



September 10, 2014

*Heidi Jacobus
Robert Schmidt
Co-Chairmen*

*Jere Glover
Executive Director*

*Larry Nannis
Treasurer*

*Kevin Burns
Greg Zacharias
New England
Regional Chairs*

*Matt Oristano
Joseph Schwartz
Mid-Atlantic
Regional Chair*

*Ash Thakker
Southeast
Regional Chair*

*Mary Delahunty
Southwest
Regional Chair*

*Russ Farmer
Mountain
Regional Chair*

*Michael Browne
Pacific
Regional Chair*

*Roy Keller
State Liaison*

*Greg Zacharias
DOD Committee
Chair*

*Paul Donovan
Michael Squillante
NIH Committee
Co-Chairs*

*Ash Thakker
Phase III Committee
Chair*

*Russ Farmer
DCAA Committee
Chair*

The Honorable Carl Levin
Chairman
US Senate Committee on Armed Services
228 Russell SOB
Washington, DC 20510

The Honorable James Inhofe
Ranking Member
US Senate Committee on Armed Services
228 Russell SOB
Washington, DC 20510

The Honorable Buck McKeon
Chairman
US House Armed Services Committee
2120 Rayburn HOB
Washington, DC 20515

The Honorable Adam Smith
Ranking Member
US House Armed Services Committee
2120 Rayburn HOB
Washington, DC 20515

Subject: Comprehensive Subcontracting Plan Test Program (CSP)

Dear Chairman Levin, Ranking Member Inhofe, Chairman McKeon, and Ranking Member Smith,

The Small Business Technology Council (SBTC) is the high technology arm of the National Small Business Association, the nation's longest running, small-business advocacy organization. We are a nonpartisan, member-driven organization dedicated to promoting America's high-tech, innovative companies. SBTC advocates for the 5,000 Small Business Innovation Research (SBIR) companies who collectively produce a quarter of the nation's most valuable patents as evidenced by R&D 100 awards; three times as many as universities and four times as many as Fortune 500 companies.¹ The SBIR/STTR programs are among the most successful R&D programs in the world, with 25% of the key innovations coming from less than 3% of federal extramural expenditures.²

One key aspect of the latest SBIR reauthorization was to ensure that these innovations were more readily transitioned into programs where they can not only increase competitiveness and capability, but strengthen the overall economy of the nation. A major means of technology transition is the use of new SBIR incentives and goals in the contracting process in order to increase SBIR participation in government contracting. SBTC believes that the inclusion of these goals and incentives as part of the SBIR Reauthorization greatly helped to move the ball forward in terms of bringing innovation off of the shelf and into the hands of users.

Unfortunately, one effect of the Comprehensive Subcontracting Plan Test Program (CSP) is to make this process much more difficult to enact and almost impossible to enforce. Under CSP, prime contractors are able to have their small business participation measured at a comprehensive level, rather than at a program or PEO level. SBIR companies in particular have had extreme difficulty in receiving subcontract from large prime contractors in the CSP program. One argument for

¹ Fred Block and Matthew R. Keller, "Where Do Innovations Come From? Transformations in the U.S. National Innovation System, 1970-2006", THE INFORMATION TECHNOLOGY & INNOVATION FOUNDATION, July 2008, pg. 15,

² Universities and Fortune 500 firms together account for less than 20% of all key innovations in the U.S. Fred Block and Matthew Keller, Where Do Innovations Come From? Transformations in the U.S. National Innovation System 1970-2006, Information Technology and Innovation Foundation, July 2008.



retaining CSP is that it reduces the burden on the prime contractor. However, it is in the prime contractor's best interest to only contract with a few "small" businesses on one or two programs. This means that viable and important innovations that can provide incremental change are not brought to the forefront. This reduces the new technology provided to the warfighter, as well as decreases the overall benefit to the economy and diminishes the job creation impact.

SBTC has worked with DOD and Congress in each of the past 3 administrations to try to implement Phase III SBIR commercialization. A December 2008 memorandum from DOD Under Secretary Finley directed greater use of SBIR technology by DOD,³ and in December 2011 Congress directed DOD to require all large prime contractors to make better use of SBIR technology and to require reporting of the use of SBIR technology by prime contractors with contracts of over \$100 million dollars.⁴ To date these legal provisions have not been implemented. Some of these large prime contractors have argued that they do not have to comply with the law because of the CSP provisions. Similar arguments were successful in stopping prior administrations from implementing similar provisions in the past. While SBTC believes that this argument is without merit and that 15 USC §638(y)(5) clearly requires CSP firms to comply, we feel strongly that eliminating the CSP removes any question.

We believe that powerful incentives at the program and PEO level, instead of at a comprehensive level, is how the insertion of technology will be most beneficial not only to our small business members, but the entire nation as a whole, and to the American economy by creating more jobs at no additional cost to the Government.

SBIR companies have a strong commercial interest in ensuring that the SBIR Reauthorization legislation is implemented as it was intended. SBIR companies are the best investment for job creation, producing 40 long-term jobs for each million dollars invested,⁵ and it is the responsibility of Congress to not only enable small business participation but also ensure that the annual investment of over \$2 billion is fully and effectively utilized.

In spite of being a test program, the CSP is nearing 25 years old, with virtually no data collection or comprehensive study to determine what, if any, benefit it has for small businesses. There is no evidence that companies in CSP have a better subcontracting record than companies not in CSP. To our knowledge, no small business organization supports continuing CSP, and we know of no small business in our organization that has benefited from this program. CSP companies receive over \$55 billion of DOD contracts each year. In effect CSP removes one third of all DOD contract dollars from normal reporting and compliance requirements. There is only one published evaluation of the program, a 2004 GAO report that declared that "DOD has yet to establish metrics to evaluate the program's results and effectiveness." A program that is twenty-five years old and has no positive reviews should not be continued.

³ DOD Undersecretary for Acquisition and Technology James Finley, "Memorandum for Secretaries of the Military Departments, Subject: SBIR Phase III Guidance" December 8, 2008. (Attached)

⁴ 15 USC §638 (y)(5)(A) INSERTION INCENTIVES

⁵ Albert Link and John Scott, *Employment Growth from Public Support of Innovation in Small Firms*, W.E. Upjohn Institute for Employment Research, Kalamazoo, MI, 2012



We strongly believe that the CSP Test Program should be allowed to sunset when it expires at the end of the year, and we urge Congress not to reauthorize this program. If the CSP is reauthorized, however, it should only be for a short period of time and only available to companies that have clearly shown with auditable data that they have met or exceeded the goals for subcontracting. Any CSP reauthorization should also clearly require all CSP companies to comply with goal setting and reporting requirements in law or required by DOD including Section 15 USC §638 (y)(5) and all other provisions of the SBIR Reauthorization.

Sincerely,

A handwritten signature in black ink, appearing to read "Jere W. Glover". The signature is fluid and cursive, with a long, sweeping tail on the final letter.

Jere W. Glover
Executive Director
Small Business Technology Council