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Exhibit R-2, RDT&E Budget Item Justification						Date: February 2004	
APPROPRIATION/BUDGET ACTIVITY DEFENSE WIDE RDT&E BA 4				R-1 ITEM NOMENCLATURE PE 0605017D8Z REDUCTION OF TOTAL OWNERSHIP COST			
COST (\$ in millions)	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Total PE Cost-0605017D8Z	0.000	0.000	27.351	25.145	25.159	25.190	25.239

A. Mission Description and Budget Item Justification:

This program provides funding for start-up costs for projects that will increase the reliability, readiness and capability of new or existing defense systems; reduce logistics footprint; and generate future savings in total ownership cost. Start-up costs include, but are not limited to: non-recurring engineering, test and qualification, development of procedures and processes, documentation, cost driver identification, and other features that could produce significant future savings from a relatively small investment in Research, Development, Test & Evaluation (RDT&E). The objective of this program is to optimize returns on investments that reduce operating and support costs for systems.

B. Program Change Summary: (Show total funding, schedule, and technical changes for the program element that have occurred since the previous President's Budget Submission)

	<u>FY 2003</u>	<u>FY 2004</u>	<u>FY 2005</u>
Previous President's Budget	0.000	0.000	0.000
Current FY 2005 President's Budget	0.000	0.000	27.351
Total Adjustments			
Congressional program reductions			
Congressional rescissions			
Congressional increases			
Reprogrammings			
SBIR/STTR Transfer			
Other			+27.351

C. Other Program Funding Summary:

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Not Applicable

D. Acquisition Strategy:

There will be an annual competition for funding. A request for projects will be made to the Military Departments annually in May. Formats and instructions will be provided. Projects will be scored objectively in the following areas: return on investment during the FYDP; return on investment over the life cycle; crossover year (the year when return is greater than investment); payback year (the year when total return is greater than total investment); and service ranking. Projects will be scored subjectively in the following areas: operational readiness improvements; the credibility of achieving the predicted benefits; technological risk; schedule risk; budget risk; and the extent of management support. An evaluation team will complete the selection process by the end of September.