

2026 State and Local Government Predictions

# What's Next?



**The year ahead will reward state and local government finance leaders who operate as strategic risk architects and culture builders — not merely stewards of budgets.** The evolving mandate demands a new kind of leadership, one that integrates technology, fosters a culture of continuous improvement, and connects financial stewardship to resilience, sustainability, and equity.

In our recent article, we discussed BDO's [seven predictions](#) for the state and local government sector for 2026 and how we expect them to impact CFOs and controllers. In this article, we discuss what's next — how CFOs and controllers can take action and shift their mindsets to support new imperatives in the year ahead.



# Revenue Volatility Changes Forecasting Approaches

The question is no longer, “What will our revenues be?” but rather, “What conditions will make our revenues most resilient?” Finance leaders must champion a culture of strategic foresight — where scenario engineering is embedded into everyday practice and adaptability is viewed as a core organizational strength. By continuously testing assumptions and preparing for multiple outcomes, governments can safeguard fiscal health and deliver on their mission, regardless of economic uncertainty.

## ACTION STEPS

### **Engineer multiple financial scenarios.**

Develop and regularly update a suite of financial scenarios, including baseline, stress, and extreme cases. Factor in interest rate changes, tax revenue sensitivity, and potential reversals or clawbacks of grant funding. Use these scenarios to inform decision-making and contingency planning across the organization.

### **Automate and modernize forecasting models.**

Transition from static spreadsheets to dynamic dashboards that automatically refresh data monthly. Leverage automation to make sure scenario analysis is timely, accurate, and actionable, allowing leaders to respond quickly to emerging identified trends.

### **Integrate capital and operating forecasts.**

Align capital planning with operating forecasts to support long-term sustainability. Move beyond single-year budget balancing and adopt an integrated approach that considers the full lifecycle of assets, programs, and funding sources.

### **Foster a culture of strategic foresight.**

Encourage teams to think beyond what is likely and actively engage in what-if analysis. Promote collaboration across departments to surface risks and opportunities and empower staff to contribute to scenario planning and resilience-building efforts.

# Innovation Transforms the Public Finance Office

Modernization is not a finite capital project; it is a dynamic, continuous improvement cycle with measurable ROI. Finance leaders must actively foster a culture that welcomes change, values experimentation, and prioritizes ongoing development. By embedding digital transformation into the organizational DNA and empowering teams to innovate, CFOs and controllers can build fiscal resilience, agility, and accountability that endures through any era of constraint.

## ACTION STEPS

### **Implement robotic process automation (RPA).**

RPA is a technology that uses software robots to automate repetitive, rules-based digital tasks that humans typically perform. Governments can deploy RPA for repetitive finance tasks, such as vendor payments, reconciliations, and grant drawdowns, to streamline operations. Freeing staff from manual processes allows them to focus on analysis, strategic initiatives, and cross-departmental collaboration, reinforcing a culture of continuous improvement.

### **Integrate AI-driven analytics.**

Embed AI-powered analytics into procurement, payroll, and expense systems to flag anomalies in real time. Encourage staff to leverage these insights for proactive risk management and foster a mindset where data-driven decision-making is the norm.

### **Consolidate core systems.**

Unify ERP, budgeting, and asset management platforms to eliminate data silos and support evidence-based decision-making. Promote transparency and collaboration across teams, making sure that information flows seamlessly and everyone is empowered to contribute to organizational goals.

### **Cultivate a culture of digital adoption.**

Lead by example in championing digital modernization. Provide ongoing training, recognize innovation, and encourage staff to challenge legacy processes. Create an environment where adaptability, learning, and accountability are core values, and where embracing innovative technology is seen as an opportunity for professional growth.

# 3

## Cyberthreats Will Increase in Materiality and Sophistication

Cybersecurity is not just a technical issue; it is an audit finding waiting to happen. Finance leaders must act decisively to embed cybersecurity into core financial controls, moving from reactive compliance to proactive risk management. By fostering a culture of vigilance, transparency, and shared responsibility, CFOs and controllers can protect organizational assets, maintain stakeholder trust, and enhance financial resilience in an increasingly digital world.

### ACTION STEPS

#### **Conduct tabletop exercises.**

Regularly simulate ransomware or data-lock events through tabletop exercises involving finance, IT, and operational teams. Use these exercises to identify vulnerabilities, refine response protocols, and foster a culture of preparedness and cross-functional collaboration. The plan should also consider daily operations without technology and the acceptable length of time without systems. A resilience plan should be part of the process and define roles and responsibilities of personnel, including internal and external communications and interacting with regulatory agencies.

#### **Establish a financial risk lens on cybersecurity.**

Collaborate closely with IT to quantify the potential financial impacts of cyber threats, including disruptions to cash flow, operations, and compliance. Integrate cyber risk metrics into financial reporting and risk management frameworks, making sure leadership has clear visibility into exposure and mitigation strategies.

#### **Enforce cybersecurity standards for vendors and subrecipients.**

Require all vendors and subrecipients to meet minimum cybersecurity standards as a condition of doing business. Incorporate cyber risk assessments into procurement and grant management processes, reinforcing accountability throughout the supply chain. Third-party vendors should be re-assessed at least annually, or more frequently if significant changes occur with the services being provided to the organization by the third-party vendor(s).

#### **Promote a culture of vigilance and accountability.**

Encourage staff at all levels to recognize their role in safeguarding financial data and systems. Provide ongoing training, communicate emerging threats, and celebrate proactive risk management behaviors. Along with training, applications or solutions should be implemented to monitor and quarantine spam messages, adverse files and scripts, and reduce the risk of out-bound data that has not been authorized.

# Federal Funding Scrutiny Will Increase

Grants should be managed as a portfolio of risk-weighted assets, not merely as a stack of reimbursements. It's crucial that finance leaders instill a culture where grant stewardship is strategic, data-driven, and anticipatory. By embedding risk management practices and fostering cross-functional accountability, CFOs and controllers can safeguard public resources, mitigate compliance risks, and enhance the impact of every grant dollar.

## ACTION STEPS

### **Reassess grant documentation and monitoring protocols.**

Conduct a thorough review of grant documentation and subrecipient monitoring procedures in accordance with 2 CFR 200 and Uniform Guidance. Make sure protocols are robust, up-to-date, and aligned with evolving regulatory expectations, fostering a culture of compliance and accountability.

### **Develop an integrated grants risk dashboard.**

Create a dynamic dashboard that consolidates fiscal, programmatic, and compliance metrics for all grants. Use this tool to provide real-time visibility into risk exposure, track key performance indicators, and support evidence-based decision-making across departments.

### **Train finance teams on early warning signs.**

Equip finance staff with the skills to identify early indicators of noncompliance, such as delayed reporting, budget overruns, or documentation gaps. Shift the focus from reactive responses to audit findings to proactive risk detection and mitigation.

### **Foster a culture of strategic grant stewardship.**

Encourage teams to approach grant management with the same rigor as financial asset management. Promote open communication about risks, celebrate proactive compliance efforts, and incentivize continuous improvement in grant oversight.

# Workforce Woes Will Threaten the Stability of Public Sector Finance Functions

An organization's most valuable asset is its people. Workforce risk is the silent liability on every balance sheet. Mitigate it with deliberate talent design, strategic use of technology, and a culture that prioritizes learning, adaptability, and shared success. By embedding these principles into workforce planning and knowledge management, CFOs and controllers can build resilient teams capable of navigating disruption and driving sustained organizational performance.

## ACTION STEPS

### **Develop succession maps and cross-train for redundancy.**

Create detailed succession plans for every key finance role and implement cross-training programs to build redundancy. Encourage a culture where knowledge sharing and mentorship are valued, and critical skills and expertise are distributed across the team.

### **Establish digital playbooks and standard operating procedure (SOP) libraries.**

Leverage technology to build comprehensive digital playbooks and SOP libraries. Use cloud-based platforms to preserve institutional knowledge, facilitate easy access, and allow for real-time updates as processes evolve.

### **Offer micro-credential programs.**

Launch targeted micro-credential programs in areas such as data analytics, AI literacy, and performance management. Empower staff to continuously upskill and adapt to emerging technologies, fostering a culture of lifelong learning and future-readiness.

### **Promote a culture of knowledge sharing and innovation.**

Recognize and reward employees who contribute to institutional knowledge and drive process improvements. Encourage collaboration across departments and create forums for sharing best practices, lessons learned, and innovative solutions.

# Resilience, Sustainability, and Equity Considerations Will Drive Funding Priorities in 2026

6

Financial stewardship now extends beyond the balance sheet — it encompasses environmental sustainability and social equity. Leaders must champion a culture where fiscal decisions are evaluated through the lens of long-term resilience and community impact. By embedding these values into fiscal strategy and leveraging technology for data-driven insights, CFOs and controllers can build organizations that are not only financially sound, but also environmentally and socially durable.

## ACTION STEPS

### **Align capital improvement plans (CIPs) with resilience goals.**

Make sure that CIPs explicitly support climate resilience objectives such as flood mitigation and energy efficiency. Use digital modeling and geospatial analysis to prioritize investments that protect vulnerable assets and communities.

### **Quantify lifecycle costs in capital decisions.**

Integrate technology-driven lifecycle cost analysis, including maintenance, energy consumption, and environmental impact, into capital investment evaluations. Encourage a culture of long-term thinking, where decisions are made with full visibility into future costs and benefits.

### **Apply equity impact assessments in budgeting.**

Use data analytics and stakeholder engagement tools to conduct equity impact assessments during the budgeting process. Make sure that resource distribution is balanced and that investments address the needs of historically underserved populations.

### **Foster a culture of inclusive and sustainable stewardship.**

Promote open dialogue about the intersection of fiscal, environmental, and social goals. Encourage teams to collaborate across departments, share best practices, and innovate solutions that advance resilience, sustainability, and equity.

# Demands for Transparency in Public Finance Will Grow

7

Transparency is the foundation of public trust, and trust is the currency that supports flexibility during challenging budget cycles. Finance leaders must champion a culture where openness, clarity, and proactive communication are woven into every aspect of governance. By leveraging technology and prioritizing narrative communication, CFOs and controllers can build resilient relationships with boards, councils, and citizens, allowing credibility and support in both prosperous and constrained times.

## ACTION STEPS

### **Deploy interactive dashboards and citizen-facing portals.**

Use modern data visualization platforms to create interactive dashboards and financial portals that present revenue, spending, and performance metrics in an accessible format. Empower citizens and stakeholders to explore financial data, fostering greater engagement and understanding.

### **Simplify disclosures with executive summaries.**

Integrate GASB and GAAP disclosures into concise executive summaries that highlight key trends, risks, and outcomes. Use plain language and visual aids to make complex financial information digestible for non-experts, supporting informed decision-making at all levels.

### **Conduct pre-audit briefings.**

Hold regular pre-audit briefings with management and elected officials to align expectations, materiality thresholds, and areas of focus. Encourage open dialogue on financial risks and opportunities, reinforcing a culture of collaboration and shared accountability.

### **Promote a culture of transparent communication.**

Train finance teams to communicate clearly and confidently with diverse audiences. Recognize and reward efforts to enhance transparency and encourage continuous improvement in public reporting and stakeholder engagement.

# The Mandate is Clear

For CFOs and controllers to successfully navigate challenges and capitalize on opportunities in the year ahead, they'll need to:

- ▶ **Anticipate disruption** before it appears in financial statements by embedding scenario engineering, continuous budgeting, and proactive risk management into daily practice.
- ▶ **Invest in foresight tools and digital modernization** as diligently as they invest in audit readiness, leveraging automation, analytics, and interactive platforms to drive agility and transparency.
- ▶ **Create dynamic feedback loops** between fiscal data, operational metrics, and policy outcomes, making sure that decisions are data-driven and aligned with long-term community goals.
- ▶ **Champion a culture of collaboration, learning, and accountability**, empowering teams to innovate, adapt, and communicate with clarity across all levels of governance.

Governments that embrace this proactive, technology-enabled, and culturally agile posture will not only weather the coming fiscal pressures; they will set a new standard for resilient, equitable, and future-ready public finance leadership.



## How BDO Can Help

**At BDO, we're dedicated to helping governments and communities thrive.**

Our State and Local Government practice offers comprehensive, proactive, and tailored approaches to help state and local governments address a wide range of challenges, from revenue volatility to cybersecurity threats. Our deep experience means that we not only understand the challenges you're facing but can also help you identify and execute the right strategy to move forward.