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Day & Zimmermann Munitions and Defense

BRAC Commission Review And Analysis

Joint Issues Team

June 8, 2005

by

Day & Zimmermann



BRAC Recommendation and Justification

- DOD recommended closure of Kansas and Lone Star AAPs due to overcapacity of the industrial base
- Kansas Justification: To reduce redundancy and remove excess from the Industrial Base, the closure allows DoD to create centers of excellence, avoid single point failure, and generate efficiencies.
- Lone Star Justification: To reduce redundancy and remove excess from the Industrial Base, the closure allows the DoD to create centers of excellence, avoid single point failure, and generate efficiencies. Goal is to establish multi-functional sites. Lone Star performs only one of 4 functions.



Competition is the real answer to rationalize capacity
Directed capacity ignores the proven benefits of competition

- Over the last few years, successful competition has created more activity at both Kansas and Lone Star.

- Competition is the best way to achieve the same reduction of capacity, reduce the cost of ammunition, while maintaining high quality, without the costs associated with closure.

- The answer
 - Privatize Kansas and Lone Star in place
 - Continue PEO Ammo's push toward full systems competition
 - Without workloading



BRAC ANALYSIS ERRORS

- The data used to generate the closure of Lone Star is faulty
 - Employment is higher than reported – high enough to deserve a site visit
 - Capability and current utilization was understated
 - No recognition of single source capability that others have been unsuccessful in manufacturing
 - No cost built in to acquire privately owned intellectual property and equipment
 - Assumption of competed work going to the receiving installation may not be true since in a lot of cases the competed work will be won by Canada
 - If work directed, then no benefit of competition will be achieved as currently exists
 - If work goes to Canada, than transfer costs will not be recouped



Lone Star AAP has critical capabilities and intellectual property that will be lost...

- **Much of the intellectual property belongs to Day & Zimmermann**
 - Designs for production equipment, processes, and tooling
 - Process control programs developed for production of detonators, self-destruct fuzes, and other products
 - Patents on critical production equipment: Chamlee Loader (US #3426946), Cargile Scooper (US #3383020), and Cone & Explosive Extractor (pending)

- **Lone Star has critical capabilities**
 - Produces, stores, maintains, upgrades, and demilitarizes munitions – *the full scope of activity*
 - Loaded Components (Primers, Detonators, Delays, etc.)
 - FASCAM Gator, Volcano, MOPMS
 - Artillery ICM 105mm, 155mm, MLRS (Grenades)
 - Hand Grenades (HE)
 - M223/M239 fuze production – *relocated to meet M77/M101 grenade production requirements*
 - M53 Delay, M59 Detonator, M67 Hand Grenade, and M223/M239 Fuze Production – *Lone Star sole source items*



Closing Lone Star AAP is contrary to the interests of full and open competition...

- PEO Ammo's long-term strategy is to move to more, not less, competitive contracting
- By directing workload to Iowa, Milan, McAlester, and Crane, DoD is acting contrary to the strategy
- Shutting down a contractor-operated facility (Lone Star) in favor of government-operated ones (McAlester and Crane) completely ignores the benefits of competitive contracting
- Lone Star's most formidable competitor is SNC of Canada – *a privatized firm*
 - SNC is proficient in mortars, artillery, energetics and grenades
 - SNC is the most likely winner of any subsequent hand grenade competition if Lone Star is closed

Privatization is the most cost effective method to implement DoD's recommendations...

One-Time Costs	Closure (\$k)	Privatization (\$k)
O&M		
Civ Salary	426	426
Civ Moving	142	142
Unemployment	31	31
Other	7,021	1,918
Mil Personnel		
Other	21	21
Other		
Environmental	5,350	0
1-Time Other	15,984	0
Total One-Time Costs	28,975	2,538
Total One-Time Savings w/Privatization		26,437

With privatization the avoidance of relocating the capabilities results in a one-time savings to DoD of \$26.4M – Also the annual net recurring savings of \$17.3M will remain the same as closure

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The best outcome is for the Commission to recommend that the Lone Star AAP be privatized-in-place

Benefits to privatization-in-place include...

- Reduces the organic base footprint while maintaining capabilities
- Lone Star would be operated at no-cost to the government
- Reduces one-time cost to implement the recommendation by \$26.4M and provides the same net recurring savings as closure of \$17.3M
- Retains competitive forces within the US industrial base without cost of ownership
- Preserves D&Z intellectual property and surge capacity at no cost to the Government
- Retains jobs and on-going business
- Allows the redevelopment of excess real estate



Capacity Analysis Is Seriously Flawed

- **There is no apparent adjustment in the utilization figures for relative size and complexity of the munition!**
 - A detonator receives the same weight as artillery and cluster bombs.
 - The DoD BRAC report compares 3,000,000 Pyro/Demo detonators (roughly the size and complexity of a watch battery) to 3,112 SFW BLU-108 cluster bombs (thousands of times larger and significantly more sophisticated than a detonator). Unit hours for a SFW BLU-108 are roughly 10 HPU and for a detonator 0.003 HPU.
 - Even when comparing capacities by commodity the relative size and complexity of the munition have been ignored when determining utilization. (SFW BLU-108 = 10 HPU & M105 M915 = 1.5 HPU).
 - The quantities should be weighted by a factor that better represents the relative size and complexity of the production requirements, for example direct labor hours per unit (HPU).
- DoD BRAC report shows current usage higher than current capacity for cluster bombs, an obvious error.
- Numerous items in production at KSAAP have been left off the list altogether.
 - Artillery: 155mm, M795 HE
 - Mortars
 - Warheads
- Items that KSAAP has won for future production are also ignored.
 - Precision Guided Mortar Munition (PGMM)
 - Anti-Personnel Landmine Alternatives (Spider)



DoD BRAC Economic Impact Figures Are Flawed

- DoD BRAC manpower analysis
 - Direct 167

- Actual manpower at KSAAP (CY2005):
 - Direct 314

- The DoD BRAC manpower analysis does not reflect current business.
 - The labor information appears to have been drawn from a period of layoff due to a stop work order resulting from the failure of the government's furnished materials.
 - Once the stop work order was lifted employment returned to levels above 200.
 - Current contracts will sustain employment levels in the 300 to 500 direct labor range for the future.

IJCSG - Munitions/Armaments Capacity Report - Capacity By Site

Site	Function	Category	Current Capacity*	Current Usage*	Maximum Capacity*	Capacity in Excess of Current Usage*
USA	KANSAS ARMY AMMUNITION PLANT					
	MUNITIONS DEMILITARIZATION					
		DEPLETED URANIUM AMMO	57.0	1.0	57.0	56.0 -- 56.0
		HE BOMBS	17.0	0.0	17.0	17.0 -- 17.0
		HE ICM/BU & SUBMUNITIONS	17.0	0.0	17.0	17.0 -- 17.0
		HIGH EXPLOSIVE MUNITIONS	142.0	2.5	142.0	139.5 -- 139.5
		INERT	17.0	1.5	17.0	15.5 -- 15.5
		NO FAMILY	0.0	0.0	17.0	0.0 -- 17.0
		PROPELLENTS	63.0	1.0	63.0	62.0 -- 62.0
		SMALL CAL AMMO/FLZES/MISC	63.0	1.0	63.0	62.0 -- 62.0
		Site Total	376.0	7.0	393.0	369.0 -- 366.0
		Percent of Capacity Not Utilized				98.1% -- 98.2%

Munitions Production	Current Capacity*	Current Usage*	Maximum Capacity*	Capacity in Excess of Current Usage*
No M795				
Artillery	22,580.0	0.0	35,360.0	22,580.0 -- 35,360.0
Cluster Bombs	112.0	116.0	3,112.0	-4.0 -- 2,996.0
Missiles	1,300.0	130.0	1,336.0	1,170.0 -- 1,206.0
Mortar	0.0	0.0	30,000.0	0.0 -- 30,000.0
Pyro/Demo	0.0	0.0	3,000,000.0	0.0 -- 3,000,000.0
Rockets	512,000.0	0.0	512,000.0	512,000.0 -- 512,000.0
Site Total	535,992.0	246.0	3,581,828.0	535,746.0 -- 3,581,582.0
Percent of Capacity Not Utilized				100.0% -- 100.0%
No Mortars				

*Capacity is measured in (C)M for Armaments Production/Manufacturing and Munitions Demilitarization, short tons for Munitions Demilitarization, and for Munitions Storage and Distribution as applicable for Munitions Production

Report Date: Thursday, April 21, 2005
 Database Date: April 18, 2005

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Page 12 of 35

No Anti-Personnel Landmine
 Alternatives (Spider)

No warheads listed
 M72 LAW, SMAW-D,
 LOS-MP

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Privatizing KSAAP Is the Best Solution Within BRAC

- DoD retains an ongoing munitions manufacturing capability without cost of ownership.
- Precludes millions of dollars from DoD for the cost and schedule impacts through attempts to relocate work.
- Maintains specialized talent in munition production at no cost to the government.
- Reduction of DoD facilities is accomplished.
- DZI owns many of the processes, procedures, controls software and critical equipment used in the production of ammunition products. The cost to acquire or redevelop has not been included in the DoD recommendations. \$\$\$

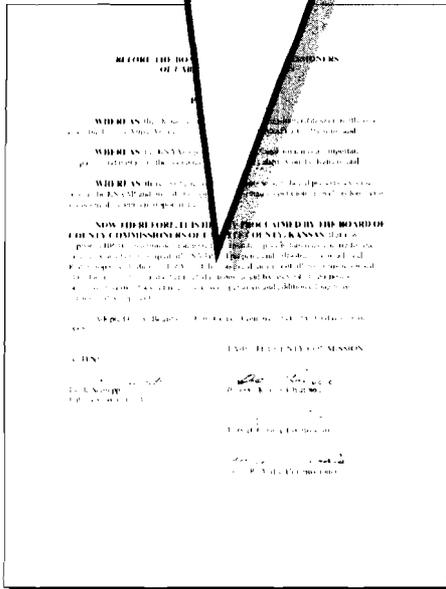
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Privatizing KSAAP Is the Best Solution Within BRAC

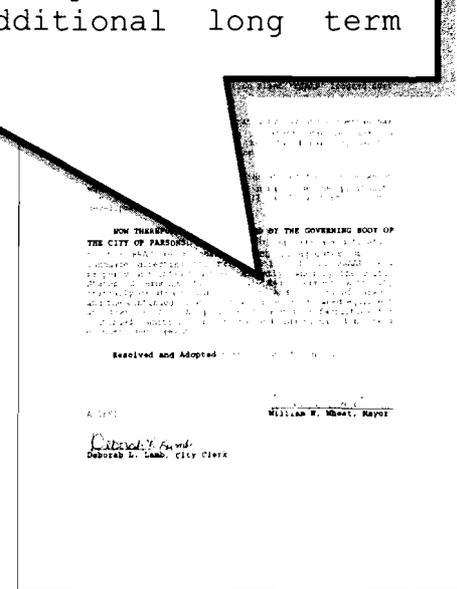
- **Cost Savings Will Result From Privatizing KSAAP**
 - Significant learning curve and production cost increases resulting from attempts to move SFW.
 - Privatization promotes competition with the munitions industry and forces indirect cost reductions at GOCO's (Iowa AAP and Milan AAP)
 - Rand Study recommended privatization.
 - Privatization promotes continuous improvement.

NOW THEREFORE, IT IS HEREBY PROCLAIMED BY THE BOARD OF COUNTY COMMISSIONERS OF LABETTE COUNTY, KANSAS, that it will support a BRAC recommendation which incorporates specific language calling for the privatization of ownership of all KSAAP real property and infrastructure in a Local Redevelopment Authority "LRA" and the continued location of all government owned manufacturing, office and other related equipment and fixtures for the purpose of providing facilities for continued munitions operations and additional long term economic development.

NOW THEREFORE, BE IT RESOLVED BY THE GOVERNING BODY OF THE CITY OF PARSONS, KANSAS that it supports a modification to the BRAC recommendation which incorporates specific language directing the privatization of all KSAAP real property and infrastructure currently owned by the United States Government to a Local Redevelopment Authority initially created by Labette County and the City of Parsons and the continued location of all government owned equipment and fixtures for the purpose of providing facilities for continued munitions operations and additional long term economic development.



Community Supports Privatization



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Desired Outcome

- **Commission recommends that Lone Star and Kansas AAPs be privatized in place through a local redevelopment authority.**
- **Results in privatization of ownership of all real property and infrastructure and the continued location of all government owned manufacturing, office and other related equipment and fixtures in place for the purpose of providing facilities for continued munitions production and additional long-term economic development for the DoD and the Community.**



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