

Statement of David S. Douglass
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Committee on Armed Services
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Mr. Chairman, my name is Dave Douglass. I am president of Honeywell Federal Manufacturing & Technologies, which manages the National Nuclear Security Administration's manufacturing plant 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. One of the most complex manufacturing sites in the country, we have complete electronic, mechanical and rubber and plastics factories under one roof, and we bring to the nuclear weapons complex expertise in science-based manufacturing, procurement and e-business systems. 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 three years, we've dealt with a number of key issues facing the Kansas City Plant. Your support allowed us to satisfy some persistent infrastructure needs and proactively address issues relating to critical skills hiring and the anticipated retirement of a large percentage of our workforce within the next few years. However, because of the seriousness of past budget shortfalls, these improvements have focused on short-term fixes rather than long-term solutions. Today, I would like to discuss some of the long-term issues facing the Kansas City Plant.

Mr. Chairman, the proposed FY2002 budget for the Kansas City Plant will allow us, on the surface, to meet our directed stockpile work obligations. There will be minimal impact on activities pertaining to stockpile maintenance and evaluation and product support, and our Enhanced Surveillance and Advanced Design and Production Technologies campaign work will remain fully funded. With this funding level, we can also maintain basic facility operations and program readiness, and continue our efforts to address critical skills and overall workforce needs.

However, we have deferred investment in capital equipment and infrastructure, which has significantly increased the risk of sustaining uninterrupted operations and, ultimately, will impact our ability to perform the Kansas City Plant's mission. The proposed FY2002 levels decrease our funding by one-fourth for the Nonnuclear Readiness Campaign, which focuses on upgrades to technologies and preparations for the Stockpile Life Extension Program. Construction funding under the Readiness in Technical Base and Facilities program is reduced by \$5 million. This includes plant footprint reductions and production process consolidations which, if implemented, would allow us to reduce overhead costs. All facilities and

infrastructure recapitalization programs will again be deferred, creating an even larger backlog of needed facility improvements and equipment recapitalization. Safeguards and security funding will be decreased slightly, and cybersecurity funding will be reduced by 94 percent, allowing for only very basic support activities.

Cybersecurity and infrastructure recapitalization are two of our major concerns. Without the additional funding, we will not be able to implement any of the new cybersecurity initiatives. We also cannot address our growing backlog of infrastructure needs.

My experience in industry suggests that companies need to invest in themselves in an ongoing manner. Generally, industrial companies set aside approximately 5 percent of plant replacement value in their annual budgets for recapitalization required to sustain on-going competitive operations; high-tech companies may need to invest a larger percentage because of today's rapidly changing technologies. The National Nuclear Security Administration's Albuquerque Operations Office, in its May 1998 Phase II Facilities and Maintenance Study, recognized that the design life of most government facilities is 25 years. This equates to an annual reinvestment of 4 percent of the plant replacement value.

Considering our diverse set of technologies and manufacturing capabilities, the Kansas City Plant's recapitalization efforts for the past six years have averaged approximately 2.4 percent annually. This consistent under-funding has created a backlog of infrastructure needs for the Kansas City Plant. The under-funding has occurred even though we have reduced headcount by 50 percent, from 6,000 to 3,000 associates since 1990, as part of our efforts to balance production, staffing and infrastructure requirements with available funding.

In three of the past six years, our funding to recapitalize and modernize infrastructure (facilities, utilities and equipment), as well as to maintain pace with technology, has totaled less than 2 percent of the plant's replacement value (based on a total estimated replacement value of \$1.2 billion). This level of reinvestment in the plant's infrastructure is insufficient when it comes to offsetting depreciation and replacing obsolete or worn equipment.

Because Honeywell has managed the Kansas City Plant since 1949, our associates consider it as much their plant as that of the National Nuclear Security Administration. They take ownership and pride in its wellbeing. Throughout our stewardship of the facility, we have earned a reputation for

our ability to introduce industry best practices, such as Six Sigma, which we use to reduce costs and maximize our efficient use of the budget. Since January 2000, these efficiency savings have totaled in more than \$8.7 million.

We have focused on the short-term -- repairing, maintaining, or replacing the equipment most likely to cause major production failures, often at the expense of needed long-term infrastructure improvements and modernization. In general, our capital equipment management strategy has been successful. We ship 99.9 percent of our products on schedule from a plant infrastructure that is generally safe and sound. We have avoided major production shutdowns, and even been able to allocate a portion of equipment funding for advanced technology. We prioritize and manage capital needs as new requirements arise. However, we also face an increased risk of impacting production schedules because of equipment failure, excessive maintenance costs due to the age of existing equipment, and the inability to maintain and advance technology. This, in turn, affects our ability to integrate with suppliers and the national labs. To sustain our production mission efficiently, we project the Kansas City Plant's capital equipment recapitalization funding to be \$12 million a year.

There were no new construction line item starts in fiscal year 2000 and 2001, and the proposed budget eliminates any for 2002. This affects our ability to support new technology needs in our reservoir and microelectronics areas. There will also be an impact on continued facility operations, particularly needed replacements of air-handling units and chillers.

The accelerated rate of technology change has required us to balance our limited funding between investing in manufacturing capability and facility infrastructure needs. We are a leader in science-based manufacturing, which minimizes the expense of prototype production. However, it also involves exchanging designs electronically with the national labs and working closely with them to concurrently engineer product designs and simulate product performance. This partnership requires us to continually upgrade our computer systems and networks.

Mr. Chairman, the Kansas City Plant is a cornerstone of the nuclear weapons complex. We support 42 product families and 120 advanced technologies, shipping more than 60,000 product packages annually. We are busily producing components for every weapons system in the active stockpile. The proposed FY2002 funding levels brings increased performance risks

related to new workload requirements on the Stockpile Life Extension Program, because we cannot prepare in advance for the work. We are concerned about the increased risk of equipment failures and facility infrastructure breakdowns. We are concerned about the safety and health of our workforce as a result of these breakdowns. We are concerned about our ongoing ability to recruit critical skills and maintain a qualified workforce. Increased funding for recapitalization is required to continue our strong performance at levels expected by the National Nuclear Security Administration.

Mr. Chairman, thank you for the opportunity to present these views to you today. 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.