



TUTORIAL 17

The Facilities and Equipment Section of the Project Narrative

Phase I SBIR/STTR applicants seldom devote much attention to the equipment and facilities that will be used in their proposed project. This is unfortunate because these resources are important in two respects.

First, they are considered in the Phase I proposal review and evaluation process which starts with the administrative and technical screening. If the proposal does not include the required content regarding equipment and facilities or does not include enough explanation of what equipment/facilities are needed or where the applicant will get them, then the proposal may never pass this go/no go threshold. Showing that the applicant understands what is needed, and has secured access to the needed equipment and facilities, adds credibility to the proposal. It also

How you draft the Facilities and Equipment section of the project narrative is important. Reviewers will in part use this information to evaluate “your ability to carry out the project.”

is used by technical reviewers “to assess the capability of the organizational resources available to perform the effort proposed.”

The merit review criteria used by DOE evaluators of Phase I SBIR/STTR proposals includes the proposer’s “ability to carry out the project,” and “level of adequacy of equipment and facilities” for the proposed R&D—therefore, if the equipment and facilities appear inadequate, or aren’t fully described and justified, the applicant could lose valuable points in the review process.



Second, paying attention to the facilities and equipment is in the self-interest of the Phase I SBIR/STTR applicant. Research equipment is often expensive, and can be

Access to sophisticated equipment and facilities can be accomplished through subcontracting arrangements.

beyond the resources of many small firms. But SBIR/STTR makes funding available to these small firms via the grant to purchase equipment (with the limitations discussed herein), or accessing sophisticated equipment or facilities at universities and Federal laboratories. To the latter point, seeking SBIR/STTR funding can give a small firm the credibility to access sophisticated equipment & facilities, through either subcontracting arrangements, open market leases, or user facility agreements, with the “credibility” coming from the small firm being successful in the highly competitive and technically rigorous SBIR/STTR programs.

EQUIPMENT

An important first question is, what is considered “equipment”? DOE defines equipment as “an article of tangible, nonexpendable, personal property, including exempt property, charged directly to the grant, having

a useful life of more than one year and an acquisition cost of \$5,000 per unit or more.” Let me emphasize several key words and phrases. First, there are both life and cost components to determining if something is equipment. Second, the item must meet both time and cost thresholds; that is ... something that lasts more than 1 year but costs less than \$5,000 is not considered equipment. Third, the word “directly” is extremely important in this definition, because it differentiates equipment that is purchased as part of the direct Phase I R&D budget versus that purchased by other means.

If purchasing equipment as part of your proposal, make sure you understand DOE’s definition and the trade-offs.

If you purchase a piece of equipment for your project, you could either specify it in the Phase I SBIR/STTR budget as a direct cost, or you could roll it into your indirect cost rate (as part of your depreciation expense), or you could pay for it out of the fee or profit that you charge on the project. Many requirements and restrictions that DOE imposes on equipment in your SBIR/STTR proposal only apply to equipment you plan to buy as a direct cost.



EQUIPMENT ACQUIRED AS DIRECT COSTS

Here are some of those requirements and restrictions on equipment acquired as direct costs to the Phase I DOE project:

1. If you buy equipment as a direct cost, then the Federal government will retain ownership of it. It may be possible to eventually transfer ownership to your company, but not initially.
2. If you are borrowing equipment from some third party at no cost, you must provide verification of this in your proposal.
3. Any equipment acquired as a direct cost must be fully explained and justified in the proposal text, budget, and budget justification sections.
4. Agencies do not approve purchase of common or routine equipment as a direct cost in your SBIR/STTR proposal. If you really want a laptop for example, then DOE is not going to pay for it as a direct cost—unless you need a specialized tablet specifically for the proposed Phase I R&D work, and it would not be reasonable to expect you to already own such a computer as part of your other contracts and business activities.

Again, these are rules and restrictions that apply to equipment that is purchased as direct costs in your Phase I DOE SBIR/STTR budget, and not to equipment acquired through your indirect rate or your fee/profit. Therefore, if you do not want to be limited by these requirements, it is best to purchase equipment with indirect funds or profit.

FACILITIES

DOE imposes several expectations and limitations on the facilities where you conduct the Phase I SBIR/STTR research.

First, be sure to describe your facilities and clarify what part of the Phase I project “research and analytical work” will be performed there.

Second, “[w]hen required ..., access to special facilities ... in another organization is permitted, as in cases where the SBIR/STTR awardee has entered into a sub-contractual agreement with another institution for a specific, limited portion of the research project.” This qualifier makes it possible for you to conduct some of your Phase I project in facilities that you do not own. This opens the door to have on your project, for example, a faculty member working within their university laboratory, or a sophisticated user facility at one of the Federal Laboratories.

CLOSING WORDS OF ADVICE

A couple of closing words of advice:

- » DOE does not include the cost of purchasing or leasing equipment when determining the percentage or Level-of-Effort requirement of an SBIR/STTR project being done by the applicant small business versus subcontractors and consultants.
- » DOE asks “to the extent possible” that American made equipment be purchased or leased. Note that “made” does not necessarily mean the same as ownership of the manufacturer: for example, Toyota builds cars in America, while American computer giant Dell manufactures laptops in foreign countries.
- » As discussed earlier, the fee/profit portion of a Phase I SBIR/STTR budget can be used to acquire equipment. However, any such plan should not be included in the budget justification for the fee/profit; instead, the justification should focus on the allowability of fee/profit of a reasonable amount on SBIR/STTR projects. That “reasonable” amount typically is considered to be 7% or less of the direct and indirect costs. That equates to about \$14,000 in a \$200,000 Phase I award.

Be sure to read the “closing words of advice.”