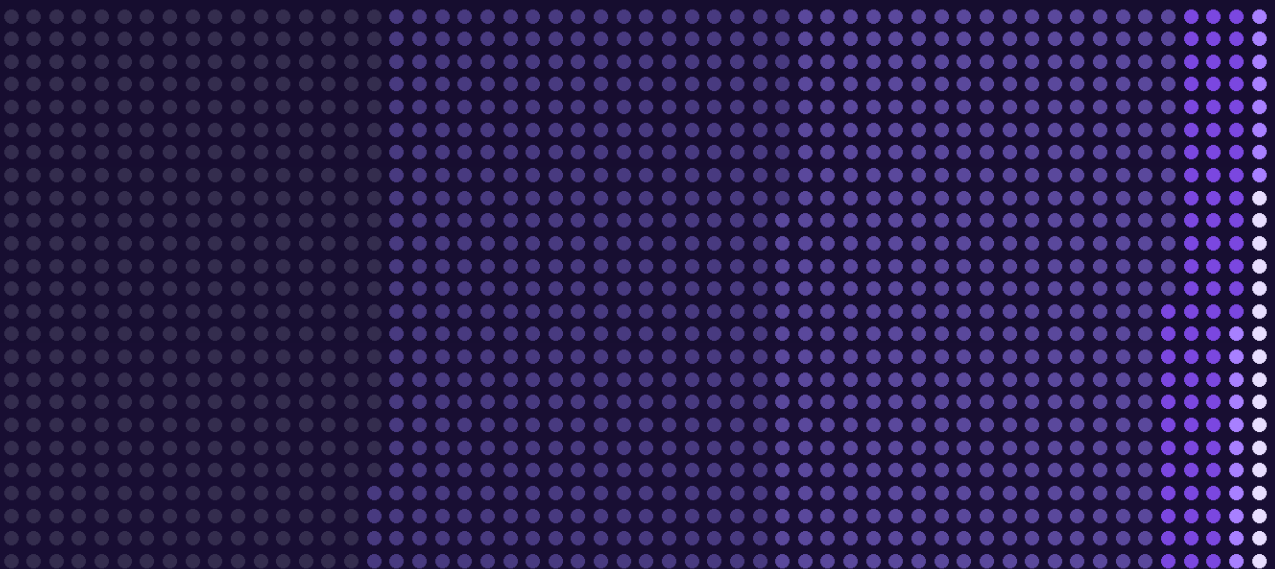




A CLOUDNURO PUBLIC SECTOR BENCHMARK REPORT

State of Public Sector AI Adoption 2026

A benchmark study of 1,400 cities, counties, and transit and utility agencies across the United States, examining AI adoption.



REPORT

Contents

	Executive Summary.....	3
	Methodology.....	5
01	The Adoption Landscape.....	7
02	Cities: Strong Interest, Limited Implementation.....	9
03	Counties: The Widest Gap.....	10
04	Transit and Utility: The Early Movers.....	11
05	The Governance Gap.....	12
06	Voice of the Field.....	13
07	Five Priorities for Public Sector Leaders.....	16
	Conclusion.....	17
	About CloudNuro.....	17
	References and Sources.....	18

OVERVIEW

Executive Summary

Public sector AI adoption is gaining momentum, but progress from experimentation to operational deployment remains limited, while governance, visibility, and cost management lag behind. CloudNuro’s analysis of 1,400 cities, counties, transit agencies, and utility organizations reveals a significant gap between interest in AI and the ability to deploy it at scale with appropriate oversight.

Adoption is growing, but deployment remains limited

Only 8.0% of the 1,400 agencies analyzed have verified AI adoption at the pilot stage or beyond. While 61.9% are discussing or exploring AI, 30.1% have no verified AI-specific activity. Just 2.6% have reached deployment or operational stages. The primary challenge is therefore not awareness, but converting interest into funded, governed pilots and successful implementations.

Adoption varies significantly by segment. Transit and utility organizations lead, with 12.2% demonstrating verified adoption, followed by counties at 7.8% and cities at 4.8%. Cities represent a substantial opportunity for acceleration, with 74% in discussion or exploration. Counties face a different challenge, with 45% showing no verified AI activity.

4.8%

Cities with verified AI adoption
(N=500)

7.8%

Counties with verified AI
adoption (N=500)

12.2%

Transit & Utility organizations
with verified AI adoption (N=400)

Governance and cost visibility are the critical blind spots

AI adoption is progressing faster than the controls needed to manage its financial, operational, security, and compliance implications. Even among transit and utility organizations with verified AI adoption, **only 67.3% show publicly visible evidence of AI governance.**

The State of Public Sector AI Adoption Survey 2026 reinforces this concern. **Although 64% of respondents report AI pilots or more advanced implementations, only 36% report strong or near-full visibility into AI usage, 18% report clear visibility into AI costs, and 9% report established governance and oversight.** Unauthorized or unmanaged AI tools are the leading reported concern, while budget and cost are the most frequently cited barriers to expanding adoption. These findings highlight the need for agencies to establish a reliable inventory of AI tools, understand usage across departments, monitor consumption-based spending, and implement governance controls before pilots become widespread operational systems.

The strategic opportunity

The next phase of public sector AI will require more than experimentation and access to AI tools. Agencies must develop the operational capabilities to understand what AI is being used, who is using it, what it costs, whether it is governed appropriately, and what value it delivers.

For public sector leaders, the immediate opportunity is to bridge the gap between AI interest and responsible implementation. Establishing unified visibility, cost accountability, and governance will help agencies move from isolated pilots toward sustainable, secure, and measurable AI adoption.

A NOTE ON INTERPRETATION

The account analysis is based on publicly verifiable information and may not capture undisclosed AI activity. The survey findings are directional and should not be treated as representative of the entire public sector. The two sources provide complementary perspectives rather than directly comparable adoption measurements.

APPROACH

Methodology

CloudNuro Corp (“CloudNuro”) analyzed 1,400 public sector agencies across the United States: 500 city governments, 500 county governments, and 400 transit and utility organizations. Each agency was placed on a six-stage maturity curve, from no verified activity to fully operational AI use, using validated and deduplicated public information. The account data was compiled from public information. A separate survey, distributed through CloudNuro’s network of customers, partners, and prospects, adds a self-reported view of visibility, cost, and governance.

This document provides a perspective on AI adoption; the sections that follow provide the details.

Agency Public Data

The dataset covers 500 city governments, 500 county governments, and 400 transit and utility organizations (155 transit agencies and 245 utility providers). Each account (agency) was placed on a six-stage maturity curve based on the most advanced AI activity that could be verified from public information and grouped for this report as shown below.

Stage	Maturity stage	Grouped in this report as
1	No verified AI-specific activity	No activity
2	Discussion or awareness	Discussion or exploration
3	Exploration or planning	Discussion or exploration
4	Pilot or experimentation	Verified adoption
5	Deployment or implementation	Verified adoption
6	Operational AI use	Verified adoption

Verified adoption means the Pilot stage or beyond. The transit and utility data also records whether visible evidence of AI governance was found for each account. That field is not available for cities and counties.

CloudNuro survey

The State of Public Sector AI Adoption Survey 2026 was a brief, closed-ended online questionnaire, conducted in September 2026, covering AI deployment stages, visibility, costs, and governance.

The voluntary survey was distributed via email to public sector contacts. Because organizational details were not requested from participants, the findings cannot be segmented by specific sector types.

The current volume of responses remains limited. Consequently, these data represent **proportions of actual respondents rather than a statistically representative sample** of the wider public sector, serving exclusively as a preliminary, directional indicator.

Report Limitations

- **Scope Exclusion:** Federal government agencies are not included in the account analysis.
- **Verified Adoption Limits:** Adoption metrics are strictly limited to activities confirmable through public records. Consequently, organizations with low public disclosure may be underrepresented; a lack of visible evidence does not equal a lack of activity.
- **Survey Constraints:** Survey data is unweighted, self-reported, and drawn from a self-selected cohort. It should not be compared directly with account data, which represents a vastly larger and distinct organizational dataset.
- **Data Sourcing:** Information in this report was compiled using third-party scraping tools, Google search, and Large Language Models (LLMs).

SECTION 01

The Adoption Landscape

AI adoption remains in its early stages across the 1,400 analyzed agencies, with only **8.0% (112 organizations)** actively piloting or advancing AI initiatives. The vast **majority – 61.9% – are currently locked in the discussion or exploration phases**, while 30.1% show no verified AI activity at all. Mature implementations are exceptionally rare; a mere 2.6% (36 organizations) have successfully progressed to the deployment or operational stages.

The shape of the funnel tells the story. About three in five Agencies have begun discussing or exploring AI, but the funnel narrows sharply after Exploration. **Conversion, not awareness, is the constraint:** the challenge for most agencies is turning interest into a funded, governed pilot.

All 1,400 agencies by AI maturity stage

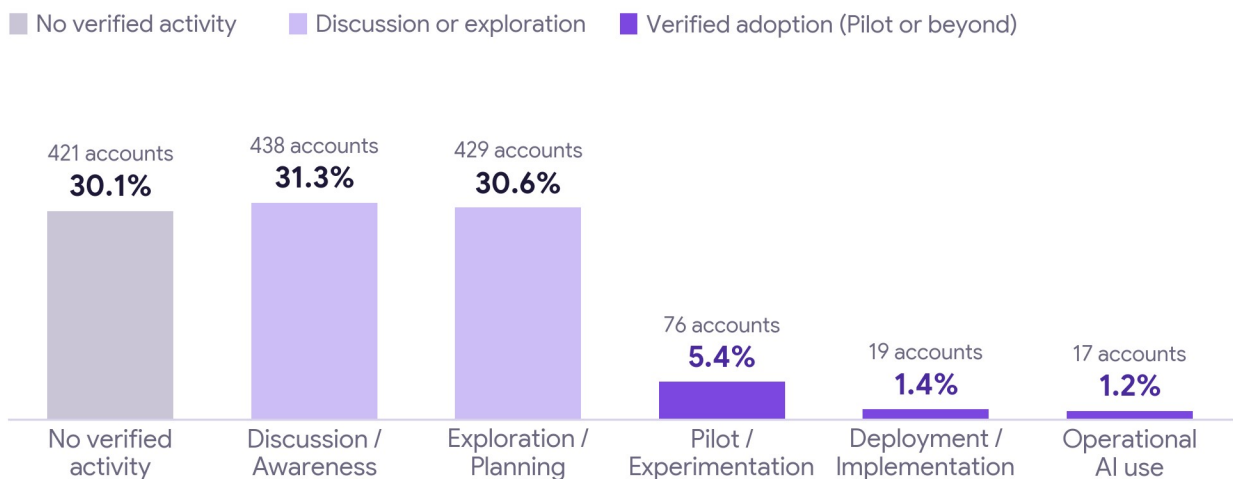


Figure 1. All 1,400 agencies by AI maturity stage. Source: CloudNuro analysis of public sector account data.

Segment by segment

Verified adoption rises from cities (4.8%) to counties (7.8%) to transit and utility organizations (12.2%), which is more than double the city rate. The exploring middle is largest in cities (74.0%), and the share with no activity is largest in counties (45.0%).

Where public sector agencies stand on AI, by segment

■ Verified AI adoption
 ■ Discussion or exploration
 ■ No verified activity

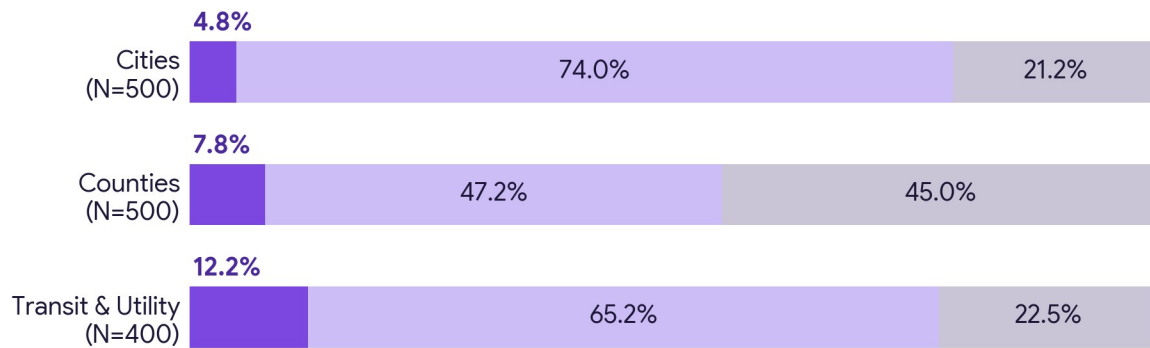


Figure 2. Verified adoption, discussion or exploration, and no activity, by segment. Source: CloudNuro analysis of public sector account data.

Table 1. AI maturity stage by segment, number of organizations. Verified adoption is the combined total of Pilot, Deployment, and Operational. Source: CloudNuro analysis of public sector account data.

Segment	N	No activity	Discussion	Exploration	Pilot	Deployment	Operational	Verified adoption
Cities	500	106	191	179	17	7	0	4.8%
Counties	500	225	120	116	29	9	1	7.8%
Transit & Utility	400	90	127	134	30	3	16	12.2%
All segments	1,400	421	438	429	76	19	17	8.0%

These figures collectively illustrate an adoption curve that is **heavily concentrated in the exploration phase** and sharply tapers off at the top. Ultimately, the **substantial gap between agencies discussing AI and those actively operating it** serves as the central finding of this report.

SECTION 02

Cities: Strong Interest, Limited Implementation

Cities and counties are the two largest segments in this study, at 500 agencies each, and cities are the furthest from verified adoption. Only **24 of 500 cities, 4.8%**, show verified AI adoption at the Pilot stage or beyond, and no city in the sample has reached full operational AI use.

City agencies by AI maturity stage (N=500)

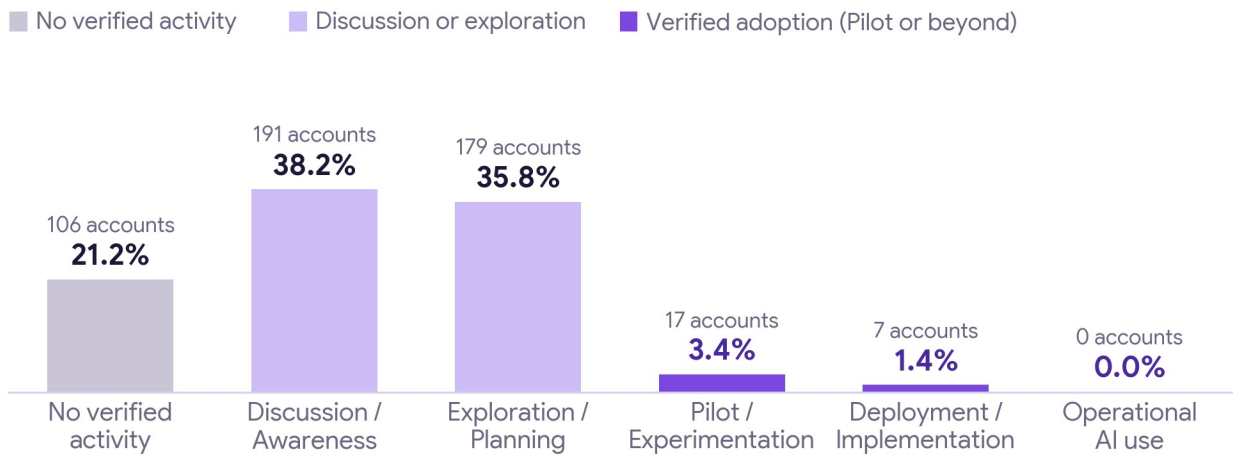


Figure 3. City agencies across the six-stage maturity curve (N=500). Source: CloudNuro analysis of public sector account data.

At the same time, cities show the strongest early signal among the segments. Of the 500 cities, 38.2% are in discussion or awareness, and another 35.8% are in exploration or planning. Combined, **74.0%, or three in every four**, are somewhere on the path even though most have not yet reached a working pilot.

A small number of cities have moved ahead. Seven show verified activity at the Deployment stage in California, Georgia, Washington, Texas, and Indiana. The opportunity in this segment lies less with the 4.8% already live and more with helping the 74.0% still exploring convert interest into a governed, cost-controlled pilot.

SECTION 03

Counties: The Widest Gap

Counties present a very different shape. Of the 500 counties studied, **45.0% show no verified AI-specific activity**, nearly half the segment and the largest no activity share of any group in this report.

County agencies by AI maturity stage (N=500)

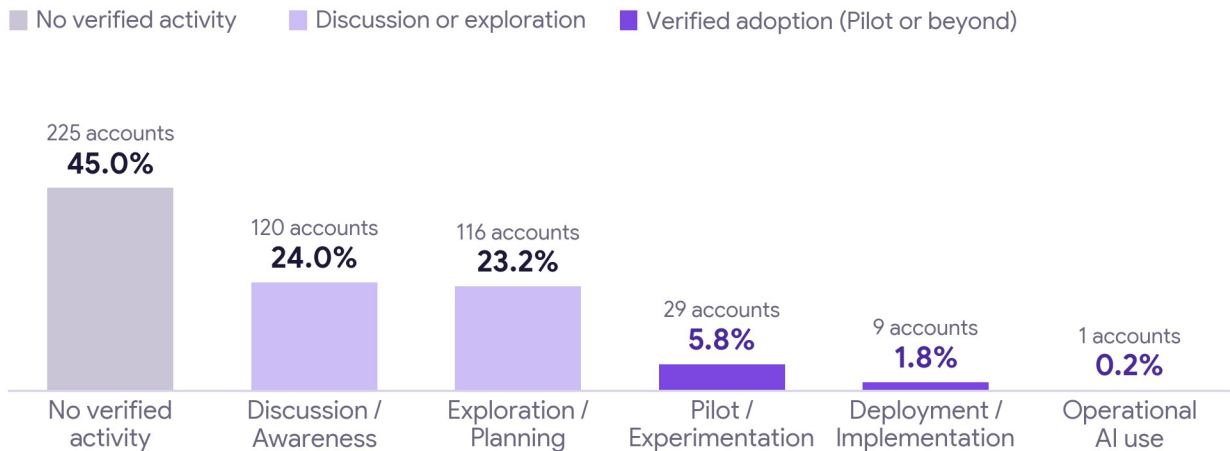


Figure 4. County Agencies across the six-stage maturity curve (N=500). Source: CloudNuro analysis of public sector account data.

Where counties do engage, engagement is spread more evenly across the curve: 24.0% are in discussion or awareness, 23.2% are in exploration or planning, and 7.8% show verified adoption at the Pilot stage or beyond, the second highest rate of the three segments.

Ten counties have reached Deployment or Operational. One, in Iowa, is the only county in the sample confirmed to be fully operational in AI use. The others are spread across California, Illinois, Indiana, Michigan, New York, Ohio and Wisconsin.

County-level AI adoption is not a single, moving wave, but a **stark divide between two groups**. Most counties have yet to engage with AI in any measurable way, while a small, scattered minority are already operating live deployments.

SECTION 04

Transit and Utility: The Early Movers

Transit and utility organizations are the most advanced segment in this study. Of the 400 agencies, 12.2% show verified AI adoption, and **16 organizations, 4.0% of the segment, have reached full operational AI use**, more than cities and counties combined.

Within the segment, transit agencies are moving slightly faster than utility providers. Verified adoption is 14.2% for transit (22 of 155) compared with 11.0% for utilities (27 of 245). All three of the segment's agencies at the Deployment stage are transit agencies, and transit and utilities each have eight agencies at the operational stage.

Transit and utility agencies by AI maturity stage (N=400)

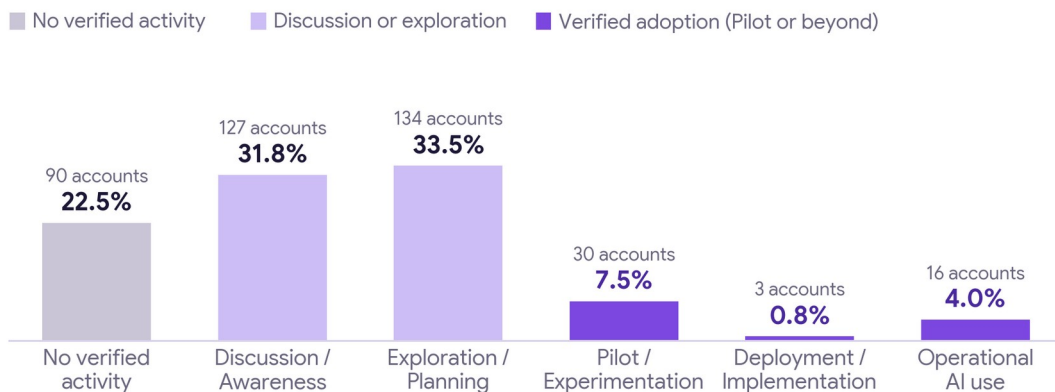
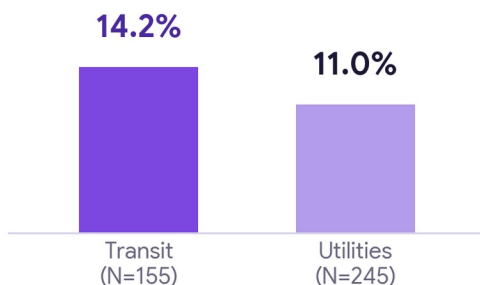


Figure 5. Transit and utility agencies across the six-stage maturity curve (N=400). Source: CloudNuro analysis of public sector account data.

Verified AI adoption rate

Transit and utilities



The 16 organizations at the operational stage are split evenly between transit agencies and utility providers. They are located in eight states and the District of Columbia, with six in California.

Figure 6. Verified AI adoption rate, transit and utilities. Source: CloudNuro analysis of public sector account data.

SECTION 05

The Governance Gap

Adoption is only half the story. The more important question for agency leaders, once a pilot moves toward production, is whether adoption is happening under visible governance.

The transit and utility data records whether visible evidence of AI governance was found for each account. Among organizations with verified AI adoption, **67.3% (33 of 49)** show evidence of governance. Among all other agencies in the segment, **36.8% (129 of 351)** do.

Agencies with visible AI governance evidence

Transit and utility segment

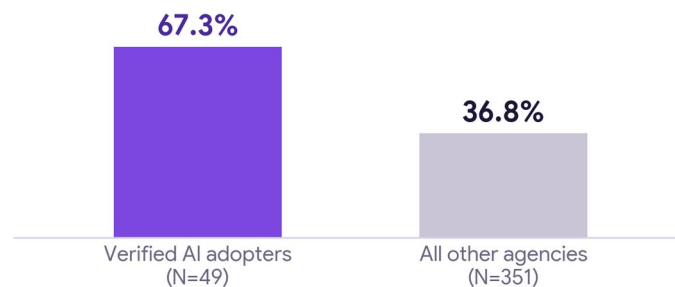


Figure 7. Share of agencies with visible AI governance evidence, transit and utility segment. Source: CloudNuro analysis of public sector account data.

Put another way, even in the most advanced segment of this study, roughly one in three organizations with verified AI adoption (16 of 49) show no visible evidence of governance; for the remaining agencies, which are still exploring or have no verified activity, fewer than four in ten show any evidence of governance.

Even in the most advanced segment in this study, 1 in 3 organizations with verified AI adoption shows no visible evidence of governance.

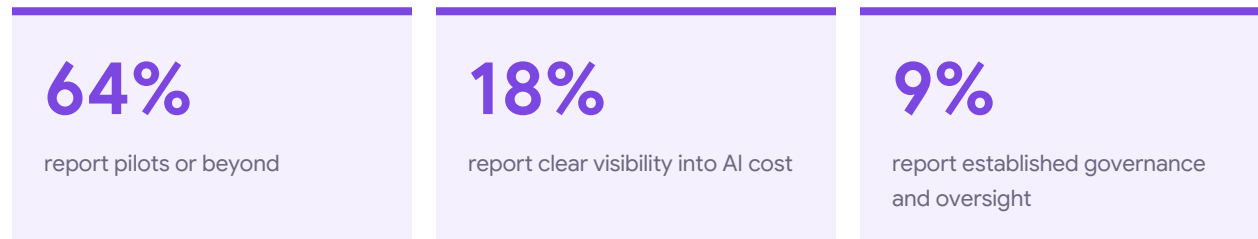
The survey points in the same direction. Of the respondents, 64% report pilots or beyond, yet only 36% report strong or near-full visibility into AI usage, 18% report clear visibility into AI costs, and 9% report established governance and oversight (see Voice of the Field).

Taken together, the evidence suggests that **adoption is outpacing the structures meant to manage its costs, risks, and compliance**. For agencies at the exploration stage, this is the moment to build governance alongside the pilot. For agencies already at deployment, closing the gap is now the priority, since retrofitting governance onto a live system is harder than designing it in from the start.

SECTION 06

Voice of the Field

To complement the account data, CloudNuro fielded the State of Public Sector AI Adoption Survey 2026. This is an early read: results are shown as shares of respondents and should be treated as directional rather than representative. Respondents were not asked to identify their type of organization, so results are not broken out by segment.



Adoption is ahead of control

Of the survey respondents, 64% are running pilots or further along, and 27% say AI is part of how they operate or is used broadly. Control measures lag (Figure 8), and governance is early for most: 55% are just getting started or have only basic policies taking shape.

Adoption compared with control measures

Share of survey respondents. Each bar is a separate question.

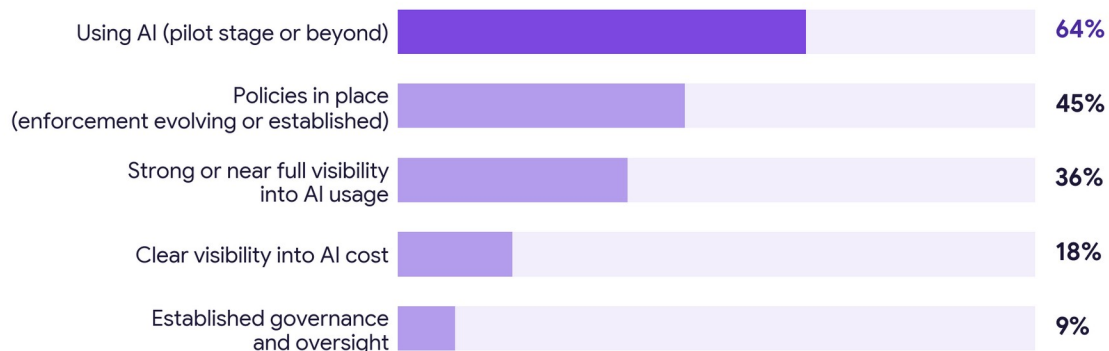


Figure 8. Adoption compared with control measures. Each bar is a separate survey question. Source: CloudNuro survey.

Visibility gaps are common: 64% report gaps in visibility into AI usage (some gaps, significant gaps, or still working on it), and 45% report limited, unclear, or mixed visibility into AI costs. At the same time, 45% say they actively discover and monitor AI tools used outside formal approval. Both can be true, since monitoring effort and complete visibility are different things.

Visibility is the first fix leaders ask for

Asked for the single thing they would most like to improve about managing AI, **nearly three in four chose visibility**: 45% want to see which AI tools are being used and 27% want to understand where AI spend is going. A further 18% chose to connect AI, SaaS, and cloud governance, 9% chose better guardrails and ownership, and none chose measuring AI value and ROI.

The number one thing leaders want to improve about AI

Share of survey respondents. One answer per respondent.

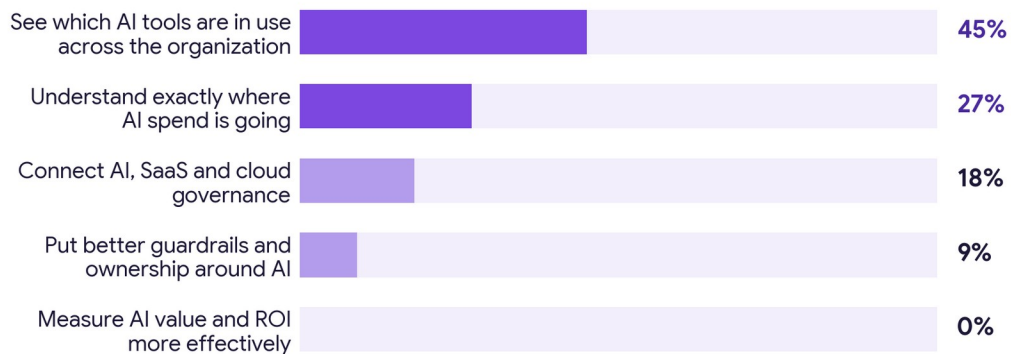


Figure 9. The number one thing respondents want to improve about managing AI. Source: CloudNuro survey.

Concerns and blockers

Unauthorized or unmanaged AI tools were the most frequently named concern (36%), ahead of rising costs and security and privacy (27% each). Budget or cost was the most frequently named challenge to expanding adoption (36%), followed by security or privacy and skills or resources (27% each). No respondent named proving value or ROI as the main blocker.

What worries leaders, and what holds them back

Share of survey respondents. Options with no responses are not shown, apart from ROI.

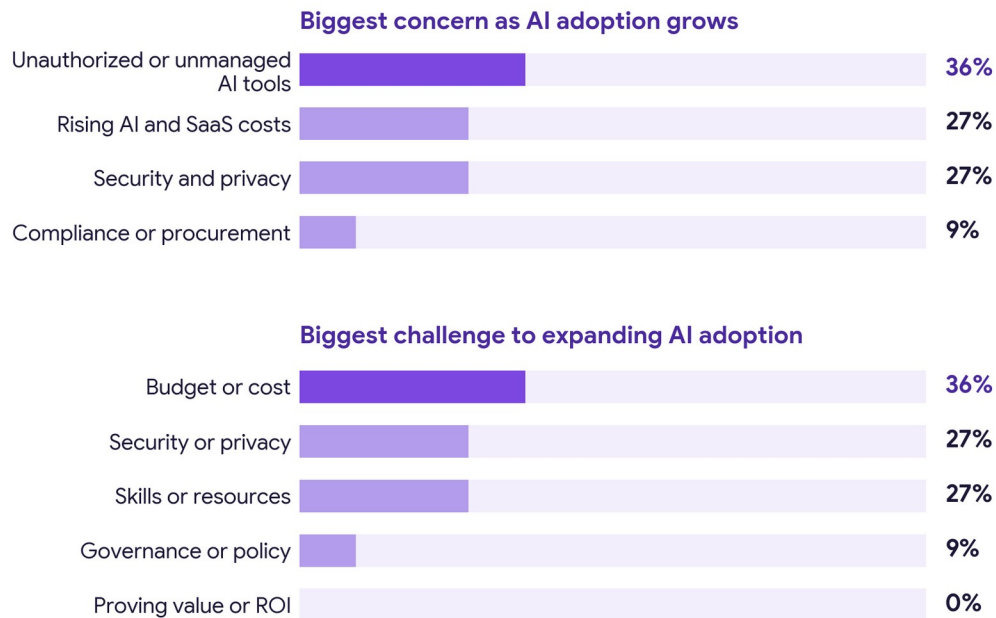


Figure 10. Biggest concern as AI adoption grows, and biggest challenge to expanding it. Source: CloudNuro survey.

Looking ahead, 73% expect AI to be at least an emerging priority over the next 12 to 24 months, and 27% are watching and evaluating. Interest is highest in employee productivity, copilots, and automation of operational workflows (36% each). Respondents could select more than one area.

Self-reported versus publicly verified

Table 2. Self-reported adoption (survey) and publicly verified adoption (account data). Not like for like. Sources: CloudNuro survey; CloudNuro analysis of public sector account data.

Measure	CloudNuro survey	Account data
How it was measured	Self-reported by respondents	Verified from public sources
Organizations covered	Self-selected survey respondents	1,400 Agencies in three segments
At Pilot stage or beyond	64%	8.0%

In the survey, 64% of respondents place themselves at the pilot stage or beyond, compared with 8.0% of the 1,400 Agencies for which activity could be verified. The two are not like for like: respondents chose to answer an AI survey and are likely more engaged than the typical organization, responses are limited, and public sources capture only activity that organizations disclose. The gap is a reminder that publicly visible adoption is a subset of actual adoption, so agencies need their own inventory of the AI in use across departments.

SECTION 07

Five Priorities for Public Sector Leaders

The gap between adoption and governance is a practical risk for any agency leader moving from pilot to production. Leaders should focus on five priorities:

01	Establish AI visibility before expanding adoption. Identify approved and unauthorized AI tools across departments to address shadow AI and reduce unmanaged risk.
02	Build governance alongside implementation. Integrate security, privacy, compliance, accountability, and oversight into AI pilots from the outset.
03	Convert exploration into measurable outcomes. Establish funded pilots with accountable owners, defined objectives, and clear criteria for progressing to production.
04	Benchmark progress by organizational segment. Set realistic adoption and governance targets that reflect the different starting points of cities, counties, transit agencies, and utilities.
05	Make AI cost visibility a governance requirement. Consolidate visibility into AI consumption, vendor spending, cloud costs, and license utilization to support budget accountability and informed decision-making.

CLOSING

Conclusion

Public sector AI adoption is early, uneven, and moving faster than the structures meant to govern it. A wide exploring middle, a thin layer of verified adoption, and uneven governance evidence point to the same priority: **pair every pilot with visibility into what is running, who owns it, and what it costs.**

About CloudNuro

CloudNuro Corp is a leader in Enterprise AI Adoption Management Platforms, giving enterprises and government agencies unmatched visibility into how AI is actually used within their organizations, along with governance and cost optimization. The platform discovers both sanctioned and unsanctioned AI tools and token usage across every department and attributes usage and spend to the right team or project. It also limits spend with right-sized model recommendations, turning the governance gap described in this report into something agencies can see, measure, and manage.

CloudNuro has been recognized for three consecutive years in a leading analyst firm's SaaS Management Platforms evaluation, and named a Leader in an independent software review quadrant. It is trusted by public sector organizations, including county governments, a city government, a state technology agency, an airport authority, and a regional transit agency, as well as enterprise customers.

As the only Unified FinOps Platform for the Enterprise, CloudNuro brings SaaS, cloud, and AI management together in a single view, giving IT, finance, and procurement leaders one place to close this gap.

APPENDIX

References and Sources

- [1] **CloudNuro public sector account data.** 1,400 validated Agencies scored on AI adoption stage, built from public information.
- [2] **CloudNuro survey.** State of Public Sector AI Adoption Survey 2026, responses collected in September 2026.

Copyright 2026 CloudNuro. Data from CloudNuro research and the CloudNuro AI Adoption Survey 2026. For informational purposes only.

Contact us info@cloudnuro.com | 630-347-0833 | www.cloudnuro.com