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|---|---------|---------|---------|---------|--|---------|---------|---------|------------------------|------------|
| Exhibit R-2, RDT&E Budget Item Justification | | | | | | | | | Date: February 2002 | |
| APPROPRIATION/BUDGET ACTIVITY RESEARCH, DEVELOPMENT, TEST & EVALUATION, DEFENSE-WIDE, BUDGET ACTIVITY 6 | | | | | R-1 ITEM NOMENCLATURE SBIR/Challenge Administration PE 0605790D8Z | | | | | |
| COST (\$ in Millions) | FY 2000 | FY 2001 | FY 2002 | FY 2003 | FY 2004 | FY 2005 | FY 2006 | FY 2007 | Cost to Complete | Total Cost |
| Total PE Cost | 1.662 | 1.713 | 14.544 | 2.103 | 2.059 | 2.041 | 2.067 | 2.107 | continuing | continuing |
| SBIR/Challenge Admin No.P-518 | 1.662 | 1.713 | 14.544 | 2.103 | 2.059 | 2.041 | 2.067 | 2.107 | continuing | continuing |
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A. Mission Description and Budget Item Justification

BRIEF DESCRIPTION OF ELEMENT: Under the Small Business Innovation Research (SBIR) program, DoD funds approximately \$550 million annually in mission-oriented R&D projects at small technology companies. The goal of the program is to stimulate the development of new technologies to improve U.S. military and economic capabilities. In recent years the DoD has implemented improvements in its SBIR Program as well as a plan for the rapid transition of SBIR technologies into DoD acquisition programs. These improvements were developed by the Office of the Secretary of Defense and the SBIR program managers for the military departemnts and Defense agencies in response to Section 818, Public Law 105-261 and the Small Business Research and Development Acts of 1992 and 2000. Execution of these improvements continue as an integral part of the DoD SBIR Program.

The purpose of these Congressional initiatives is to increase significantly the program’s effectiveness in discovering and developing new technologies that are successfully commercialized in defense markets and/or the private sector. DoD has implemented these initiatives, recognizing that the commercialization of SBIR technology is a primary means by which SBIRtechnologiesimprove the capabilityof military systems and the productivity of the U.S. economy.

PE 0605790D8Z is the only source of funds for the coordination and evaluation of the component SBIR programs within DoD, because the 1992 SBIR Act provided that “a Federal agency shall not use any of its SBIR budget...for the purpose of funding administrative costs of the program.” PE 0605790D8Z funds central elements of SBIR program coordination and evaluation that are required by law, including:

- Monitoring the degree to which SBIR technologies are commercialized in military and private sector markets (in response to Section 818 of P.L. 105-261) based on performance-based metrics for DoD’s SBIR program.
- Execution of processes and initiatives to facilitate the transition of SBIR-developed technologies into DoD acquisition programs (in response to Section 818 of P.L. 105-261);

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- Execution of processes and initiatives to facilitate participation in the program by small technology companies that have never before done business with DoD (in response to P.L. 102-564); and
- Monitoring of DoD-wide SBIR program expenditures, to meet Congressionally mandated reporting requirements (97-219, P.L. 102-564 and 106-554).

This program element will also fund the administration of the Congressionally-directed “Challenge Program (section 812 of P.L. 106-65), whose purpose is to create competitive incentives for major acquisition programs’ prime contractors to adopt new technology from commercial firms, particularly small technology companies.

The FY 2002 Defense Appropriation Act provides \$12.5 million “only for the further development and rapid insertion of innovative SBIR technologies as competitive alternatives to Defense acquisition program technologies” through the Department’s Challenge Program.

PROGRAM ACCOMPLISHMENT AND PLANS:

FY 2001 Accomplishments: This budget item funded implementation of USD(AT&L) and/or Congressionally-directed initiatives including the following: (1) Implementation of quantifiable, performance-based metrics for the DoD SBIR program and the small companies that participate in the program, based on the degree to which SBIR technologies are commercialized in military and private sector markets; (2) Implementation of a process for using a company’s track record in commercializing its prior SBIR awards as a critical factor in the evaluation of the company’s SBIR proposals; (3) Implementation of the Congressionally-directed plan for the rapid transition of SBIR technologies into DoD acquisition programs; (4) Monitoring of DoD-wide SBIR program expenditures, as well as DoD’s annual reporting to Congress and the Small Business Administration on the operation of DoD’s SBIR program; and (5) Implementation of processes to streamline the SBIR process and facilitate participation in the program by companies not used to doing business with the government. (1.713 million)

FY 2002 Plans: This budget item is funding continuing execution of the USD(AT&L) and/or Congressionally-directed initiatives, including the following activities: (1) tracking the metrics of commercialization of SBIR R&D in military and/or private sector markets; (2) analysis of these metrics for purposes of program evaluation and improvement; (3) use of the metrics in the process for evaluating the SBIR proposals from small companies; (4) Implementation of the Congressionally-directed plan for the rapid

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transition of SBIR technologies into DoD acquisition programs; (5) Evaluation of USD(AT&L)-directed initiatives; and (6) Monitoring of DoD-wide SBIR program expenditures and implementation of processes to facilitate participation in the program by companies not used to doing business with the government. Starting this FY (02) this program element will also fund the

administration of the new, Congressionally-directed "Challenge" program (Section 812 of P.L. 106-65), whose purpose is to create competitive incentives for major acquisition programs' prime contractors to adopt new technology from commercial firms, particularly small technology companies. This program element includes funding for travel, including invitational travel, in support of the above activities, as well as Congressionally provided funding of \$12.5 million "only for the further development and rapid insertion of innovative SBIR technologies as competitive alternatives to Defense acquisition program technologies" through the Department's Challenge Program. (\$14.544 Million).

FY 2003 Plans: This budget item will continue to fund the execution of USD(AT&L) and/or Congressionally-directed initiatives to track and analyze metrics of the SBIR program's effectiveness; evaluate the success of recent program improvements; monitor DoD-wide program expenditures; facilitate participation by new companies; and facilitate the transition of SBIR-developed technologies into DoD acquisition programs. It will also fund the coordinated implementation of the Congressionally-directed Challenge program across DoD, as well as evaluation of the program, including (1) Developing metrics of the effectiveness of the pilot program in consultation with the Military Departments; (2) Initiating an independent evaluation of the pilot program; (3) Developing a web-based system for the dissemination of the prime contractors' Technology Insertion Plans, so that commercial firms can readily search for and identify opportunities for insertion of their technology into acquisition programs; and (4) Collecting and analyzing data on program implementation from the participating acquisition program offices, program executive offices, and prime contractors, for use in reporting to DoD's acquisition leadership and the Congressional defense committees on Challenge program implementation. (\$2.103 Million)

FY 2004 Plans: This budget item will continue to fund the execution of USD(AT&L) and/or Congressionally-directed initiatives to track and analyze metrics of the SBIR program's effectiveness; evaluate the success of recent program improvements; monitor DoD-wide program expenditures; facilitate participation by new companies; and facilitate the transition of SBIR-developed technologies into DoD acquisition programs. It will also fund the coordinated implementation of the Congressionally-directed

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Challenge program across DoD, as well as evaluation of the program, including (1) Developing metrics of the effectiveness of the pilot program in consultation with the Military Departments; (2) an independent evaluation of the pilot program; (3) a web-based system for the dissemination of the prime contractors' Technology Insertion Plans, so that commercial firms can readily search for and identify opportunities for insertion of their technology into acquisition programs; and (4) Collecting and analyzing data on program implementation from the participating acquisition program offices, program executive offices, and prime contractors, for use in reporting to DoD's acquisition leadership and the Congressional defense committees on Challenge program implementation. (\$2.059 Million)

B. Program Change Summary

| | <u>FY2001</u> | <u>FY2002</u> | <u>FY 2003</u> | Total |
|--|---------------|---------------|----------------|------------|
| President's FY 2001 Budget | 1.728 | 1.757 | 2.108 | Continuing |
| President's FY 2002 Amended Budget | 1.728 | 1.757 | 2.108 | Continuing |
| Appropriated Value | 1.728 | 1.757 | 2.108 | Continuing |
| Adj. to Approp. Value/President's Budget | -.015 | +12.787 | -.005 | |
| FY 2003 Budget Estimate | 1.713 | 14.544 | 2.103 | Continuing |

Change Summary Explanation:

Funding: The change in funding in FY 2001 is the result of undistributed Congressional reductions (.012) and a reprogramming inflation adjustment (.003). The change in funding in FY 2002 is the result of a Congressional increase (.311). The change in funding in FY 2002 is the result of the FY 2002 Defense Appropriation Act which provides \$12.5 million "only for the further development and rapid insertion of innovative SBIR technologies as competitive alternatives to Defense acquisition program technologies" through the Department's Challenge Program.

Schedule: N/A
 Technical: N/A

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C. Other Program Funding Summary: N/A

D. Acquisition Strategy: N/A

E. Schedule Profile N/A

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