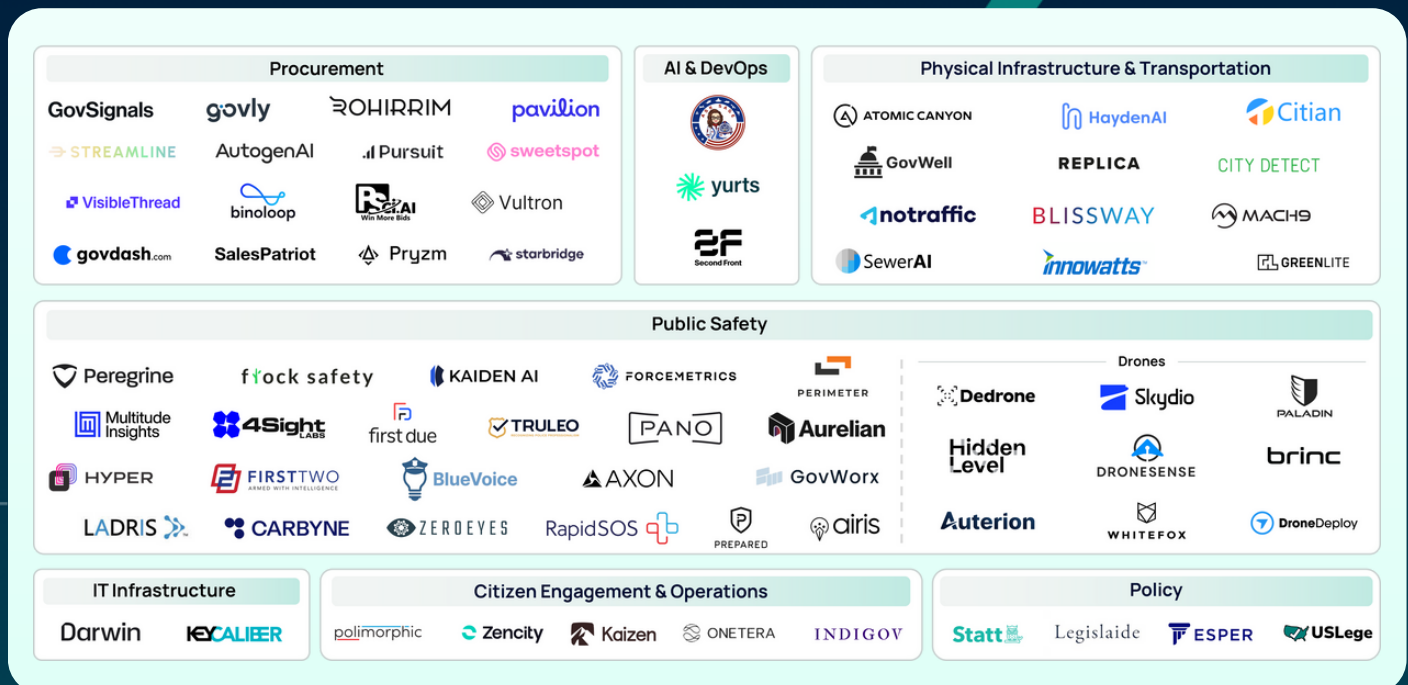


The Quiet Rise of AI in Government

Sector Deep Dive Report



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One of the most under-discussed applications of AI right now is the public sector. Local and state government agencies are undergoing a quiet yet important modernization cycle. It's being driven by real budget, regulatory momentum, and structural pressure to automate. Much of the work inside these agencies is structured and repetitive: form processing, scheduling, compliance checks, transcription. These tasks follow clear rules and occur at scale, making them a natural fit for AI. And the opportunity is bigger than many people realize.

From Back Office Fixes to Mission-Critical Systems

AI used to be considered a “nice-to-have” but there was no real push to adopt within government agencies. However, over the last 24 months, there has been a mindset shift within local agencies, which might have you ask: Why now?

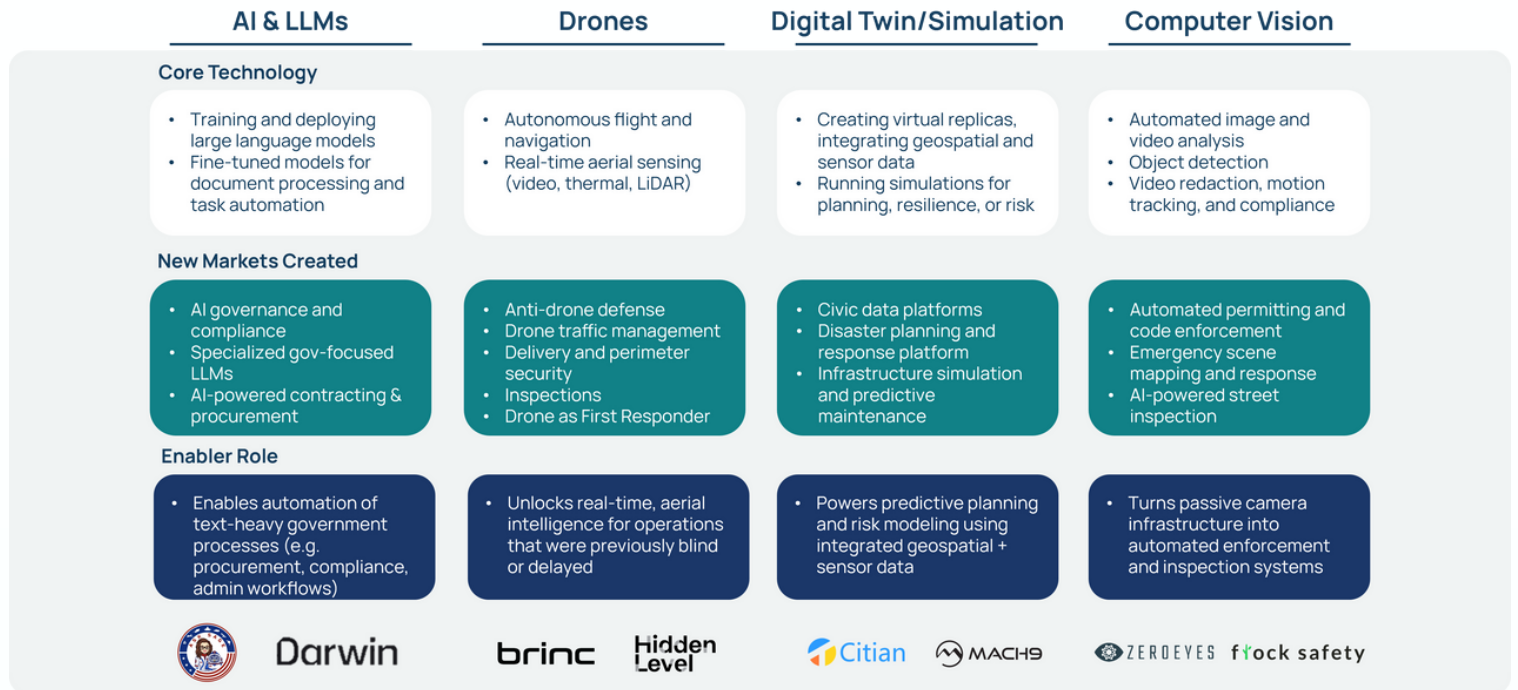
- **Retirements and hiring freezes are putting strain on already understaffed departments.** Many agencies are facing a demographic cliff, with a large portion of their workforce nearing retirement and limited talent coming in to replace them. The result is growing pressure to automate core functions to keep up with basic service delivery.
- **COVID exposed just how brittle and outdated government IT really is.** During the pandemic, government IT stacks were placed under pressure, and the failures (many of which were cyber related) were painful enough that many agencies are now being mandated to modernize. The federal government is pushing out modernization grants to do so.
- **Cybersecurity is top of mind for government IT leaders.** Local and state agencies face a rising volume of cyber threats, from ransomware to infrastructure attacks. According to a recent [survey](#), 54% of government IT decisionmakers are planning to prioritize cybersecurity this fiscal year.
- **Public safety agencies are facing increased demand with fewer resources.** Police departments in particular are feeling the squeeze, with many agencies struggling to fill open roles and facing multi-year staffing shortages.
- **Federal funding and policy tailwinds are supporting the shift.** Initiatives like the Technology Modernization Fund, the State and Local Cybersecurity Grant Program, and other modernization programs have made real dollars available - and importantly, many of these funds are earmarked for automation, cloud migration, and AI pilots.

Automation is increasingly the only viable path to maintain service levels. Rather than being proof of concept tools, purpose-built AI for government is growing to be the foundation for how services get delivered at scale when headcount growth isn't



an option. We're seeing the beginning of an operating system shift for how cities and states must run.

The Tech Stack Behind the Shift



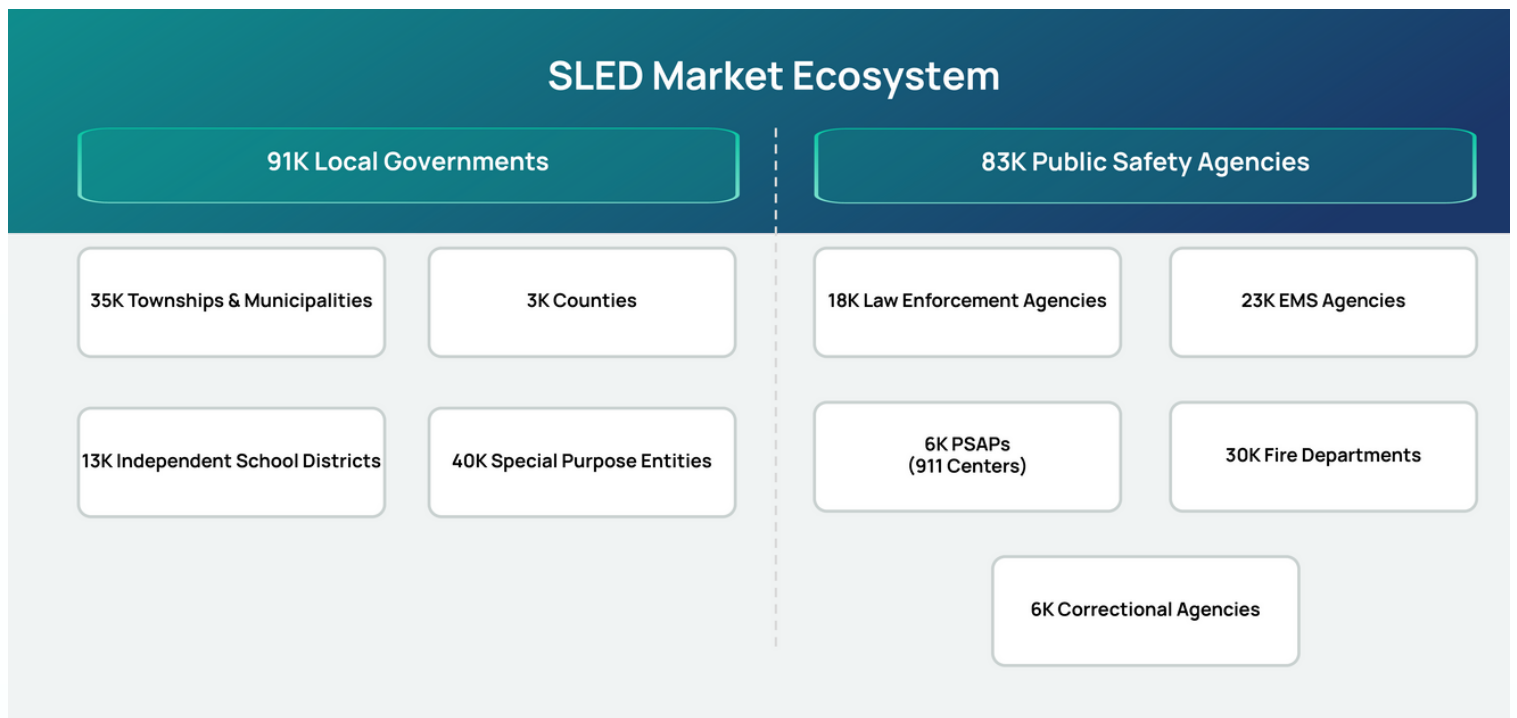
The modernization wave in government isn't being driven by a single breakthrough. It's the result of multiple technologies maturing at once: AI, drones, computer vision, and digital twin platforms.

AI and LLMs are automating text-heavy workflows like procurement, contracting, and IT compliance. Drones are becoming real-time intelligence tools for first responders. Digital twin platforms are helping cities simulate and stress test infrastructure planning. And computer vision is turning passive video feeds into proactive enforcement and monitoring systems.

The convergence of these trends is reshaping how government operations are designed and delivered. It's creating new entry points for startups to build mission-critical infrastructure that didn't exist a few years ago.



The GTM Motion in SLED

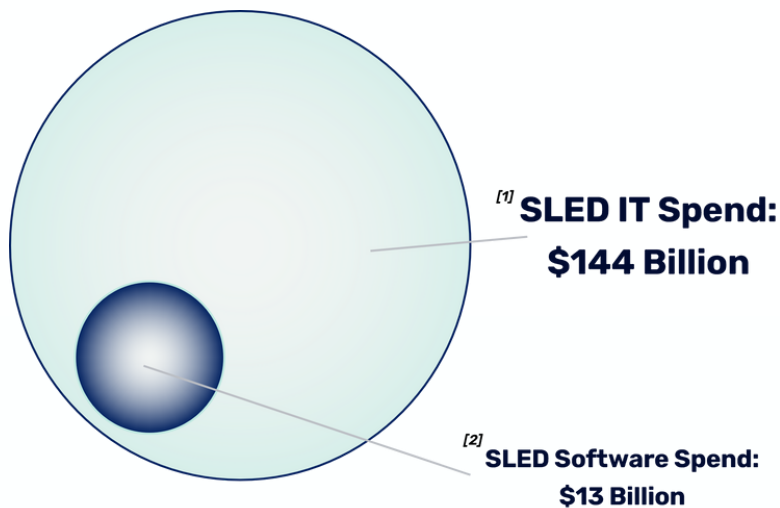


The SLED (State, Local, and Education government markets) market is fragmented with over 170,000 local government and public safety agencies in the U.S., which is both a positive and negative for companies selling into this industry. While the fragmentation makes the sales process more resource intensive, it's also what makes the government tech market so durable. For the startups that can deliver high ROI in this category, the result is often a sticky product. Switching costs are high, renewals are strong, and expansion often happens without another formal RFP process.

Go to market motions are also unique in this industry as the incentive structure in government is fundamentally different. In private markets, buyers often seek a competitive edge or differentiation. For most government agencies, they aren't trying to be the most tech-forward or best in class. Instead, they're trying to solve the problems directly in front of them. And when one agency finds something that works, they're often eager to share it with their peers in neighboring jurisdictions facing the same constraints. This makes word-of-mouth one of the most powerful distribution mechanisms in the category.



Where the Dollars are Going



Department	Est. 2024 IT Spending	% YoY
Health & Human Services	\$39.3B	+7%
Education	\$37.9B	+5%
Transportation	\$17.5B	+9%
Finance & Administration	\$14.5B	+8%
Justice & Public Safety	\$12.7B	+7%
Utilities	\$12.0B	+7%
Environment & Housing	\$9.7B	+8%

Sources: [1] Government Technology, "Where Will Government Point Its 2024 IT Dollars?" [2] Government Technology, "In 2024, SLED IT Spending Takes a Whole-of-State Focus"

State and local government software spend is substantial and growing. In 2024, SLED IT budgets reached \$144 billion, with \$13 billion earmarked specifically for software.

It is important to note though that not all IT spend is equally addressable. For example, health and human services (HHS) is one of the largest spending categories in SLED. While they command an enormous IT budget, much of that spend is tied up in core EHR systems, tech-enabled services, and claims processing infrastructure.

Public safety, on the other hand, has emerged as one of the most AI-ready categories. These agencies have urgent needs for real-time analytics, situational awareness tools, and computer vision technologies. While the category has historically been resistant to new technology, Axon has paved the way to acceptance and agencies are already deploying AI tools in license plate recognition, body camera recording summaries, dispatch routing, and weapon detection. Procurement is typically faster when the technology is deemed mission-critical, and public safety departments are now receiving their own dedicated AI modernization budgets through DOJ and DHS channels.

In short, the dollars deployed in the headline is not the same as addressable spend for emerging AI platforms, and public safety is where dollars are translating most directly into next-generation platforms.



Valuations are Climbing

This spend is translating into real enterprise value. GovTech software companies are now commanding premium valuations, often outperforming traditional SaaS on metrics like retention and S&M efficiency. Flock Safety's \$7.5 billion valuation and Peregrine's \$2.5 billion mark are early signals of what breakout companies in public safety can achieve. Meanwhile, Cox's \$1.8 billion acquisition of OpenGov and Granicus' rumored \$4 billion valuation demonstrate that value is accruing not just in public safety, but also in broader platforms serving finance, licensing, permitting, and civic engagement. These companies have built real distribution in the SLED market and proven that horizontal reach - paired with deep workflow integration - can command real leverage in the market over legacy solutions like Tyler Technologies.

What makes companies in this space so compelling ultimately is boiled down to its durability. Government contracts are typically multi-year and paid upfront. Once won, they tend to renew and expand. The combination of slow but steady procurement with high switching costs and multi-year renewals makes for unusually predictable growth, particularly for companies that successfully integrate into mission-critical workflows.

Axon: A Playbook for Platform Scale in GovTech

Axon is the defining case study for what a modern, vertically integrated GovTech company can become. While the company started in the early 1990s selling tasers to law enforcement, its true inflection came from bundling their hardware with a full-stack software suite to become an end-to-end public safety platform.

What makes Axon exceptional is how tightly their ecosystem connects. Body-worn camera footage captured in the field syncs with Axon Evidence, their cloud-based digital evidence management system. From there, data flows into their real-time operations platform (Fusus), enabling live situational awareness in command centers. This information then connects directly into downstream systems for case management and investigation, creating a unified, end-to-end workflow from incident response to case resolution. By combining mission-critical hardware with tightly integrated operational software, Axon has established one of the most effective and defensible go-to-market models in GovTech.

They also rose to market leadership by their strategy of building public safety tools with public safety agencies. Axon's teams work on site with law enforcement agencies to learn their workflows firsthand. This proximity built a level of trust that's rare in government IT, and it's one of the reasons Axon earned the right to scale into a full platform.

Axon's financials reflect the success of their strategy. Their revenue grew from



\$164M in 2014 to \$2.1B in 2024, with strong gross margins, recurring revenue, and multi-year government contracts. It's a rare example of a GovTech company that has achieved both scale and public-market trust. It's also a model for what's possible in this category.

Exit Dynamics are Strengthening

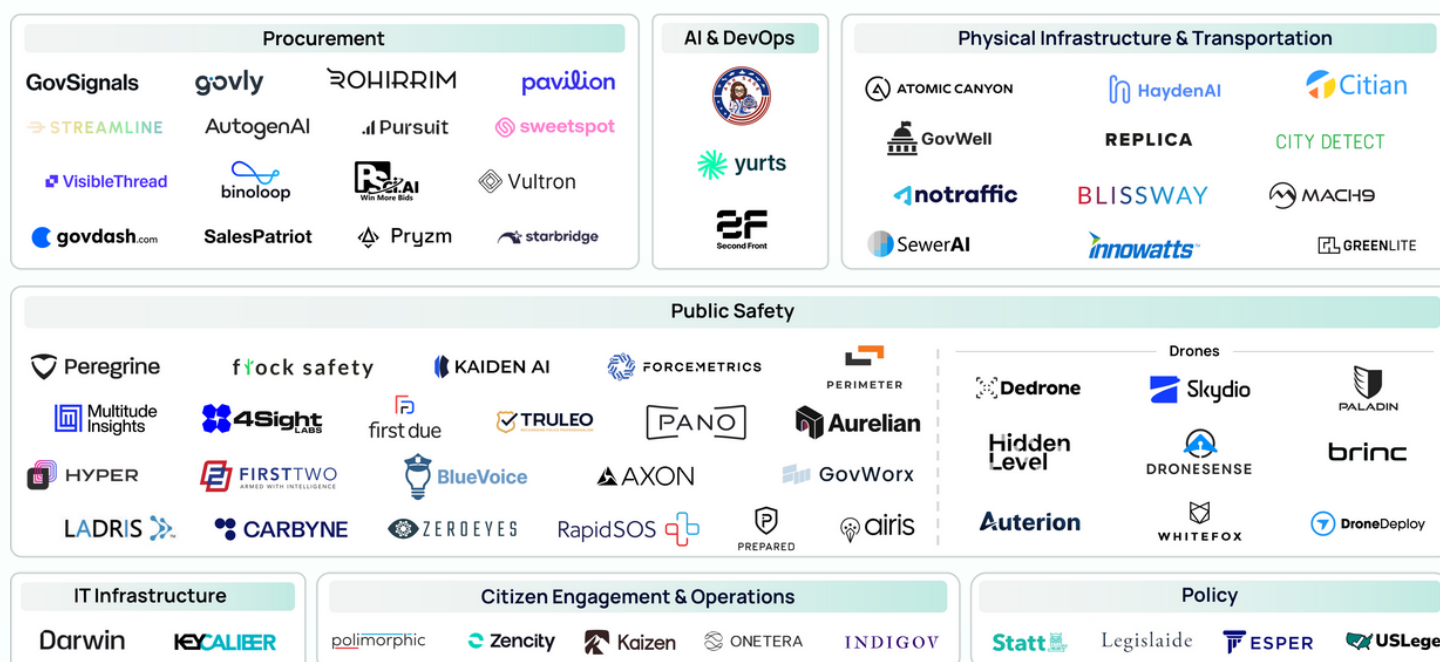
What makes this category even more compelling is the growing number of viable exit paths. Public markets are already rewarding scaled, defensible GovTech platforms. Axon is the clear example, trading at premium multiples – reportedly around 29x 2024 revenue. Other public comparables like Tyler Technologies, while less AI-native, still trade at strong multiples (~11.4x), highlighting broader investor appetite.

Private equity is also leaning in. Firms like GTCR, Harvest Partners, and Bain Capital have developed playbooks around GovTech rollups, backing platforms like Lexipol, Granicus, and CentralSquare. Their thesis is straightforward: high retention, budgeted software, and multi-year contracts make for efficient, predictable returns.

There's also an emergence of new strategics. Companies like Flock Safety are starting to acquire. In 2024, Flock acquired Aerodome, a 17-month-old drone startup, for over \$300 million. It's a signal that well-capitalized growth-stage companies are beginning to consolidate adjacent capabilities and expand their footprint horizontally across public safety.

The combination of long-term contracts, defensible distribution, and growing market attention means founders here have many pathways to scale.

Where We're Spending Time





AI in government isn't a monolith. We see traction across a number of distinct categories where AI-native startups are solving real pain points and showing strong early momentum. Below are a few areas we're especially focused on, along with examples of companies that are defining the category:

Emergency Response Infrastructure

Startups like **Brinc** and **Perimeter** are building critical infrastructure for moments when time and clarity are in short supply. Brinc's Drone as a First Responder systems are built for SWAT teams and first responders, enabling real-time awareness and communication in emergencies. Perimeter provides a platform where both responders and citizens can have a shared, real-time view of crisis information, turning fragmented data into a unified operating picture. This is especially necessary given the recent natural disasters.

AI Governance and Oversight

As agencies adopt AI, they also need tools to track, explain, and manage it. **Darwin** is building the control plane for AI usage across government: helping agencies monitor risk, enforce compliance, and stay ahead of policy mandates.

Real-Time Public Safety

ZeroEyes is building AI-native infrastructure for high-stakes threat detection. Their computer vision models are trained to identify firearms in real time and route alerts directly to 911 dispatch and on-site security. The premise is simple but powerful: reduce response time and provide situational awareness when it matters most. ZeroEyes sells into school districts, military bases, and retailers - institutions where the cost of delayed response is highest and the demand for proactive security is growing.

Permitting and Workflow Automation

Departments handling inspections, permitting, and plan review are under growing pressure to speed up timelines while maintaining compliance. **Greenlite** is tackling this head-on with a permitting stack by engaging in private plan review, allowing agencies to move faster without losing compliance integrity. Their tools integrate into existing systems while automating bottlenecks that traditionally slow down development workflows.

These focus areas are solving deeply entrenched operational challenges. And in each case, the wedge has proven scalable because it meets an immediate need with clear budget and urgency.



Final Take

Government AI is not a category defined by hype cycles or consumer behavior but rather about building the systems that keep society running. That makes the sales cycles slower, but it also makes the product more durable. The combination of real budget allocations towards software, clear urgency to improve legacy workflows, and rising talent interest in the space is creating compounding momentum.

We are excited for this upcoming wave of GovTech companies. If you're building in this space or investing with a similar lens, we'd love to compare notes.

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