

October 18, 2013

Patrick Gallagher, Director
National Institute of Standards and Technology
100 Bureau Drive, M/S 1000
Gaithersburg, MD 20899

Dear Dr. Gallagher:

On behalf of the Hollings Manufacturing Extension Partnership (MEP) Advisory Board I am pleased to present to you an “Analysis and Findings of the Cost Share Requirements of the Hollings Manufacturing Extension Partnership Program” with recommendations that optimize the federal investment and provide for the long-term sustainability of the program.

At the June 24, 2013 meeting of the Advisory Board you charged us to “immediately initiate a review of the cost share structure of the MEP Program and provide recommendations to you by September 30, 2013.”

In response to your charge the Board formed a Sub-Committee to conduct its work. For your reference, below is a list of the full membership of the MEP Advisory Board and subcommittee members have been noted.

Dennis Dotson (Chair, Advisory Board)	President, The Dotson Company (MN)	Manufacturer
Vickie Wessel (Vice-Chair, Advisory Board)	President, Spirit Electronics (AZ)	Manufacturer Sub-Committee Chair
Roy Church	President, Lorain Community College (OH)	Higher Education
Eileen Guarino	President/Managing Director, Greno Industries, Inc. (NY)	Manufacturer Sub-Committee Member
Edward Hill	Vice President for Economic Development, Maxine Goodman Levin College of Urban Affairs, Cleveland State University	Higher Education Sub-Committee Member

Kellie Johnson	President, ACE Clearwater Enterprises (CA)	Manufacturer
Mark Rice	Maritime Applied Physics Corporation (MD)	Manufacturer
Rich Scott	President, Quality Filters, Inc. (AL)	Manufacturer Sub-Committee Member
Jeffrey Wilcox	Vice President, Engineering, Lockheed Martin Corporation (MD)	Manufacturer
Edward Wolbert	President & CEO, Transco Products (IL)	Manufacturer Sub-Committee Member

The Sub-Committee held multiple meetings:

- Two meetings in July to discuss the background, history, and fundamentals of cost share policy and cost share requirements. (Attachment A)
- One meeting in August to discuss and understand the relationship between cost share and center performance. (Attachment B)
- One meeting in September to discuss feedback from the general public, the American Small Manufacturers Coalition (ASMC) and responses to a 9-center survey that included 52 questions. (Attachment C)
- A second meeting in September to discuss and finalize our sub-committee position for presentation to the full Advisory Board during its September 27, 2013 meeting. (Attachment D)

The materials from each of the meetings outlined above are included as attachments to this letter. These reflect in-depth information about the program and broad-based comments from stakeholders, which included:

- Government Accountability Office Report regarding cost share
- 9 Center Survey (52 questions)
- General Web Question (45 responses, including 27 MEP centers)

- American Small Manufacturers Coalition (ASMC) Surveys (of MEP centers)
- Staff Research of Board questions that were not answerable through any of the resources above (such as those regarding center performance)

The full Board met in a public meeting on NIST's campus on September 27th, and after extensive discussion, including testimony from the public, accepted the Sub-committee's report and approved the following recommendations outlined below and included in Attachment E (slide 17):

The objective of the program is to enhance productivity and technological performance in United States manufacturing. The cost share policy supports the mission of the program and its statutory requirements.

- **In order to optimize the federal investment and provide for the long-term sustainability of the program the National Advisory Board recommends:**
 - **Readjusting the cost share requirement to 1:1.**
 - **Demonstrating an appropriate and balanced industry investment.**
 - **Allowing local flexibility in providing in-kind cost share (not to exceed one-half of the Recipient's annual cost share) with:**
 - **Clearly defined, well understood, and achievable criteria.**
 - **Direct and measurable impacts consistent with program performance and evaluation.**
 - **Maximizing program performance through a balanced application of evaluation mechanisms that appropriately include but are not limited to cost share (e.g. center performance metrics.)**
 - **Implementing the cost share recommendations in conjunction with an inclusive strategic planning process and a comprehensive review of system and center performance.**

The Board's recommendations were based upon a number of findings which are presented in the September 27th report. Highlights include:

The Board found that the policy of requiring cost share from beneficiaries of the program, particularly manufacturers, is positive, and ensures that the program's services are relevant to manufacturers, avoids duplication of efforts, and leverages the resources of other organizations.

However, the Board found that the current cost requirement of 2:1 non-federal to federal is 15 years old and based upon a funding structure that is 23 years old. The Board further found the

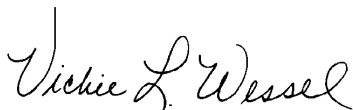
current cost share structure impedes the program's ability to serve smaller, emerging and rural clients, develop new innovative services to respond to the changing needs of small and mid-sized manufacturers, or serve as a technology transfer and acceleration mechanism. The current level of cost share requirement drives centers to spend time and effort to seek sources of cost share, to focus on larger firms who can pay fees and on multiple projects with repeat clients, and imposes a significant burden to obtain, manage and report on in-kind cost share.

The Board found that changing the cost share requirement would have numerous beneficial impacts, including: (a) serving more companies, (b) making cost share available for other program investments, (c) focusing on delivering services to manufacturers that are affordable, (d) decreasing the amount of time seeking less valuable cost share, (e) better serving the needs of regional stakeholders, (f) relieving administrative burden, and (g) promoting innovation, technology transfer and acceleration.

The Board found no basis to the speculation that Centers would be less motivated to secure non-federal funds beyond those required to meet the cost share threshold, nor that state funding to the program is determined by the level of the requirement. The Board noted recent evidence that a state's commitment to the program is strengthened when federal program goals and state strategies are properly aligned through a "precipitating event" such as a formal re-competition, participation in a regional initiative or funding opportunity, or involvement in a state-led review of manufacturing policy.

The Board greatly appreciated the opportunity to comment on the MEP cost share requirement. We want to acknowledge the responsiveness of the MEP national program office in providing detailed information to the Board, and the contributions of the stakeholder community to this review.

Sincerely,

A handwritten signature in cursive script that reads "Vickie L. Wessel".

Vickie Wessel

Vice Chair, NIST MEP Advisory Board

Chair, NIST MEP Advisory Board Subcommittee on Cost Share