U.S. Municipal Markets

# Modernization Meets the Limits of Public-Sector Capacity, Results of 2026 HTS Public Finance Leaders Survey

*Public finance leaders are adopting & debating new technologies and confronting new demands while workforce, budget, and infrastructure constraints remain firmly in place.*

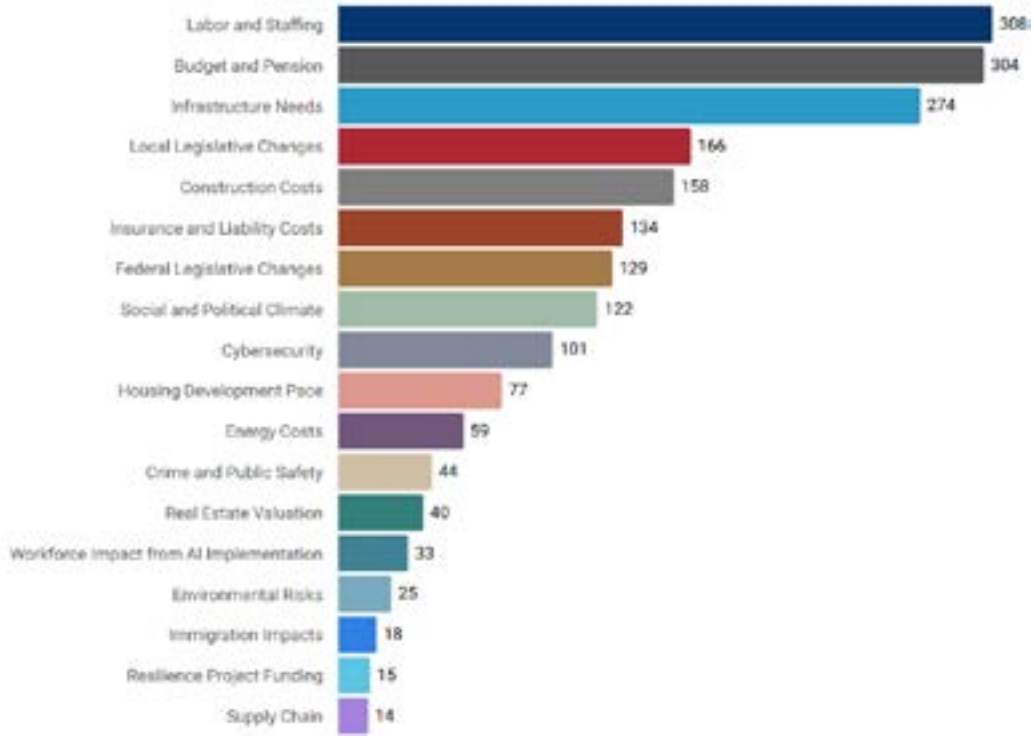
## Summary

Results from the 2026 HilltopSecurities Public Finance Leaders Survey suggest that public finance leaders have entered a period of accelerating technological change while many of government's traditional constraints remain firmly in place. Many of today's public finance pressures ultimately come down to capacity. Traditional challenges remain the leading concerns, while new technologies are creating additional demands for investment, training, planning, and oversight. The next question is no longer whether governments will modernize, but whether they can do so while continuing to meet longstanding obligations with limited resources.

*Many of today's public finance pressures ultimately come down to capacity.*

## Core Capacity Constraints Dominate Again this Year

**1. What are the biggest challenges facing your public entity in 2026?** Choose four (4)**.**




Source: HilltopSecurities.

Public entities are not facing one dominant challenge. They are confronting a capacity problem across their workforce, budgets, and infrastructure.

*Please see disclosure starting on page 9.*

The leading challenges facing public entities remain finding the people, financial flexibility, and infrastructure capacity needed to deliver public services. Labor and staffing ranked first at 54%, followed closely by budget and pension pressures at 53% and infrastructure needs at 48%. The narrow separation among those concerns may be more important than the ranking itself, which is similar to the 2025 results. Public entities are not confronting a single dominant problem. They are managing workforce shortages, fiscal pressures, and infrastructure demands simultaneously.

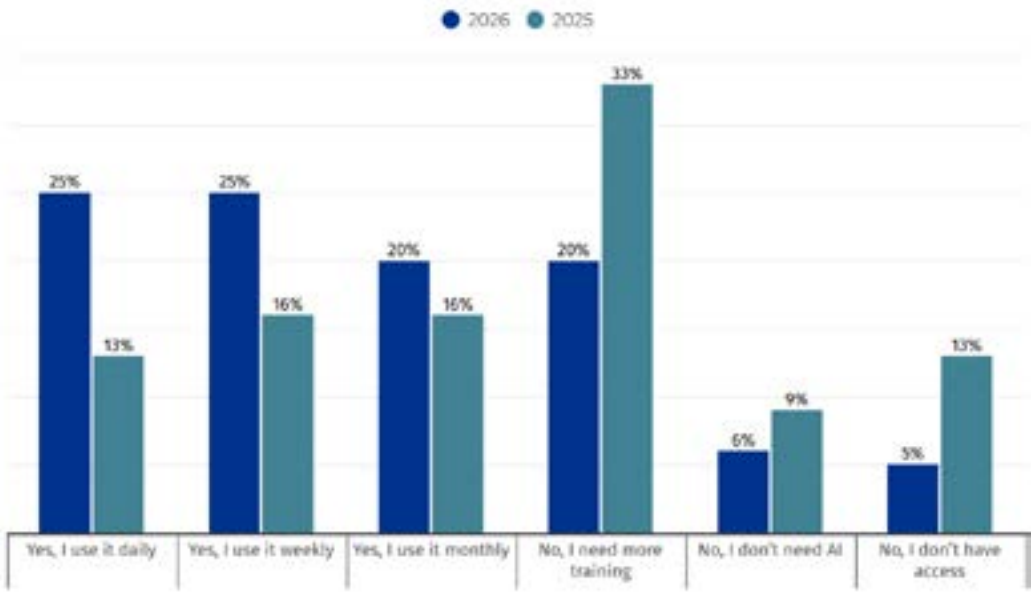
*Cybersecurity has dropped in importance in the ranking of challenges since 2024*

Findings from our survey also suggest that technological change is being layered onto existing constraints rather than replacing them. AI's workforce impact ranked relatively low as a standalone concern, and energy costs received limited responses compared with more immediate operational challenges. Cybersecurity has dropped in importance in the ranking of challenges since 2024. This does not suggest technology is unimportant. Instead, it suggests its significance may depend on whether it helps public entities address persistent workforce, budget, and infrastructure pressures. New tools, new development opportunities, and growing energy demands are arriving at a time when many governments remain focused on maintaining basic capacity. As a result, innovation may matter most where it strengthens the ability of public entities to meet longstanding obligations with limited resources.

## AI Adoption Shifts from Exploration to Everyday Operations

*New tools, new development opportunities, and growing energy demands are arriving at a time when many governments remain focused on maintaining basic capacity.*

**2. Are you using artificial intelligence in your current role?**




Source: HilltopSecurities.

**The most important finding is not simply that adoption increased. It is that daily and weekly use rose from 29% to 50% in one year.**

The use of generative artificial intelligence has moved well beyond experimentation in public finance. Nearly seven in ten respondents report using AI at least monthly, a significant increase from last year's survey. More importantly, daily and weekly use now accounts for a substantial share of respondents, suggesting AI is becoming part of regular workflows rather than an occasional tool.

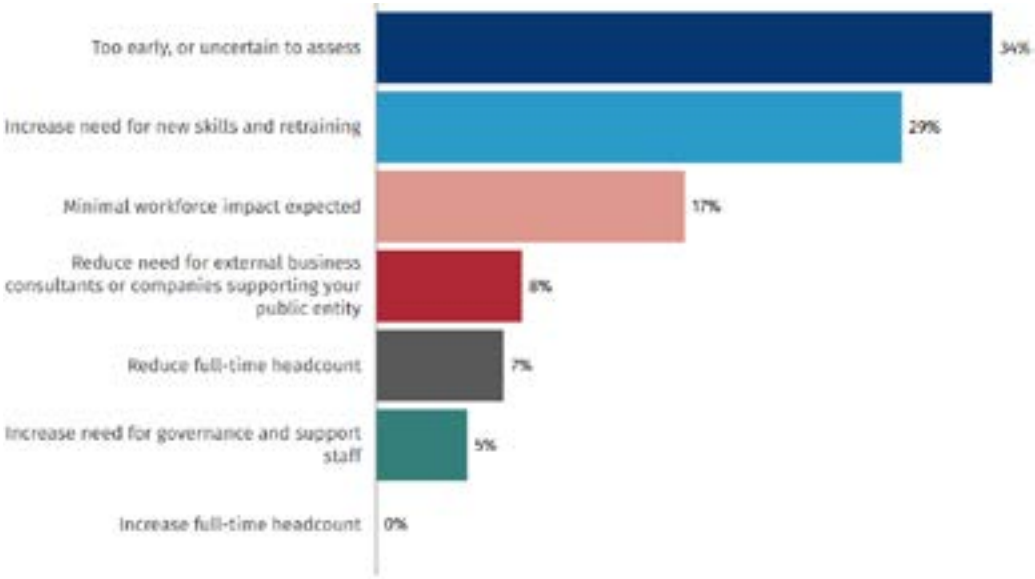
*The use of generative artificial intelligence has moved well beyond experimentation in public finance.*

While a meaningful share of respondents say they need additional training, very few believe AI is unnecessary or lack access to it. The findings suggest that public entities are moving from deciding whether to use AI to determining how to use it effectively and responsibly. The next step is not just a matter of broader adoption, which we do expect will continue in months and years to come. The next step for public finance leaders is putting AI to work in ways that make public entities more effective. Whether that means better analysis, faster workflows, or improved service delivery will depend less on the technology itself and more on how well organizations integrate AI into daily operations.

*The next step for public finance leaders is putting AI to work in ways that make public entities more effective.*

## AI Likely to Transform Skills; Public Entities Need More Time to Assess

**3. How do you expect AI to affect your workforce over the next three years?**




Source: HilltopSecurities.

*Uncertainty remains the leading view, but public finance leaders who anticipate workforce changes expect AI to transform skills before it reduces headcount.*

### Public finance leaders remain uncertain about how AI will affect their workforce.

Uncertainty remains the leading view, but public finance leaders who anticipate workforce changes expect AI to transform skills before it reduces headcount. Public finance leaders remain uncertain about how AI will affect their workforce. The largest group of respondents, 34%, say it is too early or they are still uncertain about the effects over the next three years. That uncertainty likely reflects both the increasing pace of adoption as shown above and the limited time many public entities have had to evaluate the results.

Among respondents who expect a clearer effect, the leading response is a greater need for new skills and retraining, cited by 29%. Only 7% anticipate reductions in full-time staffing, while 17% expect AI to have minimal workforce effects.

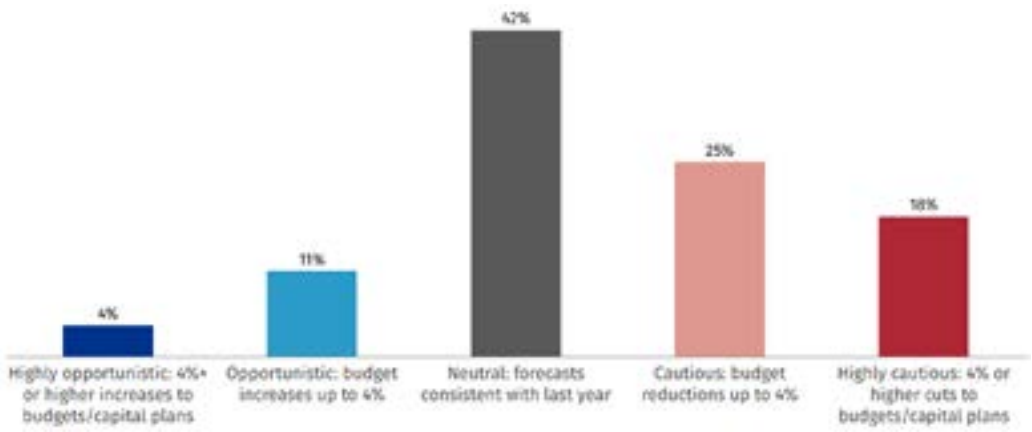
The findings do not support expectations of substantial public-sector job losses in the near term. Instead, they point to a period of workforce transition in which AI may change job responsibilities and required skills before it meaningfully changes headcount. For now, the clearest conclusion may be that public finance leaders expect change, but many still need more time to determine what that change will mean for their organizations.

*That uncertainty likely reflects both the increasing pace of adoption as shown above and the limited time many public entities have had to evaluate the results.*

## Looking to Do More with the Same or Less

**4. What type of change, if any, do you expect in your organization's budget given the current policy and economic environment?**

*Fiscal caution, rather than expansion, defines the current budget outlook for many public entities.*




Source: HilltopSecurities.

Fiscal caution, rather than expansion, defines the current budget outlook for many public entities. Roughly an equal share of respondents expect budgets to decline (43%) or remain unchanged (42%), while relatively few anticipate increases (15%). More importantly, a flat budget does not necessarily preserve operating capacity when labor, infrastructure, and construction costs remain among the leading concerns. Even modest reductions can force difficult choices when resources are already stretched.

*As public entities adapt to technological and economic change, many expect to do so without additional budget capacity, and a substantial share anticipates having even less.*

The findings do not specifically explain why individual entities expect budgets to rise or fall, but they do suggest that fiscal restraint is far more common than expansion. That reality may also influence how quickly public entities modernize technology, train employees, maintain service levels, or advance capital projects. As public entities adapt to technological and economic change, many expect to do so without additional budget capacity, and a substantial share anticipates having even less.



43%

Respondents expect some negative budgetary impact.

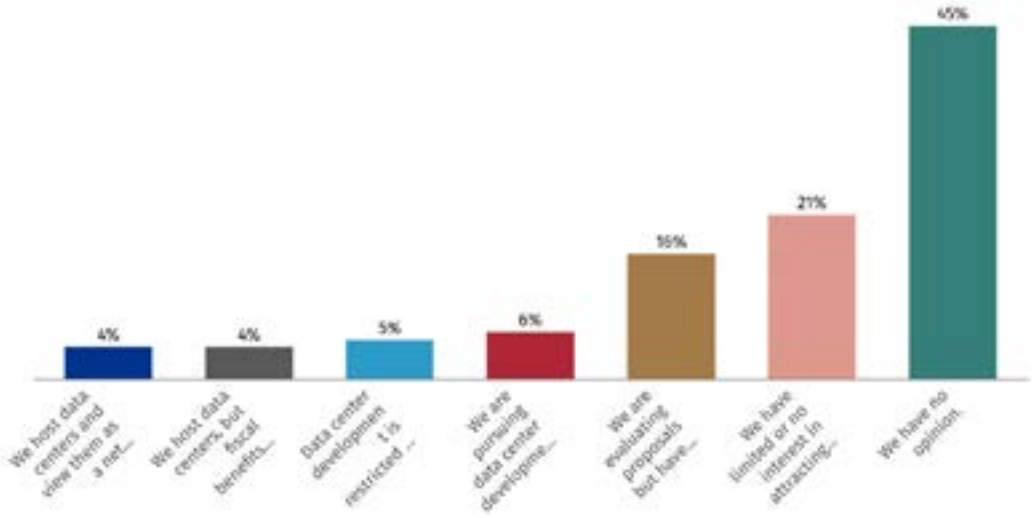


42%

Respondents expect virtually no budgetary impact given current environment.

## Cautious on Data Center Development

**5. Which statement best describes your entity's position on data center development?**




Source: HilltopSecurities.

Nearly half of respondents expressed no opinion, while another sizable group reported limited or no interest.

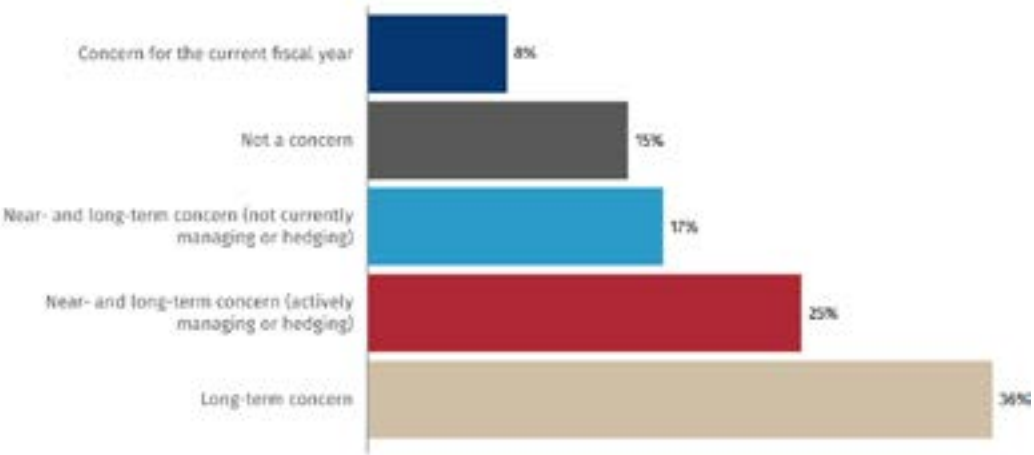
*Nearly half of respondents expressed no opinion, while another sizable group reported limited or no interest.*

Data centers may be among the most visible symbols of the new AI economy, but most public entities have not yet reached a clear position on their development. Nearly half of respondents expressed no opinion, while another sizable group reported limited or no interest. Only a small share are actively pursuing projects, and even among jurisdictions that already host data centers, views on their fiscal benefits are mixed.

*Data centers may be among the most visible symbols of the new AI economy, but most public entities have not yet reached a clear position on their development.*

## Energy Costs Emerging as a Long-Term Strategic Risk

**6. How does your entity view the risk of energy costs today?**




Source: HilltopSecurities.

More than four out of five respondents expressed concern about energy costs over some time horizon, with long-term concerns outweighing those focused solely on the current fiscal year.

*More than four out of five respondents expressed concern about energy costs over some time horizon, with long-term concerns outweighing those focused solely on the current fiscal year.*

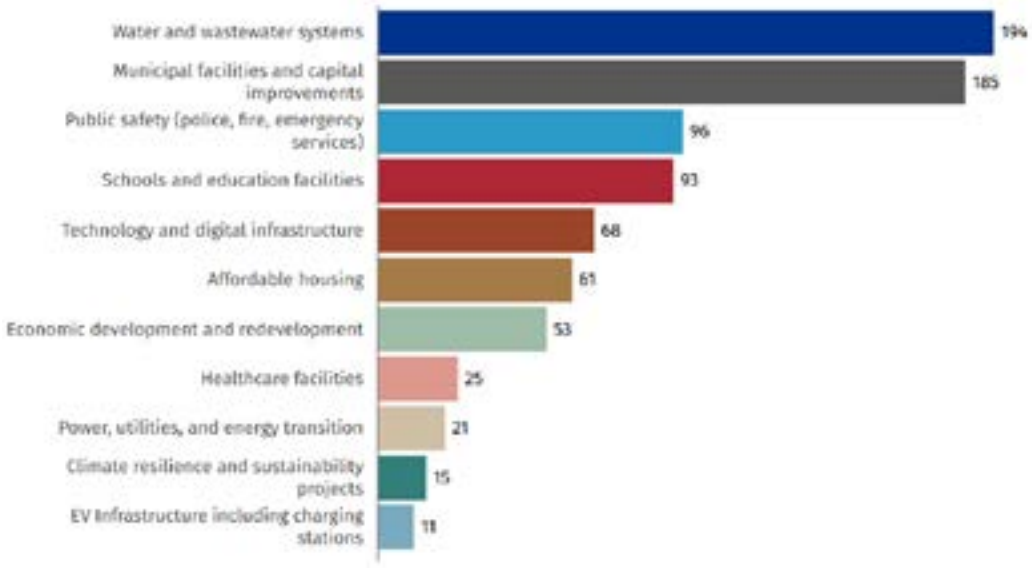
Energy costs are increasingly being viewed as a long-term financial and operating risk, even if they are not yet among the most pressing day-to-day challenges facing public entities. More than four out of five respondents expressed concern about energy costs over some time horizon, with long-term concerns outweighing those focused solely on the current fiscal year. The findings suggest that energy is less an immediate budget problem than a growing strategic consideration.

*Energy costs are increasingly being viewed as a long-term financial and operating risk, even if they are not yet among the most pressing day-to-day challenges facing public entities.*

That distinction is important. In Question 1, relatively few respondents identified energy costs as one of their top organizational challenges, indicating that workforce, budget, and infrastructure pressures remain higher priorities. Yet many still expect energy costs to affect their financial position over time. Energy exposure influences decisions about facilities, infrastructure, technology investments, transportation systems, and other long-lived public assets. As governments plan for future growth and capital investment, energy costs increasingly appear to be a factor that cannot be evaluated simply one budget cycle at a time.

## Essential Infrastructure and Municipal Facilities Anchor Public Borrowing Priorities

**7. If you were to issue debt next year, what would be your top two priorities? Choose two (2).**




Source: HilltopSecurities.

*Water and wastewater systems and municipal facilities form the clear top tier of borrowing priorities.*

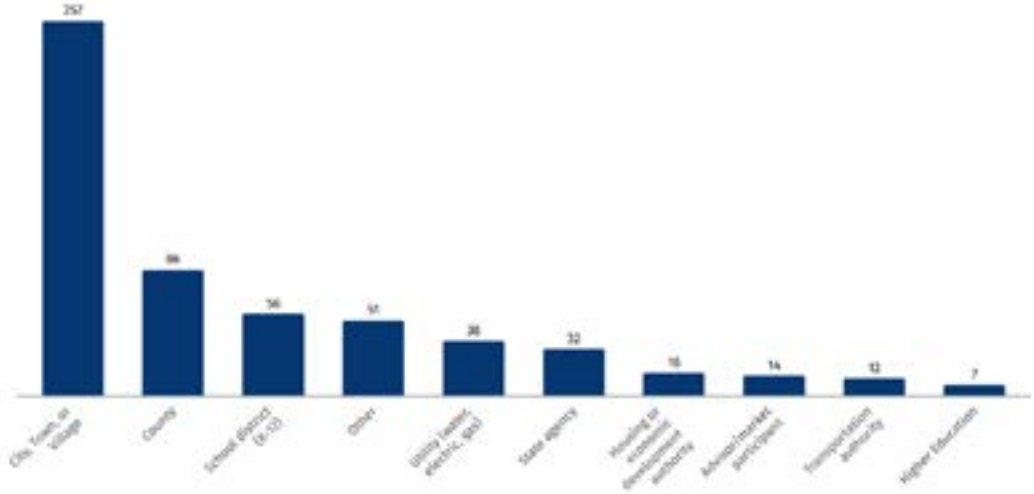
### Water and wastewater systems and municipal facilities form the clear top tier of borrowing priorities.

Public borrowing priorities remain rooted in essential infrastructure. This includes roads, bridges, transit systems, water and wastewater facilities, and buildings which all form the clear top tier of potential debt-financed projects according to the results from our 2026 survey. These results also suggest that while technology is changing how governments operate, it is not displacing the physical assets communities rely on every day. If anything, it could potentially increase the importance of them.

*Public borrowing priorities remain rooted in essential infrastructure.*

## Entity Representation

**8. What type of public entity do you represent?**




Source: HilltopSecurities.

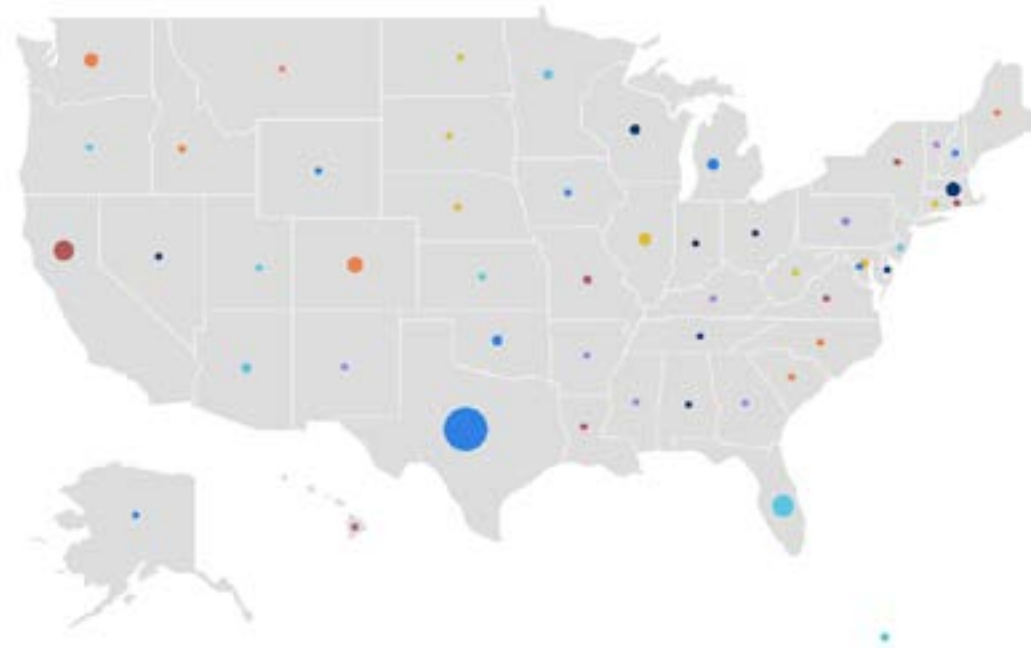
*Cities, towns, and villages account for 45% of the 569 completed responses, while counties represent another 15%.*

Cities, towns, and villages account for 45% of the 569 completed responses, while counties represent another 15%. School districts comprise 10%, followed by utilities at 7% and state agencies at 6%. The remaining participants include higher education, transportation, housing and development authorities, municipal market professionals, and several types of special-purpose entities. This breadth brings several parts of public finance into the results, but the concentration among general-purpose local governments should guide readers' interpretation. The findings most clearly reflect the pressures facing cities and counties and should not be assumed to represent every public-sector category equally.

*The findings most clearly reflect the pressures facing cities and counties and should not be assumed to represent every public-sector category equally.*

## Geographic Representation

**9. In what state is your public entity located?**



Source: HilltopSecurities.




*The paper/commentary was prepared by HilltopSecurities (HTS). It is intended for informational purposes only and does not constitute legal or investment advice, nor is it an offer or a solicitation of an offer to buy or sell any investment or other specific product. Information provided in this paper was obtained from sources that are believed to be reliable; however, it is not guaranteed to be correct, complete, or current, and is not intended to imply or establish standards of care applicable to any attorney or advisor in any particular circumstances. The statements within constitute the views of HTS as of the date of the document and may differ from the views of other divisions/departments of affiliate Hilltop Securities Inc. In addition, the views are subject to change without notice. This paper represents historical information only and is not an indication of future performance. This material has not been prepared in accordance with the guidelines or requirements to promote investment research, it is not a research report and is not intended as such. Sources available upon request.*

*Hilltop Securities Inc. is a registered broker-dealer, registered investment adviser and municipal advisor firm that does not provide tax or legal advice. HTS is a wholly owned subsidiary of Hilltop Holdings, Inc. (NYSE: HTH) located at 717 N. Harwood St., Suite 3400, Dallas, Texas 75201, (214) 859-1800, 833-4HILLTOP*

*©2026 Hilltop Securities Inc. | All rights reserved | MEMBER: NYSE/FINRA/SIPC*