

Statement of David S. Douglass
President, Honeywell Federal Manufacturing & Technologies

Before the

Senate Armed Services Strategic Subcommittee

U.S. Senate

April 10, 2002

Mr. Chairman, my name is Dave Douglass. I am president of Honeywell Federal Manufacturing & Technologies, which manages the National Nuclear Security Administration's (NNSA) facility in Kansas City, Missouri, and facilities supporting transportation safeguard activities in Albuquerque, New Mexico. The Kansas City Plant today is an active, safe, secure, and reliable facility that serves as one of our country's most unique and valued national security assets. Our diversity of sophisticated, complex and leading-edge manufacturing capabilities is equaled by few facilities in the country, and the fact that these capabilities are housed under one roof in a secure environment is rivaled by no other manufacturer in the world.

We bring to the nuclear weapons complex and our nation expertise in science-based manufacturing; supply chain management; e-business systems; sophisticated electronic, mechanical, and rubber and plastics manufacturing; and a consistent reputation as one of the NNSA's highest-rated contractors. The nonnuclear components we produce comprise 85 percent of the parts manufactured within the nuclear weapons complex, as well as 85 percent of the components that constitute a nuclear weapon.

With the help and support of this Subcommittee and Congress over the past four years, we have begun to address issues impacting our talent pipeline and critical skill needs, infrastructure deficiencies and recapitalization concerns at the Kansas City Plant. Since last year's testimony, we have used the \$12 million in plus-up funding you provided to hire 300 people, keep our critical skills filled at a 99-percent level, and meet urgent infrastructure and recapitalization needs, including equipment upgrades, critical roofing repairs, and renovations to air handling systems in our production areas. In each case, we were able to maximize the dollars we spent by focusing on the highest priorities, however unglamorous they may have been. However, while we may have begun to turn the tide, we have not fixed the problems; and we continue to seek your support in addressing on-going, long-term issues facing the Kansas City Plant.

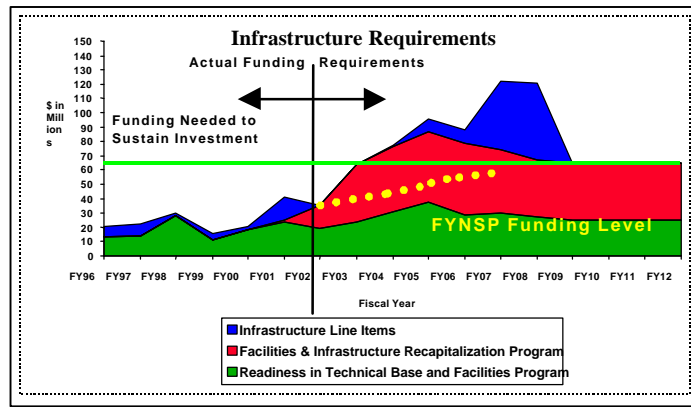
Mr. Chairman, as both a taxpayer and a contractor, I believe we should be held accountable for the highest standards of performance. This includes driving efficiency improvements throughout our organization. To this end, Honeywell has implemented a number of efficiency improvements at the NNSA's Kansas City Plant that embrace commercial best practices and ensure ever-increasing value for NNSA investments. Honeywell treats Federal Manufacturing & Technologies the same as its commercial businesses, holding us to the same standards of performance. This includes achieving six percent year-over-year improvement in productivity,

qualifying for and maintaining ISO quality and environmental system certifications, implementing cost-saving digitization applications, achieving safety metrics that are significantly better than national or NNSA standards, and training employees in the use of continuous improvement tools such as Six Sigma. All 2,000 of our salaried associates are Six Sigma Green Belt certified, plus more than 150 of our employees are certified in Six Sigma Black Belt productivity tools. Furthermore, when we were awarded the contract to continue operating the Kansas City Plant in 2000, we committed we would achieve \$25 million in efficiency improvements at the Kansas City Plant in the first two years of the contract. Last year, our first year, we achieved \$20 million. By the end of this year, we fully expect to meet and far exceed the remaining \$5 million commitment.

As part of our vision of the Kansas City Plant as a multi-mission, national security asset, we have grown our Work-for-Others program by 42 percent in two years. Other government agencies, including military, law enforcement and intelligence organizations, are finding increasing value in our combination of advanced technology solutions and a high-security environment. Our robust Work-for-Others program helps offset overhead costs and retain critical-skill associates by offering them new technical challenges. This value benefits both the government and the taxpayer.

A natural question is: If we have derived these millions of dollars of efficiency improvements, why do we require sustained funding support? It is well documented that the Department of Energy made a conscious decision in the 1990s to focus investment on science and defer investment in production. Our efficiency improvements during this decade gave us flexibility to balance near- and long-term needs. Thus, the savings generated by our efficiency improvements were factored into our budget forecasts, allowing us to augment NNSA funding to support infrastructure improvements, critical skill needs, and high-priority programmatic requirements. However, continued investment at 2.4 percent created a substantial backlog of infrastructure needs, compared to an industry standard of 5 percent.

The Kansas City Plant is at a juncture: We are inhibited by funding pressures and modernization issues from achieving the full readiness needed to accomplish our task at hand. We will meet our directed stockpile work obligations, but we will do so at the expense of



preparing for the future. Over the next two years, our workload will begin to escalate as we prepare for full-scale production for the Stockpile Life Extension Programs. Yet, as the adjacent Infrastructure Requirements chart indicates, at the same time we gear up for new work, our infrastructure and recapitalization backlog reaches peak levels.

As the chart also indicates, we require \$65 million a year to sustain investment in the Kansas City Plant, and limited funding has pushed the backlog into the next five years. The additional Facilities & Infrastructure Recapitalization Program funding is significantly helping us lessen the backlog, and I strongly endorse continued support of this important effort.

The government has a very capable, diverse, experienced, secure manufacturing facility: the Kansas City Plant. It makes good business and economic sense to invest in it and push this national security asset to its highest potential. No other facility is as diverse as the Kansas City Plant. Unlike commercial manufacturers, we are in a position to manage the NNSA’s requirements to produce high-quality, low-volume components; retain skills to sustain aging or obsolete technologies; and warehouse parts needed to maintain the 25-year life expectancy of the stockpile – at an affordable cost to the government.

We strongly support General John Gordon in his efforts to simplify and streamline the NNSA and implement a new governance model for management and operating (M&O) contracts. In keeping with the premise behind M&O contracts – to select contractors based on their operational and management experience and provide them with the objectives of what needs to be accomplished – we have taken several steps to simplify and streamline operations at the Kansas City Plant. These steps include introducing commercial industrial standards, including manufacturing, procurement, and human resources best practices. For the new governance initiative to improve performance and reduce costs successfully across the complex, we

believe the initiative must radically change M&O operations in four key areas: culture, core processes, performance management, and the government/contractor relationship.

- **Culture Change:** M&O employees should be treated no differently from employees who work for the contractor at other locations. Contract and other DOE requirements and programs that make the M&O employee a unique employee, and that consequently limit the contractor's ability to rotate in talent from other parts of the corporation, are unnecessary and should be revised or eliminated.
- **Core Processes:** The NNSA should require contractors to bring robust core processes to M&O operations, particularly in the areas of strategic planning, continuous improvement, leadership development and performance management. NNSA requirements and practices that dictate the processes to be applied in M&O contracts should be eliminated.
- **Performance Management:** Core processes should be assessed by independent and knowledgeable third-party sources, and contractors should be judged by the NNSA based on the maturity of their processes rather than isolated and unexpected incidents.
- **Government/Contractor Relationship:** A partnering relationship should create alignment in business imperatives for NNSA facilities and a clear understanding of roles and responsibilities. We support the concept that it is the role of the government to identify *what* needs to be done and the role of contractors to determine *how* the work should be done, based on the expertise that caused them to be selected in the first place. We envision NNSA personnel working in concert with the contractor to accomplish mission objectives by eliminating barriers to the contractor's tasks, working with stakeholders to resolve community concerns, and working within the government to ensure program alignment with overall government needs.

And, finally, it is imperative that we maintain balance between science and production. Scientific advancement is vital. We must develop our manufacturing technologies, train our employees, and maintain our facilities. However, it is just as important that the skills and capabilities needed to turn science into reality – real robust products – keep pace with technological advancements. This brings us full circle to the issue of long-term reinvestment in and value of the Kansas City Plant as a national security asset.

Mr. Chairman, you may also ask about the impact of the Administration's Nuclear Posture Review, which calls for a reduction in our nuclear stockpile, on the Kansas City Plant. Our volumes will eventually fall, but the need for components will not be diminished. However, the more volumes fall, the less attractive this work will be to commercial industries that must maintain profit margins. These companies cannot afford the overhead needed to sustain aging or obsolete technologies, warehouse parts, or retain expertise in critical skills needed to maintain the 25-year life expectancy of the stockpile. Reinvesting in the Kansas City Plant, and allowing us to defray overheads costs by expanding use of the facility, will address both short-term and long-term nuclear weapons complex needs.

The Kansas City Plant is busy. We support 42 product families and 120 advanced technologies, shipping more than 60,000 product packages annually. We are producing components for every weapons system in the active stockpile. We are hiring new associates and actively addressing critical skill needs. We have begun to increase infrastructure investments to recover from funding shortfalls in the 1990s. We are developing new manufacturing capabilities and suppliers required to support the upcoming Life Extension Programs. The next few years will see significant challenges as we continue to address critical skills, and upgrade our infrastructure while preparing for sizeable new production requirements driven by the Life Extension Programs. Our success is directly tied to a sustained funding profile, which fully accounts for these challenges.

Mr. Chairman, thank you for the opportunity to present these views to you. Honeywell is committed to our national defense mission and to the future success of the Kansas City Plant and nuclear weapons complex. I look forward to continuing to work with you and the Members of this Committee to address these challenges.