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Sam Brownback, Governor

December 19, 2012

Dan Watkins, Chairman
Board of Directors
Kansas Bioscience Authority
10900 S. Clay Blair Blvd.
Olathe, KS 66061

Re: Investment Outcomes Summary

Dear Chairman Watkins and Board:

I am writing this prior to the release of the forensic audit and in response to the KBA's recent release of the Investment Outcomes summary to the press. During the course of a forensic audit the release of any public statements by the management of the entity being examined should be carefully vetted for accuracy. Please note that all of the following concerned areas are from your publically available documents.

The Investment Outcome summary issued by the KBA appears overinflated by errors and inconsistencies that paint a picture that does not seem borne out by the facts. In reviewing the publically obtained records of the KBA, several major inefficiencies were observed that need to be brought to your attention.

- It should be noted that the actual formalization of the existing KBA management and board structure began in 2007 and many of the claimed outcomes predate that time frame.
- Since 2007 only 347 jobs are shown in the investment outcomes as created by the KBA.
- Commitments and payments by the KBA in the statement from 2007 are \$246.1 million. The investment cost per job exceeds \$708,000 and is certainly actually higher because KTEC and Commerce made additional investments in many of these companies as well.
- The \$816.4 million cumulative equity investment claimed by the KBA also appears to be incorrect and overstated.

- Included in the press release numbers is \$86.7 million spent by Homeland Security outside of the State of Kansas and cannot be credited to the KBA.
- Research grants are included as total amounts although much of the funds are designated payments in future years.
- There are numerous instances of what appear to be double counts where KBA numbers invested in a company are added to the funds being invested by the receiving company for the same asset.
- KTEC and Commerce have also invested in some of these businesses so KBA cannot claim all the investment leverage or the outcomes.

One of the major issues raised by critics of the KBA has been unnecessary and wasteful expenditures of state money. My review of the expenses of the KBA from public documents from 2007 through 2011 included the overhead costs of not only the KBA but also of the affiliated Centers of Excellence and Heartland Bioventures.

- The KBA and its created affiliated entities have a total overhead cost of nearly 40 cents for every dollar invested when all costs are considered.
- KBA has entered into debt commitments of over \$10.0 million in regards to the Olathe industrial park and office that are due after the scheduled sunset date for KBA.
- The \$18,489,616 spent on the office in Olathe was ill advised and excessive. KBA had adequate office space prior and this was a waste of Kansas money.
- KBA was created to provide funding for private entities to create jobs but appears to have used much of its public funding for internal investments. In 2010 over \$90 million and in 2011 over \$80 million was on KBA's balance sheet as cash or securities held for investment. The use of taxpayer dollars to create investment income for KBA operations is a dubious use of citizen dollars.
- I was recently told by the acting CEO of the KBA "The KBA is not here to create jobs." The Board of Directors and the Management of the KBA have allowed excessive spending, poor investment returns with a lack of jobs, encouraged high overhead self expenditures, and allowed apparent conflicts of interest.

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This is only a cursory view and most likely did not uncover every error, inaccuracy or misstatement included in the press release. The administration is very concerned about these issues and would encourage the management and the Board of Directors of the KBA to address these issues even before the forensic audit is released.

Sincerely,

A handwritten signature in black ink that reads "Dale A. Rodman". The signature is written in a cursive style with a large, looped initial "D".

Dale A. Rodman
Secretary of Agriculture

cc: Governor Sam Brownback
Chief Counsel Caleb Stegal
Budget Director Steve Anderson