

# » Bumps on the BioInnovation Highway

By Jeff Blackwood

In this installment of our ongoing look at BioInnovation in Kansas and Missouri, we take a closer look at Topeka, and how politics and key organizations have impacted biosciences and economic development in Kansas—past, present and future.



## Passion and politics make interesting times for bioscience in Kansas.

Kansas has always been a state of strong views, especially when it comes to politics. One only has to visit the Kansas statehouse and view the famous John Steuart Currey painting *Tragic Prelude*, depicting a fiery-haired John Brown, to get an idea of the passion that lies beneath the surface of Kansas politics.

While Kansas has long been a “red” state, the governor’s office has see-sawed between the parties and for nearly 50 years state government has been a balanced coalition between moderates in both the Democrat and Republican parties.

In the mid-1980s, in fact, a non-partisan coalition of government, university and business leaders came together in the midst of economic crisis to form a new vision for Kansas. With the three main industries in the state—agriculture, oil and gas and aviation—faltering simultaneously, the coalition sought to diversify the state’s economy by focusing on commercializing new technologies. Bioscience was a key component of that strategy.

### Killing KTEC

A key outcome of the group’s work was formation of the Kansas Technology Enterprise Corporation (KTEC) in 1987 as a public-private partnership to promote technology-based economic development in Kansas through support of strategic research and development at universities, intense hands-on business assistance and direct investments in early-stage companies.

While controversial from early on, KTEC, by most accounts, was successful—so much so that other states looked to the organization as a model for their own efforts.

As with any state-funded operation, though, KTEC was subject to ongoing scrutiny—perhaps more so than most because of its funding source and structure. KTEC

received its state money not from the general fund, but from lottery proceeds. And unlike most state agencies, KTEC was established as a state-owned corporation, led by a board of directors comprised of state legislators, university representatives and private-sector business leaders. The purpose was to make the organization more flexible and more attuned to the business community.

KTEC weathered a number of attempts over the years to shut it down. And when Governor Sam Brownback took office in January this year, he issued an executive order to close KTEC and transfer most of its programs to the Department of Commerce. Citing high costs and a lack of visibility into operations, Kansas lawmakers supported that order and abolished KTEC.

It is estimated that the move will save the state \$1.7 million per year, but some question whether this is a reasonable decision given the positive impact KTEC has made. Since 2008, KTEC's reported impact on the state has been the creation of \$1.15 billion in revenue and more than 2,000 high-paying jobs.

KTEC's success stories include bioscience companies such as Entu-

ria, a manufacturer of surgical skin preparation applicators, which was purchased by Cardinal Health in 2008; Cydex, a specialty pharmaceutical company that merged with Ligand Pharmaceuticals earlier this year; Crititech, owner of a process to increase drug absorption; and ImmunoGenetix, focused on DNA therapy for HIV infection.

"The most successful states have created and retained public/private programs similar to KTEC," said Richard Bendis, founding KTEC board member, who also served as chairman and president and CEO in the 1990s. "These programs require different skill sets and economic incentive and investment programs to attract and support business. Those abilities don't typically exist in state commerce or economic departments."



Bendis left KTEC in 2001 to start a similar organization in Philadelphia. He is now president and CEO of Innovation America, a global company focused on innovation and entrepreneurship.

Stakeholders across the state have expressed concerns about the Department of Commerce's ability to manage the programs formerly run by KTEC.

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**Richard Bendis** // founding KTEC board member; chairman, president and CEO in the 1990s



"As a responsible member of our community I understand how important it is to manage expenditures," said Jim Laufenberg, president and CEO of ImmunoGeneTix. "However, cost savings of the proposed consolidation pale in comparison to potential erosion of the state's infrastructure for innovation-based entrepreneurs and the translation of intellectual property into business opportunity."

Bendis agrees. "By moving KTEC to Commerce," Bendis said, "Kansas will now be at a competitive disadvantage to other states—where once it was viewed as a national best-practice."

But some in the bioscience community do see possible benefits of the move, including more cross-pollination of programs for small business owners. For example, the Kansas Angel Investor Tax Credit program, which was designed to encourage investors to put money into startup companies by deferring a portion of state tax credits, will shift to the Department of Commerce where entrepreneurs can tap into other statewide programs.

"The Kansas Angel Tax Credit program is one of the best tools available to help bioscience companies raise capital," said Angela

Kreps, president of KansasBio. "The economic conditions of the last few years have made starting a bioscience company in Kansas even harder. Now that the program is operating out of the Kansas Department of Commerce, our hope is that the bioscience companies who access the Angel Tax Credit will gain access to even more state programs that will assist with growing high-paying bioscience jobs."

### Under the Microscope

In 2004, Kansas state leaders again acted to stimulate the creation of new bioscience jobs, expand bioscience research and industry and attract new bioscience investments.

The legislature passed the Kansas Economic Growth Act (KEGA), which led to the creation of the Kansas Bioscience Authority (KBA), a statewide bioscience initiative that guides the state's investment in the biosciences. Under the KEGA, the KBA's funding is based on the growth of state income tax withholdings from employees of bioscience-related companies. State taxes that exceed the base-year measurement accrue to the KBA for investment in additional bioscience growth. Initial targets estimated that the

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funding would exceed \$580 million over 15 years.

By all accounts, the KBA has done a stellar job of attracting and fostering the bioscience industry in Kansas. In fact, neighboring states—including Missouri—are using the KEGA as a model for creating their own pro-bio legislation.

“The KBA has one of the most innovative funding mechanisms in the country, and has helped transform Kansas into a bioscience contender in a short period of time,” Bendis said. “The private/public partnership aspect of KBA is one of the elements that has made it successful.”

But similar to KTEC, many in state government are uncomfortable with a state organization that isn't under the direct control of the administration or legislature. Full coffers and a highly politicized environment have made the KBA the focus of scrutiny by the

Brownback administration and several state lawmakers.

In 2011, the Brownback requested an independent audit of the KBA, seeking detailed information about how the KBA is handling investments and internal expenses. At a news conference in April, Brownback summed up his concerns about the KBA and his request for an audit by saying, “I support the mission of the KBA, but it has to be done right.”

It is anticipated that the audit will be completed in October, but it already has had an affect on the KBA. The former CEO, Tom Thornton, resigned and the Johnson County District Attorney initiated a criminal investigation, but no results of that investigation have been released.

#### Defensive Tactics

Perhaps the most significant effect of the scrutiny of the KBA was a bill introduced in the

legislature to remove the KBA's authority to administer funding for the National Bioscience and Agro-Defense Facility (NBAF) in Manhattan, although the KBA was recently granted a seat on the newly reformed NBAF Task Force.

The NBAF \$650 million, 500,000 square foot laboratory will provide a national center for integrated research and response capabilities to protect animal and public health and enhance the country's ability to protect livestock and the livestock industry from both naturally occurring and intentionally introduced disease threats.

State legislators have extended their concerns about the KBA to the topic of the NBAF, and much of the criticism surrounding the KBA's involvement in the NBAF comes from Sen. Susan Wagle (R-Wichita). Sen. Wagle she want to make sure NBAF is a success by ensuring the accountability of KBA.

As a result, the Kansas legislature stripped the KBA of the authority to administer the \$150 million in funds allocated for the NBAF project in May. Now, those funds will be allocated through the Kansas Department of Administration.

But state senators from both parties are concerned that Sen. Wagle's inquiries could jeopardize the NBAF project. National groups have already called for federal NBAF funding to be delayed until questions about the KBA are cleared up.

United States Senator Pat Roberts is confident that the NBAF project will stay on track, though.

“The NBAF must remain a federal funding priority,” Roberts said.

“The ability of a nation to protect its food supply from a naturally occurring or intentional attack is critical to our national security.”

John Carlin, chairman of the KBA, agrees with Roberts.

“Above all else, NBAF is about protecting America's dinner table and our nation's agriculture economy, but it's also about jobs and economic vitality of our state for many years to come,” said Carlin in a recent post on NBAFblog.com. “NBAF will attract and retain highly educated, well-paid workers, as well as support businesses that will cluster around Manhattan and elsewhere in Kansas. This is an economic engine that will pay dividends for generations of Kansans.”

#### Road Less Traveled

The bipartisan work of forward-thinking state leaders nearly 20 years apart created two state entities that helped pave the BioInnovation highway in Kansas and accelerate the progress of bioscience in the state. With KTEC in the rearview mirror and KBA on rough road, it remains to be seen whether bioscience in Kansas will continue to speed along a super-highway or come to a dead end. ■



**ABOVE** // The Kansas Bioscience Authority building in Olathe houses an incubator and lab space for small bioscience companies. (photo courtesy of Kansas Bioscience Authority)

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