



CDF RETREAT REPORT

Shaping the Future of National Security Investments

SEPTEMBER 20-21, 2024

ST. PAUL, MN

CreativeDefense.org



A MESSAGE FROM THE CHAIRMAN

Richard Carroll



At the Creative Disruptors by the Lakes: Shaping the Future of National Security Investments retreat, we convened with a focus on how to realign our national security investments to confront the rapidly evolving threats of the 21st century. The challenges we face today, ranging from great power competition to the rapid emergence of disruptive technologies, demand a defense budget that is as agile and forward-thinking as the threats it must counter. It is no longer enough to maintain legacy systems and outdated force structures that were designed for conflicts of the past. Instead, we must laser-focus national security funding on addressing the exponential threats powered

by artificial intelligence, autonomous warfare, space-based capabilities, and other rapidly emerging adversarial capabilities. We must depart from the continued funding of legacy warfare systems that are no longer relevant to our security needs.

Realigning defense investments at the scale required to make a meaningful impact will not be easy. It will require substantial reallocation of resources, which will inevitably be disruptive to the current defense ecosystem. However, disruption is necessary if we are to transition from an outdated force structure to one that is built for the threats of the future. This shift must be structured to incentivize, encourage, and properly reward America's best entrepreneurs and intrapreneurs; those who are willing to bring new ideas, technologies, and business models into national security. The U.S. cannot afford to rely solely on legacy defense contractors; our innovation base must expand to include the full depth of American ingenuity.

The Creative Defense Foundation's Retreat was convened with a clear purpose: to bring together some of the nation's foremost defense leaders, policymakers, and industry innovators to develop actionable strategies for modernizing U.S. national security investments. While our workshops focused on detailed recommendations for restructuring defense appropriations, accelerating high-impact technologies, and fostering stronger public-private partnerships, the overarching message is clear. The United States must shift its defense investment strategy now, or risk falling behind adversaries that are rapidly leveraging advanced technologies to challenge our global leadership.

Dialogue alone will not drive the necessary change. Restructuring our national security investments demands decisive action. Our leaders must embrace disruption as a necessary step toward progress, taking on the responsibility of transforming institutions to ensure long-term national security and strategic advantage.

This transformation will not happen in isolation. **It requires leadership to unify our democratic institutions to recognize that controlled disruption is essential to confronting modern threats.** Only by fostering a willingness to challenge the status quo can we build a defense ecosystem that is agile, resilient, and prepared for the challenges ahead. A national security framework rooted in legacy structures and outdated procurement models will not equip us to compete in an era of AI-driven, autonomous, and space-based warfare.

To meet this moment, we must cultivate a dynamic and robust industrial ecosystem that attracts and properly incentivizes America's best entrepreneurs, intrapreneurs, and workforce. The nation's most forward-thinking minds from the private sector, academia, and within government itself must see national security as a place where innovation is valued, rewarded, and scaled at speed. It must be recognized that innovation is a continuous cycle of trial, occasional failure, and refinement, where each setback paves the way for meaningful progress. This cycle must be streamlined to drive innovation rapidly and affordably, ensuring that breakthrough technologies reach the battlefield at the speed of relevance.

The defense congressional-military-industrial-complex must no longer be seen as an impenetrable bureaucracy, but rather as a competitive, high-stakes environment where the best ideas win and where disruptive solutions are rapidly integrated to maintain our strategic edge.

These recommendations, however, are not the end of the conversation. They serve as a foundation for deeper discussion, refinement, and implementation. As we look ahead, the insights developed in this retreat will guide the panels, workshops, and key discussions at our upcoming Creative Disruptors in the Desert Annual Conference, taking place February 21-22, 2025, in Indian Wells, California. This event will serve as a critical forum where national security leaders will build on these findings, forge new collaborations, and drive concrete actions that will shape the future of defense investments.

KEY SESSIONS & ACTIVITIES

FRIDAY, SEPTEMBER 20, 2024

- Registration & Welcome Reception

SATURDAY, SEPTEMBER 21, 2024

- Retreat opening
- Congressional/Defense Leader messages
- **Keynote Interview with Mr. Steve Feinberg**, CEO of Cerberus Capital Management
- **PANEL:** Resourcing Priorities for Victory – Is the U.S. Preparing for Future National Security Challenges?
- **PANEL:** A National Security Awakening – Building a Modern “Arsenal of Democracy”
- **PANEL:** Leading the Renewal – Engaging the High-Tech Sector for National Security
- **Keynote Interview with George Rumford**, Director of Test Resource Management Center
- **Defense Leader Executive Session:** Securing the Success of a Unified U.S. National Security Awakening
- **National Defense Policy Workshops:**
 - **WORKSHOP A:** Restructuring National Security Investments
 - **WORKSHOP B:** Building a 21st Century Arsenal for Democracy
 - **WORKSHOP C:** Developing a National Security Value-Focused Business Model
- Workshop Debriefs
- Leadership Wrap-Up
- Closing Reception

Through these curated sessions, participants developed forward-looking recommendations to reshape U.S. defense priorities. These findings will inform the Foundation's ongoing initiatives, including its 2nd Annual Conference, *Disruptors in The Desert*, scheduled for February 21–22, 2025.

Workshop Summaries and Recommendations

WORKSHOP A: RESTRUCTURING NATIONAL SECURITY INVESTMENTS

Summary

This workshop focused on reimagining how national security investments are structured to meet the rapidly evolving threat landscape. Participants explored dynamic budgeting models, including capability portfolios, to balance immediate operational needs with long-term strategic objectives. By addressing structural inefficiencies and fostering collaboration between the Department of Defense (DoD) and Congress, the group aimed to create a more agile and transparent investment system.

Key Components:

- Innovative U.S. Defense Appropriation Strategies
- Balancing Immediate Needs with Long-Term Goals
- Future Threat Scenarios

This workshop included roughly twenty participants from the DoD, industry, and Congressional staff leaders who have been active in defense budget development, reforms, and execution.



Recommendations

1. Merge and Scale Innovation Funds to Deter China:

Establish a dedicated innovation fund to rapidly exploit, develop, and scale technologies that will allow the U.S. to be successful in a Great Power Competition. This would formalize funds such as the [DIU Hedge portfolio](#), Accelerate the Procurement and Fielding of Innovative Technologies ([APFIT](#)), Rapid Defense Experimentation Reserve ([RDER](#)), and Rapid Innovation Funds ([RIF](#)) or Rapid Integrated Scalable Enterprise (RISE) funds. This fund would complement traditional procurement processes by addressing gaps that arise from evolving threats. Allocating a portion of the defense budget for such initiatives would enable swift experimentation and scaling of groundbreaking technologies like AI, autonomy, quantum, hypersonics, and space capabilities that address operational needs. The FY25 budget has \$310B allocated towards Research, Development, Test, and Evaluation (RDT&E) and Procurement; fencing five percent (\$15.5B) of that, with 75% going to Procurement would deliver meaningful capabilities at scale to Combatant Commanders in this decade.

2. Dynamic Capability Portfolios: Transition defense budgeting to focus on capability portfolios (e.g., unmanned systems, electronic warfare) for flexibility and alignment with strategic objectives. This approach enables the DoD to respond quickly to emerging threats by reallocating resources efficiently within defined capability areas. Budget shifts within a capability portfolio (e.g. C-UxS program A to B) would require Congressional notification, whereas budget shifts between capability portfolios (e.g. aircraft to ships) above a certain threshold would require Congressional approval. By adopting this model, the DoD can pilot programs to scale successful innovations while ensuring alignment with long-term operational needs.

3. Restructure the Budget Justification Books:

Empower a small team from the DoD and Congressional staff to accelerate the redesign of the budget justification documents for RDT&E, Procurement, and Operations and Maintenance (O&M) funds. The redesign will provide Congress with greater insights into the budget request for each program, enable greater speed and ease to develop, coordinate, and review the budget documents, enable greater mapping and rollup of budgets within a Service/Component, track annual changes, and enable Congressional appropriations and authorizers to approve/mark each budget account with the same structure. Improved communication fosters greater trust and ensures that defense priorities align with Congressional expectations, leading to more informed decision-making. Regular updates and links to DoD databases also enable stakeholders to track progress and identify areas requiring immediate attention.



WORKSHOP B: BUILDING A 21ST CENTURY “ARSENAL FOR DEMOCRACY”

Summary

This workshop examined the modernization of the “Arsenal for Democracy” concept, emphasizing the importance of revitalizing U.S. manufacturing and integrating high-tech sectors into defense production. Discussions highlighted strategies to engage private-sector innovation, promote workforce development, and ensure the defense industrial base can quickly adapt to emerging challenges.

Key Components:

- Re-imagining the Arsenal for Democracy
- Revitalizing U.S. Manufacturing for Defense
- Engaging High-Tech and Entrepreneurial Sectors

This workshop included twelve participants from the DoD, industry, and Congressional staff leaders who have been active in defense reforms.

Recommendations

1. Advance Market Commitments (AMCs):

Use AMCs to ensure predictable markets for defense technologies, encouraging private-sector investment in innovation. DoD's current procurement strategy is often reactive, waiting for companies to propose solutions versus proactively creating a market. By guaranteeing future purchases, the DoD can de-risk investments for commercial partners, accelerating the development and deployment of critical technologies. Private industry has demonstrated they can deliver better, faster, and more cost-effective solutions when the government commits to a predictable and scalable market. AMCs have proven effective in other industries, such as pharmaceuticals, and offer significant potential for defense applications.

2. Strengthening Domestic Manufacturing for Defense:

Establish a holistic initiative to create a secure, resilient, and scalable domestic manufacturing base for defense technologies that reduces the U.S.'s reliance on foreign suppliers. Collaboration with private industry and allied nations should be prioritized to create a network of manufacturing hubs capable of rapidly transitioning technologies from prototype to mass production. This includes strategically acquiring and stockpiling critical components and investing in training and upskilling programs to develop a modern manufacturing workforce capable of using cutting-edge technologies to meet the growing demand of defense needs.

3. Bridging Innovation and Manufacturing:

Encourage the U.S. manufacturing sector to partner with rapidly growing and scaling companies to leverage existing traditional and commercial manufacturing expertise outside of the Defense industry to effectively scale emerging technology and accelerate delivery of advanced capabilities to the warfighter. Use the model of existing programs like The Strategic Financial Increase (STRATFI) to create new programs or expansions that incentivize these partnerships by offering matching funds or co-investment opportunities into manufacturing facilities, reducing the financial burden on private industry while accelerating production timelines.

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WORKSHOP C: A NATIONAL SECURITY VALUE FOCUSED BUSINESS MODEL

Summary

This workshop supported the development of value-focused business models that align with and capitalize on the strengths of the private-sector to meet critical national security needs. Participants discussed methods for integrating private capital considerations into DoD planning, applying commercial product development practices into acquisition processes, properly incentivizing and rewarding innovative and risk-taking companies and better utilizing as-a-service business models.

Key Components:

- Private Sector Thought Leadership
- Private Capital Integration
- Commercial Product Development
- Contracting Reform
- Value-based Decisions
- New Business Models

This workshop included roughly fifteen participants from the DoD, industry, and Congressional staff leaders who have been active in defense reforms.

Recommendations

1. Dynamic Capability Marketplace:

Develop a central DoD marketplace for showcasing and sourcing innovative solutions, incorporating user feedback, and allowing industry access to easily update their product/service offerings. This marketplace would streamline procurement by providing a transparent platform for evaluating and acquiring cutting-edge technologies and replace the legacy tools and techniques contracting offices are using to conduct market research, accelerating adoption of more commercial products. It would also serve as a demand signal for industry, encouraging the development of solutions aligned with DoD priorities.

Implementation Actions

- a. Congress direct the Defense Innovation Unit (DIU) and the Chief Digital and Artificial Intelligence Office (CDAO) to build and maintain the DCM, in conjunction with the military services, CCMDs, and industry, utilizing best practices from CDAO's Tradewinds Solution Marketplace.
- b. DIU publish quarterly updates to cleared industry partners on the desired capability services to serve as a demand signal to investors and companies, supporting Independent Research and Development (IR&D) and Capital Expenditure (CAPEX) investments.
- c. Have the Defense Pricing and Contracting (DPC) office issue a memorandum directing contracting offices to use this marketplace as the primary source of market intelligence.

2. Capability-as-a-Service Models:

Encourage as-a-service contracts for scalable, cost-efficient, and updatable solutions. The Section 809 Panel noted the current supplies and services model needs to be updated to provide more flexible purchasing categories. Traditional services acquisition rules should not apply to consumption-based solutions or to any hybrid contract whose primary purpose

is to implement solutions. By adopting this model, the DoD can leverage private-sector capabilities while reducing upfront costs and long-term maintenance burdens. The Space Force through its Commercial Satellite Communications Office (CSCO) and the Army through its Pilot Leasing Program have recognized the value of leveraging commercial innovation and the benefits of outsourcing some of its operations. This model could also prove useful with software services, supporting continuous integration and delivery of software that's critical for modern defense operations.

Implementation Actions:

- a. Congress provide funding flexibility for acquisition professionals to procure consumption-based solutions without fear of violating the Anti-Deficiency Act or Impoundment Act.
- b. Congress direct creation of a new subcategory of services in FAR Part 37, Service Contracting, called Consumption-Based Solutions defined as having the following elements:
 - Any combination of hardware/equipment, software, and labor/services that together provide a seamless capability
 - Has the ability to be metered and billed based on actual usage
 - Has predetermined pricing per resource unit
 - Includes the ability to rapidly scale up or down
- c. Congress direct the creation of a new contract type called Fixed-Price Resource Units to FAR Subpart 16.2, that establishes a fixed priced per unit of measure as the preferred contract type for consumption-based solutions, eliminates any special approvals, can be incrementally funded, and is supported by FAR Part 12 procedures.

3. Expand Combatant Command Procurement:

Empower CCMDs to address capability gaps with dedicated funding and streamlined acquisition processes to address capability gaps in a timely manner. This shift would allow operational units to procure solutions tailored to their unique needs, enhancing readiness and responsiveness. Current programs like DIU 3.0, RDER, and APFIT have tried to meet CCMDs needs, but lack of funding assurance from year to year does not provide the longevity needed for the current and ever-evolving operational needs.

Implementation Actions:

- a. Congress approve the creation of an Operational Performance Working Capital Fund (DWCF) to better leverage O&M funds for longer-term capabilities.
- b. Congress mandate DoD allocate 3% of its investment budget to the combatant commands for fielding technology.

4. Incentivize IR&D Investments:

Encourage IR&D by creating frameworks that reward companies for investing in innovative solutions for defense needs. This could include tax incentives, streamlined contracting processes, and recognition of IR&D contributions during procurement evaluations. Government R&D is at the lowest level relative to Gross Domestic Product (GDP) we've seen in half a century; IR&D conversely has grown tenfold since federal R&D peaked in the 1960s. By fostering a culture of innovation and reducing barriers to entry, the DoD can tap into a broader pool of cutting-edge technologies while sharing development risks with industry. It also incentivizes industry to develop solutions targeted at immediate operational challenges.

Implementation Actions:

- a. Congress modify the definition of Non-Traditional Defense Contractor (NDC) to eliminate the cost accounting contract provision and substitute with a provision for companies that maintain a certain ratio (20%) of non-reimbursable IR&D relative to government reimbursed IR&D.
- b. Modify 10 U.S.C. 3014 to change "may" to "shall" so all NDC goods and services are treated as commercial.
- c. Rewrite the definition of a Non-Developmental Item in FAR 2.101 to identify a product that "was developed exclusively at private expense" to exclude "sold in substantial quantities" and include "offered", to support creation of new products and avoid prejudicing a company that is focused on addressing specific government problem sets.
- d. Create contractual mechanisms to provide a contract with a defined duration and scope that supports recoupment of a company's investment when they use their own IR&D funding to meet a government need.

Overall Retreat Recommendations

SUMMARY OF KEY OUTCOMES

The retreat underscored the urgency of:

- Establishing adaptive budget frameworks
- Leveraging private sector expertise and investment
- Promoting rapid adoption of emerging technologies
- Enhancing transparency and collaboration across stakeholders

Strategic Insights for Future Initiatives

- **Policy and Legislative Support:** Advocate for regulatory reforms to enable agile procurement and budgeting. Simplifying bureaucratic processes would reduce delays and foster innovation, ensuring the DoD remains competitive in a fast-changing global landscape.
- **Emphasis on Public-Private Partnerships:** By fostering collaboration between government agencies and private industry, the U.S. can accelerate the development, production, and deployment of critical technologies. These partnerships leverage private-sector innovation and resources to address complex security challenges, ensuring a robust and adaptable defense ecosystem.
- **Focus on Talent and Workforce Development:** Develop training programs to align talent with evolving defense needs, most notably in the manufacturing sector to keep pace with China. Investing in workforce skills ensures the DoD can effectively implement and manage advanced technologies without relying on foreign nations.
- **Sustainability in Innovation:** Prioritize long-term investment in technologies and infrastructure that enhance U.S. defense capabilities. Fostering a culture of continuous improvement ensures the DoD remains agile and prepared for future challenges.

CONCLUSION

By publicizing these recommendations, the Creative Defense Foundation aims to drive meaningful transformation in national security investments, ensuring the United States remains a global leader in defense innovation.



**TIME IS SHORT
AND THE STAKES
ARE HIGH.**

To improve our national defense,
we're going on offense.

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