

Tight Budgets, Available Funding:

How to Read the SLED Market Heading Into Q4





Introduction

Government budgets are tight. Competitive solicitation activity has slowed. Federal funding is shifting, and elections are creating uncertainty in some states.

Yet state and local technology spending continues to grow.

That apparent contradiction was one of the central themes of e.Republic's [Market Insights SLED Update – Q3](#), hosted by Joe Morris, Chief Innovation Officer; Noelle Knell, Executive Editor; and Steve Towns, VP of Content Strategy.

e.Republic forecasts \$160.2 billion in state and local IT spending for 2026, up 4 to 6 percent from 2025. At the same time, governors' proposed FY27 budgets show median general fund growth of just 0.6 percent. Both conditions can exist at once: Governments are under fiscal pressure while continuing to fund technology that addresses high-priority needs, mandated requirements, and operational challenges.

"Yes, there are shifts in budgets, and yes, there is some belt tightening and restructuring; but funding is still flowing, and technology projects are still moving forward," Morris said.

For companies selling into state and local government and education, that changes the question. Instead of asking simply whether government has money, sellers need to understand **where funding is available, what problems can still command it, and which purchasing paths can turn that funding into an opportunity.**

Budgets are tight, but the money is there

Technology spending is still growing, and deadlines are pushing projects forward.

STATE AND LOCAL IT SPENDING FORECAST, 2026

\$160.2B

Up 4–6% from 2025

GOVERNORS' PROPOSED FY27 GENERAL FUND GROWTH

0.6%

Median across states.
Budgets are tight.

Both are true: tight budgets, growing technology spend.

Tight Budgets Are Making the Value Conversation More Important

Fiscal pressure doesn't affect every technology investment equally.

Cybersecurity and AI remain high priorities. Accessibility requirements and other compliance deadlines create work that cannot simply be deferred. Federal policy changes affecting Medicaid and SNAP are creating new technology demands. Federal technology grants also remain available in important areas, even as individual programs and funding sources evolve.

The newly released [2026 Digital States Survey](#) reinforces that picture. Cybersecurity leads states' priorities for the next 12 to 18 months, followed by agency collaboration and shared services. AI, budget and cost control, constituent experience, workforce, application modernization, data governance, IT governance, and cloud computing round out the top 10.

But Morris connected two of those priorities—cost control and constituent experience—in a particularly important way.

"Government officials want to spend smarter and deliver more value to constituents. They want residents to feel like they're getting a return on investment from their tax dollars -- that government is working for them."

That is a useful distinction for industry.

In a constrained environment, ROI isn't necessarily just an internal calculation of dollars saved. The return can also be government's ability to deliver a better, faster, or more effective service to the constituent.

For sellers, that makes the value story broader. Efficiency and cost savings remain important, but so do capacity, service delivery, responsiveness, and the ability to demonstrate a tangible public outcome.

A Decline in RFPs Is Not the Same as a Decline in the Market

One of the easiest mistakes in the current environment may be using competitive solicitation volume as a proxy for the health of the entire SLED technology market.

Formal solicitations moderated through Q2 and Q3 in e.Republic's data. But a request for proposal (RFP) is only one way government buys.

Agencies can also purchase through cooperative agreements, state master contracts, statewide term contracts, existing contracts, renewals, extensions, amendments, and task orders. Those mechanisms become particularly important during periods of transition.

Morris described the distinction during the webinar: *"You really want to make sure you're paying attention to the vehicles and the means with which governments are buying."*

Q3: Buying is moving through more than one channel

Competitive solicitations are one lever. Contract vehicles are critical to how government purchases.

1 Competitive solicitations

Formal RFPs and bids—the most visible signal in the market, and one indicator of buying activity rather than a measure of total spending.

2 Contract vehicles

Cooperative agreements (e.g., NASPO ValuePoint, Sourcewell), state master contracts, and statewide term contracts let agencies buy without issuing a new solicitation.

3 Existing contracts

Renewals, extensions, amendments, and task orders keep projects moving on established terms.



Election cycles add another layer. Major new initiatives may pause as incoming administrations establish priorities, budgets, and leadership teams. Yet, essential work continues. Cities and counties operate on their own calendars, and existing contracts can provide a way to keep projects moving.

Cities, counties, and consolidated city/counties accounted for 53 percent of 2026 RFP records through September. And while states facing guaranteed leadership changes deserve closer attention, the overall decline in RFP activity among election states was similar to the decline in states without gubernatorial elections.

The lesson is to avoid treating “the SLED market” as if it moves at one speed.

Government Is Buying Technology—and the Capacity to Deliver It

Another important signal emerges when looking at what government is purchasing.

Services and support appeared in 63 percent of 2026 RFPs analyzed, while applications and data platforms appeared in 52 percent. Cloud, hardware, networking, operational systems, and cybersecurity remain substantial parts of the opportunity mix.

More telling is how frequently technology purchases include a services component. Services and support accompanied 86 percent of cloud opportunities,

81 percent of application and data-platform opportunities, 71 percent of core IT hardware opportunities, and 70 percent of networking and communications opportunities.

There’s a reason.

Government continues to face significant workforce and skills gaps. Eighty-four percent of states report needing additional cybersecurity staff, 76 percent need AI modeling expertise, and nearly two-thirds cite needs related to application development, integration, modernization, and data analytics.

Industry increasingly helps close that gap.

Knell said conversations with CIOs reinforced just how important that relationship has become: “Those partners are just absolutely critical, more critical than ever.... CIOs really need those partners, really count on them to supplement the abilities and skills they have in-house.”

Towns added another dimension: The opportunity isn’t simply to supply missing labor.

Government organizations are also looking for partners that can help **build their internal capabilities**—particularly around emerging skills such as AI.

The strongest partners may therefore leave government with more than a completed implementation. They can leave the customer with a workforce better prepared to operate, sustain, and expand what was implemented.

Technology opportunities come with delivery requirements

Implementation and ongoing support accompany much of the product demand.

SHARE OF RFPs IN EACH BUYING AREA THAT ALSO INCLUDE SERVICES/SUPPORT TAGS

86%

Cloud



81%

Applications and data platforms



71%

Core IT hardware



70%

Networking and communications



AI Is Becoming Infrastructure—and Creating New Entry Points

AI provides perhaps the clearest example of why sellers need to look beneath the headline numbers.

AI was explicitly tagged in 1,127 RFPs through September, representing 6.2 percent of the analyzed solicitations. But that figure doesn't capture AI capabilities being added to products and contracts government already has.

As Morris noted, embedded AI means adoption can occur without generating a new AI-specific competitive solicitation.

And the trajectory is unmistakable.

Knell described the change between the 2024 and 2026 Digital States surveys this way: *“AI has moved from experiment to infrastructure. It really is everywhere.”*

AI-augmented application development, for example, rose from 16 percent of responding states reporting implementation in 2024 to 53 percent in 2026. AI-assisted contract review increased from 2 percent to 22 percent.

The opportunity also extends beyond selling an AI product.

Data readiness, governance, cybersecurity, modernization, integration, and workforce skills

all become part of enabling AI. Knell highlighted growing interest in using AI itself to improve data management—helping government address the quality and readiness of the data required for more sophisticated applications.

That creates a broader market around AI than the number of procurements explicitly labeled “AI” suggests.

The Industry Relationship Is Changing, Too

Perhaps the most forward-looking signal from the discussion was how some governments and technology companies are beginning to develop solutions together.

Recent AI innovation labs launched by government technology suppliers illustrate a model built around closer collaboration with public-sector customers. Rather than arriving with a fully formed solution and searching for a government problem it can solve, vendors can work alongside agencies to develop specific use cases and determine what can ultimately scale.

Knell described the approach: *“You’re not coming in with a solution that’ll solve all your problems. You’re coming in with a technology and, you know, a listening ear to figure out how you get that to a place where you can scale.”*

That has implications well beyond AI.

When technology, government operations, and policy are changing rapidly, **proximity to the customer becomes a form of market intelligence.** Earlier engagement can help vendors understand the operational problem, shape a government-ready solution, develop proof, and learn what will be required to scale it.

Towns noted that e.Republic’s recent AI Council discussions included multiple examples of cities and counties working with vendors on use cases that could ultimately produce solutions suited both to the original jurisdiction and to other governments facing similar needs.

For vendors, that moves early engagement beyond relationship building. It can become part of product development itself.



What This Means for Your SLED GTM Strategy

The Q3 market signals point to a SLED environment that is active, but increasingly difficult to interpret from the surface.

Budget pressure is real, but so is technology spending. Competitive RFP activity can slow while purchasing continues through other channels. AI may appear in a relatively small percentage of solicitations while becoming embedded across the technology environment. And workforce shortages can turn a product opportunity into an implementation, services, training, and support opportunity.

That calls for greater precision from sales and marketing.

- **Stay close to career teams.** IT, program, and procurement professionals provide continuity through leadership transitions and can help sellers understand what remains actionable.
- **Know how your customers can buy.** Cooperative agreements, master contracts, existing vehicles, and strategic partners can be as important as monitoring competitive solicitations.
- **Follow the operational problem.** AI, cybersecurity, modernization, data, and

constituent experience increasingly intersect. The opportunity may not carry the label your company expects.

- **Lead with delivery and proof.** Buyers want to know what works, how it will be implemented, and what results it has produced elsewhere.
- **Connect ROI to the public outcome.** Cost savings matter, but so does government's ability to deliver better service, increase capacity, and give constituents a return they can see and experience.

The Signal Heading Into Q4

The market is not standing still. The routes to opportunity are becoming more varied.

For SLED sellers, understanding where money exists is only the beginning. The competitive advantage comes from understanding **why an initiative is moving, where its funding can come from, how the organization can purchase it, who needs to support it, and what outcome will justify the investment.**

In a tighter and more complex market, better intelligence about how government operates can be just as important as knowing what government plans to buy.

What your sales and marketing teams should do next

Six moves that follow from what we are seeing.

1 Stay close to career teams

Deepen relationships with career IT, program, and procurement staff who outlast any administration, while monitoring election results and incoming leadership priorities.

2 Use the right vehicles

Get on cooperative and master contracts, or partner with a provider that already is.

3 Work the pipeline

1,055 open RFPs have October deadlines. Confirm evaluation, approval, and contracting milestones.

4 Engage before the RFP

Start conversations around security, AI, and shared services, where state priorities point.

5 Tailor by buyer level

States: cross-agency platforms. Counties: cost control and resilience. Cities: process automation and resident tools.

6 Lead with delivery and proof

Show integration, support, and training in the offer. Build content on use cases, data readiness, and governance.



Turn Insight Into Action

See how e.Republic can help you understand where the SLED market is moving, identify developing opportunities, reach the right public-sector leaders, and build visibility through market intelligence, events, and strategic marketing.

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