

# 2026 State and Local Government Industry Predictions



As 2026 approaches, state and local governments face a paradox, with solid fiscal reserves in many jurisdictions, but a tightening environment defined by slower revenue growth, rising costs, federal funding uncertainty, and accelerating citizen expectations. Exceptional finance leaders distinguish themselves by proactively engineering robust financial systems that anticipate challenges and seamlessly adapt to evolving demands, setting the standard rather than reacting to pressures.

**Below are BDO's seven predictions for the State and Local Government industry in the year ahead — and how every chief financial officer (CFO) and controller can effectively prepare and respond to them. ►**



# Revenue Volatility Changes Forecasting Approaches

Revenue volatility will be a defining feature of 2026. Uneven trends in property, sales, and income taxes, combined with the federal wind-down of pandemic-era grants and evolving federal spending, are exposing a wide array of structural imbalances for state and local governments. In this environment, traditional forecasting is no longer sufficient. Leading finance offices are adopting scenario engineering: a proactive discipline that goes beyond predicting a single future to designing, testing, and preparing for multiple outcomes.

Scenario engineering is the systematic development and analysis of diverse financial scenarios, ranging from baseline to stress and extreme cases. It incorporates key variables like interest rate fluctuations, tax elasticity, and the risk of grant funding clawbacks. This approach allows organizations to anticipate risks, identify opportunities, and build resilience into their financial strategies.



## Ready to navigate fiscal uncertainty?

Read our three-part series to learn what you need to do to prepare for revenue volatility and financial uncertainty in the year ahead.

# Innovation Transforms the Public Finance Office

AI, automation, and digital finance tools are transforming the public finance office, but modernization must go beyond technology purchases. True efficiency is achieved not only by integrating advanced solutions, but by fostering a culture that embraces continuous improvement, data-driven decision-making, and cross-functional collaboration.

For CFOs and controllers, this means leading a cultural shift where staff are empowered to question legacy processes, experiment with new workflows, and actively seek out opportunities for innovation. It requires moving away from a mindset of “business as usual” and cultivating an environment where adaptability, learning, and accountability are core values.

Leaders must champion transparency and open communication about the benefits and challenges of digital transformation. Training and professional development should be prioritized, making sure that teams are not only proficient with new tools, but also comfortable leveraging data and automation to drive strategic outcomes. By aligning organizational culture with modernization efforts, finance offices can unlock the full potential of technology, streamlining operations, improving accuracy, and enhancing fiscal resilience in an era of constraint.



# Cyberthreats Will Increase in Materiality and Sophistication

Cyber risk has evolved into a material financial risk, with direct implications for cash flow, operational continuity, and regulatory compliance. In today's environment, CFOs and controllers must elevate cybersecurity to the same level of scrutiny and discipline as traditional financial controls. This means treating cybersecurity as measurable, reportable, and auditable, integrating it into the fabric of financial management and organizational culture.

Advancing cybersecurity requires a shift from viewing it as solely an IT concern to recognizing it as a shared responsibility across finance and operations. Finance leaders must champion a culture where cyber risk is continuously assessed, openly discussed, and proactively managed as a critical component of fiscal resilience.



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# Federal Funding Scrutiny Will Increase

As federal funding recedes, the risks associated with compliance and potential clawbacks are escalating. 2026 will bring intensified scrutiny from the Office of Management and Budget (OMB), funding agencies inspectors generals, federal cognizant agencies, and state oversight agencies. In this environment, CFOs and controllers must elevate grant management from a transactional process to a strategic discipline — one that integrates risk management, accountability, and continuous improvement into every stage of the grant lifecycle.

Mastering grant risk management requires a cultural shift from viewing grants as a series of reimbursements to managing them as a dynamic portfolio of risk-weighted assets. This approach demands proactive oversight, cross-functional collaboration, and a commitment to transparency and compliance.



*“With federal scrutiny rising, grant management can't be an afterthought. CFOs must move from reacting to issues to actively managing risk, accountability, and compliance every step of the way.”*

**LEE KLUMPP**

Assurance National Technical Principal,  
State and Local Government

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

Retirement waves, persistent skill gaps, and competition from private sector finance functions pose significant threats to continuity and institutional resilience and competencies. In this environment, finance leaders must go beyond traditional talent management and create self-sustaining learning ecosystems that leverage technology and foster a culture of adaptability, collaboration, and continuous growth.

Re-engineering workforce and knowledge systems requires a dual focus — harnessing digital tools to capture and share institutional knowledge, and cultivating a culture where learning, innovation, and cross-functional teamwork are embedded into daily practice. By integrating technology with deliberate talent strategies, organizations can future proof their finance teams and support operational continuity in the face of evolving workforce risks.



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

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Climate resilience, sustainability, and equity are rapidly becoming central drivers of funding priorities and public expectations for state and local governments. Finance leaders must expand their definition of stewardship to encompass not only fiscal solvency, but also environmental and social durability. This requires a strategic integration of resilience, sustainability, and equity considerations into every aspect of fiscal planning and decision-making.

Achieving this integration demands both technological innovation and cultural shifts. Finance offices must leverage data analytics, digital modeling, and collaborative platforms to assess long-term impacts and support transparent, equitable resource allocation. At the same time, leaders must foster a culture where environmental and social outcomes are valued alongside financial metrics, and where cross-departmental collaboration is the norm.



# Demands for Transparency in Public Finance Will Grow

Boards, councils, and citizens increasingly demand clarity over complexity in public finance. The credibility of the CFO now hinges on the ability to communicate a compelling narrative, one that connects financial decisions directly to outcomes and public value. Elevating governance, transparency, and communication requires both technological innovation and a cultural commitment to openness, accountability, and stakeholder engagement.

Finance leaders must leverage digital tools to make financial information accessible and understandable, while fostering a culture where transparency is not just a compliance requirement, but a strategic asset. This means actively engaging stakeholders, simplifying complex disclosures, and making sure that every financial message is clear, relevant, and actionable.



# Are You Ready for the Year Ahead?

Even the most diligent organizations can't predict every shift in industry and market trends. The key to success lies in building resilience and agility, enabling your business to adapt to unexpected changes with confidence. Explore our curated resources to learn how strategic resilience can position you for a successful year.



**An Agile Framework for Navigating Economic Shifts**



**Activate Resilience in Your Organization**



**How AI Drives Strategic Resilience and Business ROI**



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