00 in the Capitol Annex.

There being no further business, the meeting adjourned at 4:51 p.m.