



The Research Bureau

BREAKING DOWN THE BUDGET

City of Worcester for Fiscal Year 2026

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EXECUTIVE SUMMARY

The City of Worcester's adopted **FY26 budget, *Strengthening Core City Services***, totals approximately **\$948 million, a 3.4% increase from FY25**. *Breaking Down the Budget: An Examination of Worcester's FY26 City Budget* is the Bureau's latest analysis in its long-running series on municipal finance, outlining how the City funds services, allocates resources, and prepares for future challenges.

The report begins with an overview of Worcester's budget process and governance structure. Under the City's Council-Manager system, the City Manager proposes the budget while the Council reviews and votes within strict limits. The Council can reduce spending but cannot increase it, underscoring the executive's strong role in shaping fiscal priorities.

Revenues for FY26 are split roughly evenly between state aid and locally raised funds. Property taxes make up 43.6% of revenues (\$413.8M), with state education aid contributing another 44.4% (\$420.6M). Local receipts such as excise taxes, meals, and hotel revenues provide smaller but important contributions. **The City's dual tax rate for FY25 was \$13.19 per \$1,000 of residential property and \$28.61 for commercial/industrial property**. Worcester has \$1.56 million in FY26 PILOT agreements across six nonprofits, "bringing back" 7.25 times less revenue per dollar of tax-exempt property than Boston's program.

Expenditures are divided across three main categories:

- ▶ Education: \$574M (61% of budget), up 6.1% from FY25, reflecting Student Opportunity Act requirements.
- ▶ City Services: \$210M (22%), up 4.3% from FY25 and covering departments such as police, fire, public works, and libraries.
- ▶ Fixed Costs: \$163M (17%) pensions, up 6.5% from FY25. Goes toward debt service, and health care, which declined slightly due to reduced OPEB contributions and debt payments.

Notable FY26 investments include:

- ▶ Public Safety: +\$9.1M for paygrade shifts, software upgrades to improve enforcement data, PFAS-free firefighter uniforms, and expanded overtime.
- ▶ Capital Projects: \$145M overall, with \$49.7M in borrowing for infrastructure, facility improvements, and equipment. Projects include \$11M for a new South Division Fire Station, \$20.2M for sewer upgrades, \$6M for Chandler Street water main replacement, \$18M in park improvements, and \$2.5M for Worcester Memorial Auditorium roof rehabilitation.
- ▶ Contingency Fund: \$5M (down from \$6.9M in FY25), intended for unsettled union contracts and potential aid reductions. Though smaller than last year's peak, it is still 58% higher than FY24, reflecting a continued emphasis on fiscal safeguards.

Worcester's FY26 budget reflects a cautious balance between investing in core services and maintaining long-term fiscal discipline. With a total appropriation of \$948

million, the City increases funding for education, public safety, and infrastructure while managing debt under its Financial Integrity Plan. Structural challenges remain—heavy reliance on property taxes, declining fixed costs, and a large share of tax-exempt property—but strong credit ratings and disciplined management provide stability. Major commitments such as the Burncoat project and looming federal impacts will test the City's ability to sustain services. Overall, the FY26 budget represents continuity, setting the stage for larger decisions in the years ahead. The Worcester Regional Research Bureau will continue to monitor how the City's budget aligns with residents' needs and long-term fiscal health.

At the state level, **Massachusetts' \$60.9 billion FY26 budget** strengthens local finances while leaving some uncertainty. For Worcester, the most significant impact is \$17.3 million in new Chapter 70 aid, part of a 7% statewide increase in education funding. The budget also commits \$253 million to the Massachusetts Rental Voucher Program and \$276 million for emergency shelters, while expanding access to higher education with \$120 million to keep community college free statewide. Early education providers receive \$475 million in stabilization funding, and transportation investments include \$550 million for statewide infrastructure through the Fair Share surtax and \$115 million for Regional Transit Authorities (RTAs), with added support to sustain fare-free service on systems like the WRTA. Worcester will also receive \$51.7 million in unrestricted local aid, a modest 1.1% increase over last year.

At the same time, the state, which previously held back \$125 million in earmarks, later released the funds amid continued fiscal uncertainty amid federal reductions to Medicaid, SNAP, housing programs such as the HOME Investment Partnerships Program, and education aid. The federal government's *One Big Beautiful Bill Act* includes immediate changes and future cuts slated for FY27 after the midterms, while ongoing litigation over executive orders—from efforts to defund sanctuary jurisdictions and freeze federal grants to mass workforce layoffs—could further reshape state and municipal policies. Education is a particular flashpoint, with lawsuits contesting attempts to dismantle the U.S. Department of Education, cut teacher training grants, and withhold billions in funding for migrant students, teacher recruitment, and after-school programs. The fiscal uncertainty facing states and municipalities requires preparation to grow local revenues, scale back services, or seek greater state investment—and, in practice, may demand a combination of all three—to sustain long-term commitments.



EACH YEAR on July 1, Massachusetts cities and towns must implement a new budget. The City of Worcester’s Fiscal Year 2026 (FY26) budget, entitled [*Strengthening Core City Services*](#), took effect on July 1, 2025. Municipal budgets must balance—expenditures cannot exceed revenues. The budget process requires that municipalities confront the challenge of fixed costs, like debt service and pensions, while deciding among priorities like education, police and fire departments, economic initiatives, and other services.

Municipal budgets reflect a city’s priorities and values, offering insight into the vision and the decisions of its leadership. They go beyond mere financial statements to reveal how resources are allocated to address immediate needs and pursue long-term goals. The Worcester Regional Research Bureau provides an independent review of the budget to enhance transparency and provide residents with a resource for accountability. This approach aims to provide a clear understanding of the budget changes from the prior fiscal year so that residents can evaluate how well it aligns with their diverse wants and needs.

WHO’S IN CHARGE OF THE BUDGET?

The City of Worcester operates under a Council-Manager form of government with a popularly elected Mayor, known as a modified Plan E form of government. The Worcester Public Schools (WPS) system is a municipal department funded by the City, but unlike other departments it is governed by the elected School Committee rather than the City Manager.

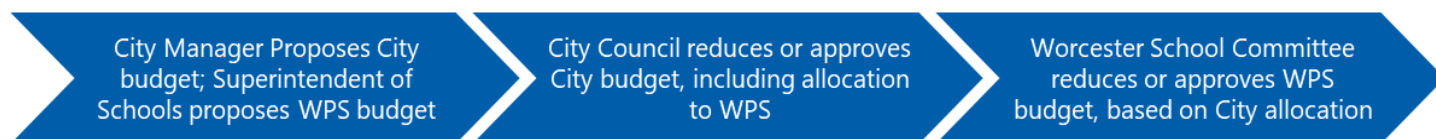
The City Council is the City’s legislative body while the City Manager serves as chief executive officer. The City Council is made up of 11 members—six elected citywide (or at-large) and five elected from districts. The Mayor is the candidate who receives the most votes in the mayoral election and wins an at-large City Council seat. All at-large candidates are automatically entered into the mayoral race, and have the option of withdrawing their name from consideration for Mayor. In addition to their role as City Councilor, the Mayor serves as the ceremonial head of the government and chairs both the City Council and School Committee. The City Council hires the City Manager and can remove them by majority vote. The City Manager hires all City employees (except the City Clerk, City Auditor, and WPS employees), oversees City operations, and presents the City Council with an annual budget that must be approved by June 30 of each year.

The City Council has the authority to reduce applicable line items in the City Manager’s proposed budget, but not increase such items. The approved budget must be balanced.

The Worcester School Committee is the WPS’s legislative body while the Superintendent of Schools serves as Chief Executive Officer. As of 2025, the School Committee consists of nine members, two at-large members and six district committee members with the Mayor serving as its Chair. The School Committee approves the district budget, and has authority to transfer within line item accounts, so long as the overall amount remains within the City’s appropriation. Transfers within City-appropriated accounts are permitted so long as the overall amount remains within the City’s appropriation. The total WPS budget includes state Chapter 70 aid and federal grants, which the Committee does not control but does accept and include in the total figure.

Additionally, the School Committee may hire or remove by majority vote the Superintendent and may establish and appoint the following key positions by recommendation of the Superintendent: Assistant or Associate Superintendent, School Business Administrator, Administrator of Special Education, School Physician, Registered Nurses, and Legal Counsel.

Figure 1: Comparison of City and WPS Budget Processes



The financial information in this report is drawn from the City of Worcester FY26 annual budget and capital budget and the Worcester Public Schools FY26 budget.



HOW IS THE BUDGET APPROVED?

Under the City Charter and State law, the City Manager must submit a budget to the City Council within 170 days of the Council's first meeting in the new calendar year. The Council must act on the budget within 45 days of receiving it and approve it by June 30. If there is no vote, the City Manager's budget automatically goes into effect.

The Council is limited in its authority over the budget. While it can make general reductions in the budget, it

cannot increase it without the recommendation of the City Manager. Thus, City Council is not able to move funding from one priority to another; it can only reduce general funding and request that the City Manager consider alternative priorities. Since the City's budget must be balanced, the budget process requires the City Manager and City Council to set priorities as they decide how to spend the City's limited resources.

For FY26, the City Council approved the budget as submitted, making no cuts.

Figure 2: City of Worcester Budget Process



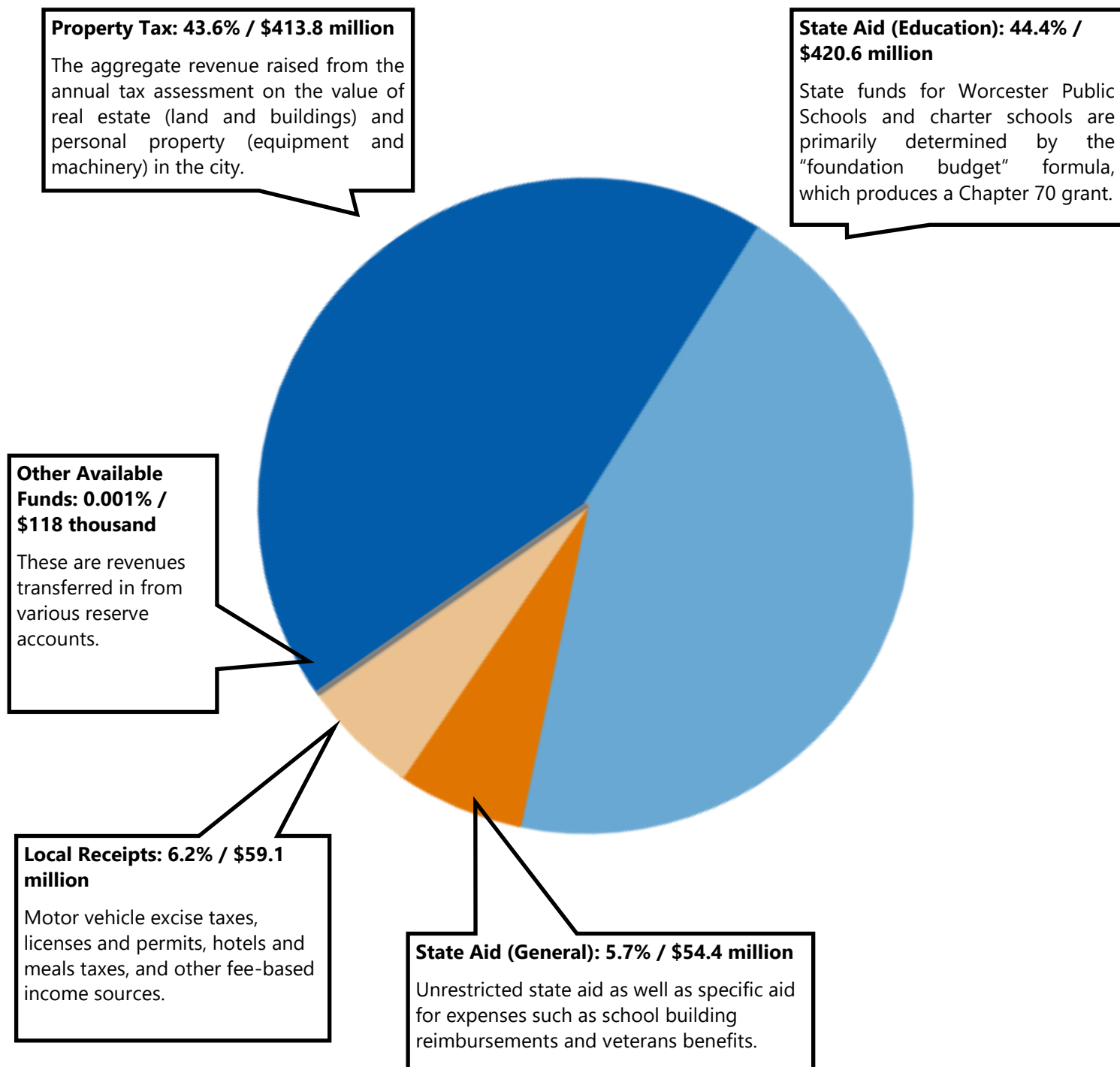


REVENUE: WHERE DOES THE CITY'S MONEY COME FROM?

As Figure 3 shows below, the City of Worcester's budget, approximately \$948 million for FY26, is financed by a combination of locally raised funds, funds provided by the State and Federal governments, as well as public and private grants. It represents a 3.4% increase from the final FY25 budget of \$917 million.

Around 50% of Worcester's revenues are generated locally, from property tax and local receipts. The remaining 50% of revenues are primarily state aid programs. These are largely dedicated to public education, primarily through the Chapter 70 School Finance Program.

Figure 3: City of Worcester FY26 Revenues



HOW ARE PROPERTY TAXES ASSESSED?

Property taxes, the largest source of local revenue, are based on the value of land, buildings, and personal property. The property tax assessment process follows a regular year-long quarterly billing cycle.

Property values are determined by the City Assessor's Office under the supervision of the Massachusetts Department of Revenue. Assessed values are updated annually to reflect current market conditions, and every five years the City must complete a full revaluation, which is reviewed and certified by the Department of Revenue. FY26 is the City's reassessment year. Property tax is assessed on the full and fair cash value of a property. Certain property classes, such as commercial or income-producing properties, may be valued using the cost approach (the cost to replace the property) or the income capitalization approach (annual net operating income divided by the capitalization rate). A property owner may seek an abatement of property tax liability on the basis of (1) overvaluation, (2) disproportional assessment, (3) improper classification, or (4) statutory exemption.

The City Council sets the tax rate each fall. Figure 4 shows that unlike most of its neighbors, the City of Worcester currently has a dual tax rate, taxing residential property and commercial/industrial/personal (CIP) property at different levels. **In FY25, the residential rate decreased by \$0.56 to \$13.19 per \$1,000 of property value, while the CIP rate decreased by \$1.43 per \$1,000 to \$28.61.**

In 1980, Massachusetts voters adopted an initiative limiting property tax revenue growth. Proposition 2 ½ sets an upper ceiling of 2.5% of the total taxable assessed value of the community, above which a community cannot tax more. Below that is a smaller limit that grows automatically at 2.5% each year, plus the value of new construction. Communities can vote to raise that lower limit. For more than twenty years, Worcester has taxed

Figure 4: Tax Rates Across Greater Worcester

FY25	Commercial/ Industrial	Residential
Worcester	\$28.61	\$13.19
Auburn	\$16.10	\$14.29
Westborough	\$16.29	
Paxton	\$14.74	
Northborough	\$14.25	
Grafton	\$13.94	
West Boylston	\$13.87	
Holden	\$13.86	
Boylston	\$13.83	
Millbury	\$13.39	
Leicester	\$11.77	
Shrewsbury	\$12.04	

Source: [Massachusetts Division of Local Services: City and Town Tax Rates](#)

property owners below that lower limit, and Worcester has not asked voters to raise that limit since the 1990s.

The City has an unused tax levy capacity of approximately \$25.8 million in FY25 according to the Massachusetts Department of Revenue's [Division of Local Services \(DLS\)](#). Figure 5 shows the estimated and assessed values of taxable and tax-exempt properties in Worcester. **The total value of taxable and tax-exempt property in Worcester was \$31.5 billion.** Taxable properties comprised \$24.3 billion (77.1%), with residential properties making up the largest portion. Tax-exempt properties totaled \$7.2 billion (22.9%).

In Worcester, over 20% of the city's land area and property value is exempt from local property taxes. This means the responsibility for funding essential public services—like fire protection, snow removal, trash collection, and road maintenance—falls more heavily on homeowners and businesses that do pay taxes.

Figure 5: Assessed and Estimated Value of Taxable and Tax-Exempt Property, FY25

Tax Status	Value	Percent of Total
Taxable Property Values	\$24.3 billion	77.1%
Residential Property (Taxable)	\$19.2 billion	79.0%
Commercial/Industrial Property (Taxable)	\$3.8 billion	15.6%
Personal Property (Taxable)	\$1.3 billion	5.3%
Tax-Exempt Property Values	\$7.2 billion	22.9%
Total Taxable and Tax-Exempt Property Value	\$31.5 billion	100%

Source: [Massachusetts Division of Local Services, Tax Exempt Properties](#) and [Assessed Values by Class](#)



EXPENDITURES: WHERE DOES THE CITY'S MONEY GO?

The City organizes expenditures into three categories. Education, which encompasses money sent to the Worcester Public Schools, charter school tuition, and school choice tuition (out of district and Special Education), makes up \$574 million or 61% of the budget. Second is City Services, which is \$210 million, or 22% of

expenditures in FY26. This category includes most public-facing departments such as Fire, Police, Public Works, and Health and Human Services. It also includes salaries of elected and appointed officials in City government such as the city councilors, the Mayor, City Clerk, and the City Manager. Finally, fixed costs, which are financial obligations like health care, pensions, debt service, as well as some services like snow removal and street lights, which is \$163 million or 17%.

Figure 6: City of Worcester Expenditures	FY26	Change from Adopted FY25	Manager's Categorization
Worcester Public Schools	\$523,984,086	6.21%	Education
Police	\$63,369,410	3.88%	City Service
Charter Schools, School Choice, & Special Education	\$50,408,009	5.70%	Education
Fire	\$49,325,780	11.68%	City Service
Debt Service	\$44,783,929	-5.15%	Fixed Costs
Pensions	\$37,513,229	-3.23%	Fixed Costs
Health Insurance	\$35,131,380	6.93%	Fixed Costs
Financial Integrity Plan Funds	\$20,813,601	-7.99%	Fixed Costs
Public Works	\$16,539,871	-11.92%	City Service
Innovation & Technology	\$11,604,981	8.83%	City Service
Pension Bond Debt Service	\$9,453,864	-6.77%	Fixed Costs
Parks	\$9,017,945	6.89%	City Service
Public Library	\$6,988,614	2.78%	City Service
Inspectional Services	\$5,667,845	12.66%	City Service
Snow Removal	\$5,500,000	0.00%	Fixed Costs
Health and Human Services	\$5,291,805	3.53%	City Service
Intergovernmental Charges	\$5,062,730	1.40%	Fixed Costs
Contingency	\$5,024,057	-27.66%	City Service
Public Facilities	\$4,641,595	19.75%	City Service
Emergency Communications	\$4,349,050	28.32%	City Service
Law/Insurance/Court	\$4,301,381	-7.13%	City Service
Finance	\$4,004,133	7.96%	City Service
Transportation & Mobility	\$3,790,522	6.16%	City Service
Economic Development	\$3,569,345	6.79%	City Service
Human Resources	\$2,902,611	12.47%	City Service
City Manager's Office	\$1,875,320	4.40%	City Service
Streetlights	\$1,620,490	8.36%	Fixed Costs
Worker's Compensation	\$1,236,673	-7.48%	Fixed Costs
Assessing	\$1,210,234	1.35%	City Service
OPEB Trust Deposit	\$1,178,975	-86.33%	Fixed Costs
Elections	\$1,138,446	9.25%	City Service
City Clerk	\$1,123,236	-2.59%	City Service
Injured on Duty	\$1,057,556	-20.71%	Fixed Costs
Diversity, Equity, & Inclusion	\$965,832	13.56%	City Service
Auditing	\$944,723	13.23%	City Service
Union Station	\$678,305	0.00%	City Service
City Council	\$646,395	0.68%	City Service
Sustainability & Resilience	\$621,854	5.77%	City Service
Unemployment	\$200,000	66.89%	Fixed Costs
Workforce	\$200,000	0.00%	City Service
Mayor	\$190,449	1.99%	City Service
Total Education	\$574,392,095	6.16%	
Total City Services	\$209,983,739	4.37%	
Total Fixed Costs	\$163,552,427	-6.54%	

The WPS budget increased by \$30.6M due to continued implementation of the Student Opportunity Act, which increases state aid to support high-need students through FY28. The City's local contribution also rose by \$8M, largely driven by rising property values and incomes.

Increased funding covers rising overtime costs, PFAS-free uniforms, and facility maintenance. These needs were prioritized due to staffing and safety requirements.

Spending on employee health coverage rose by \$2.3M, driven largely by increased pharmaceutical costs, which are straining the City's Health Insurance Trust.

The drop does not signal weaker fiscal safeguards but reflects the removal of one-time contract costs in FY25, with FY26 contingency funds aimed at unsettled labor costs and potential state or federal aid reductions.

The budget increase supports overtime funding and launching a second 311 Customer Service Center, enhancing responsiveness to resident needs.

No Free Cash is allocated in FY26. OPEB contributions will resume after Free Cash certification in the fall, per the City's Financial Integrity Plan.

Increased funding reflects the City's strategic commitment to equity in its operations. Investments aim to strengthen training, oversight, and internal investigations capacity.

The increase reflects a higher estimate for benefits the City may need to pay to former employees who lose their jobs.

Source: City of Worcester FY26 Budget



HOW DOES THE CITY FUND CAPITAL PROJECTS?

In addition to its operating budget, the City of Worcester approves an annual capital budget to fund lasting items such as equipment purchases (police cars, snow plows), infrastructure improvements (roads, sidewalks, parks), technology upgrades, and major building maintenance. The City issues debt and finances capital purchases over the lifespan of the item using tax levy funds, enterprise accounts, and grants from federal and state government. The debt is issued as a municipal bond and is often exempt from federal and state taxes.

Worcester approved **\$113.1 million in new borrowing for capital projects**. The Council also authorized a larger total of **\$158.9 million in loan capacity, providing flexibility to advance multi-year projects**, adjust for changes in construction schedules or grant funding, and ensure authority was available when needed, without immediately adding the full amount to the City's debt load.

The Capital Investment Plan (CIP) allocates \$9.3 million for equipment, including \$4.7 million supported by the tax levy. These funds will support fleet and technology upgrades across multiple departments:

- ▶ \$1.8M for Public Works vehicles.
- ▶ \$1M for Parks vehicles.
- ▶ \$650K for marked Police cruisers.
- ▶ \$500K for Worcester Public Schools equipment
- ▶ \$160K for Fire Prevention vehicles.
- ▶ \$360K for new security cameras.
- ▶ \$250K to expand Wi-Fi in parks.
- ▶ \$4.4M for Water and Sewer equipment (funded by enterprise accounts).

For facility improvements, the City allocated \$41.3 million, including \$33.2 million in tax levy borrowing.

The largest single investment is \$11 million to begin

construction of the new South Division Fire Station. Other major projects include:

- ▶ \$9.4M for MSBA-supported work at Doherty and Burncoat High Schools.
- ▶ \$3.5M for other school rehabilitation projects.
- ▶ \$2.2M for renovations at the DCU Center.
- ▶ \$2.1M for Worcester Police Department headquarters (generator, HVAC, plumbing).
- ▶ \$1.8M for Union Station (matched to federal transit grants).
- ▶ \$1M each for DPW buildings and the Worcester Memorial Auditorium roof.
- ▶ \$300K for fire station upgrades.
- ▶ \$4.6M for Water Enterprise-funded facility improvements.

The plan also directs \$94.6 million toward infrastructure, blending tax levy borrowing, enterprise funds, and grant support. Key allocations include:

- ▶ \$10.6M (tax levy) for street resurfacing and sidewalk reconstruction (DPW).
- ▶ \$3.3M for Transportation & Mobility street design and traffic signals.
- ▶ \$8.2M for Parks Department renovations.
- ▶ \$20.8M for sewer system upgrades (interceptor rehabilitation, flow analysis).
- ▶ \$7.82M for water main improvements and meter replacements.
- ▶ \$6M for water main construction linked to the Chandler Street redesign (grant-supported).

Worcester Public Schools will receive a total of \$14.4 million in capital investments:

- ▶ \$4.5M for general building repairs (\$3.5M tax levy, \$1M from Community Development Block Grant funds).
- ▶ \$500K for school equipment.
- ▶ \$9.4M (MSBA-supported) for completion of Doherty High School and a Burncoat replacement feasibility study.

Chart 7: The City of Worcester's FY26 Capital Budget: Allocation by Category and Funding Source

Category	FY26 Tax Levy Borrowing	FY26 Self-Supported Borrowing	Other Funding (Grants, etc.)	FY26 Total Project Investment
Equipment	\$4,213,650	\$4,622,000	-	\$8,835,650
WPS Equipment	\$500,000	-	-	\$500,000
Facility Improvements	\$9,277,898	\$7,070,000	\$30,000	\$16,377,898
WPS Facility Improvement	\$3,500,000	-	\$1,000,000	\$4,500,000
WPS - MSBA Facility Improvement	\$9,400,000	-	\$0	\$9,400,000
Infrastructure	\$25,462,000	\$38,054,000	\$31,050,000	\$94,566,000
South Division Fire Station	\$11,000,000	-	\$0	\$11,000,000
Grand Total	\$63,353,548	\$49,746,000	\$32,080,000	\$145,179,548

Source: City of Worcester [FY26 Capital Budget](#)



These school improvements are reinforced by Worcester's federal entitlement grants, which total \$6.85M in FY26:

- ▶ Community Development Block Grants (CDBG) – \$4.1M: neighborhood improvements and services
- ▶ HOME Investment Partnerships Program (HOME) – \$1.6M: affordable housing.
- ▶ Emergency Solutions Grant (ESG) – \$375K: homelessness services.

THE CITY'S FINANCIAL INTEGRITY PLAN

Worcester's borrowing capacity is shaped by two primary controls: the Financial Integrity Plan and state law. Under Massachusetts General Laws (Chapter 44, Section 10), municipalities are subject to a **bond cap (or debt limit)** equal to 5% of their equalized property valuation. Worcester must operate within this limit unless it seeks state approval. Importantly, not all debt counts toward the cap—some is considered "within" the limit while other obligations are "outside" it.

The **Financial Integrity Plan** establishes a local goal that debt service should remain between 8% and 10% of the City's annual operating budget, which increases each year. In practice, this calculation is more complex. Some debt is supported by enterprise accounts, some by reserves, and some by the general operating budget. At present, **Worcester's debt service equals 11.9% when including all debt regardless of funding source, but only 5.6% when considering general fund debt service alone.**

The Financial Integrity Plan also lays out several budgetary guidelines:

- ▶ Creation of a high school construction stabilization account for two high school replacement projects (South High School and Doherty High School).
- ▶ Increase of general fund reserve level target to 10% of general fund revenues (from 5%).
- ▶ Connection of the City's annual tax levy supported debt to debt service coverage (8 - 10% of the operating budget), as opposed to a fixed amount.
- ▶ Establishment of an Other Post Employment Benefits (OPEB) Trust Fund and Commission.
- ▶ Memorialization of budgetary assumptions and methodology.
- ▶ Enhancement of financial reporting and transparency.
- ▶ Addition of any "new growth" above the budget estimate to unused tax levy capacity at the time of the tax rate recap (sometimes called "tax relief").

- ▶ Housing Opportunities for Persons With AIDS (HOPWA) – \$797K: housing assistance for residents with HIV/AIDS.

Building on this framework, the City's [FY25–FY29 Strategic Plan](#) outlines a series of initiatives aimed at maintaining and improving its bond rating through sound management practices. A central component of this effort is updating the current Financial Integrity Plan to ensure that fiscal decisions remain responsive to evolving challenges and community needs. A Capital Review Committee has been established to assess both the City's capital project demands and its borrowing capacity, allowing for more strategic management of annual debt and long-term liabilities. The plan also calls for the creation of a formal review process to identify and rescind inactive loan authorizations, ensuring borrowing remains aligned with actual priorities. To improve departmental management and accountability, the City will develop measurable performance indicators based on quantifiable inputs and outcomes. Additionally, the City aims to minimize financial risk by enhancing real-time analysis of revenues, spending, and program outcomes to better support decision-making and drive operational improvements.

When Worcester needs to fund major public investments, like school construction, street repairs, or replacing police cruisers, it often turns to municipal bonds. These are loans from investors (such as large banks, mutual funds, or wealthy individuals) who are repaid over time, with interest. Because municipal bond interest is typically tax-exempt, they're an attractive, low-risk investment.

There are two main kinds of bonds:

- ▶ **General Obligation Bonds**, which are backed by the City's full taxing power and repaid through property taxes. These are considered safer for investors and cheaper to issue, but they count against the city's overall debt cap and rely on taxpayers.
- ▶ **Revenue Bonds**, which are repaid through fees from specific services, like water or sewer charges (through "enterprise funds"). These do not burden the general tax base, but they are considered riskier and often come with higher interest rates because repayment depends on how much revenue the project brings in.



The City pays back this debt over time through its debt service budget, which is capped at no more than 10% of the total operating budget under Worcester's Financial Integrity Plan. This cap is meant to ensure that borrowing doesn't threaten the City's ability to fund services and operations each year.

Worcester holds strong investment-grade bond ratings (Aa3/AA-/AA), which means it is considered a low-risk borrower and can issue bonds at lower interest rates and with lower fees. These ratings are based on factors like the City's tax base, reserves, and debt levels. Municipal bonds rated Baa3/BBB- or higher are classified as investment-grade. Bonds rated below that threshold are known as "junk" or high-yield bonds—offering higher returns to compensate investors for greater risk, but also carrying higher borrowing costs for the city.

This rating distinction matters. Disadvantaged communities—those with lower property values, weaker tax bases, and higher service demands—are more likely to receive lower credit ratings, not because of poor financial management, but due to structural and historical disadvantages. As a result, they must often pay more to finance the same kinds of projects, making it harder to invest in essential infrastructure. Worcester's high rating, in contrast, both saves taxpayers money and expands the City's borrowing capacity—but it also reflects advantages that many peer cities simply do not have.

Beyond reducing interest costs, a strong credit rating also enhances flexibility. It allows Worcester to borrow quickly when needed, and serves a symbolic function—reassuring investors, state agencies, and bond markets that the City

is well-managed and fiscally responsible. These reputational benefits can strengthen the City's overall financial position.

However, the pursuit of strong credit ratings is not without tradeoffs. Rating agencies prioritize fiscal indicators—like reserve fund levels, debt burdens, pension liabilities, and short-term budget performance—while rarely considering broader outcomes such as racial equity, community health, or long-term social impact. This creates incentives for cities to avoid large or transformative investments that don't produce immediate financial returns—even if those projects would clearly benefit residents in the long run.

Moreover, the credit rating system favors cities with structural advantages: high-value commercial property, wealthier residents, and fewer fiscal legacies. Cities serving more vulnerable populations are often under pressure to limit spending, even when that spending addresses urgent needs. In this way, the bond market can reinforce inequities by charging the highest prices to the cities least able to afford them.

Understanding how credit ratings shape borrowing decisions is essential for residents, advocates, and policymakers alike. It helps communities hold government accountable—not just for balancing budgets, but for making just, strategic decisions about where and how to invest. And it clarifies why some cities struggle to build the infrastructure they need: not because of mismanagement, but because they operate within a financial system that rewards wealth and penalizes need.

POINTS OF INTEREST

The proposed FY26 budget for the City of Worcester totals approximately \$948 million, reflecting both ongoing operations and anticipated challenges.

The largest share, **\$574.4 million, is allocated to education—an increase of \$33.3 million from FY25**. This growth is driven by the local contribution required under the Student Opportunity Act and growing obligations for school-related debt service.

Public safety spending increases by \$9.1 million, reaching **\$122.7 million**. This includes:

- Personnel paygrade adjustments and additional overtime.
- Police software upgrades to better track enforcement by race and ethnicity, along with facility improvements.

- Fire Department funding for overtime and PFAS-free uniforms that protect firefighter health by avoiding "forever chemicals".

The budget separates Parks and Public Works into distinct categories. Parks will see added resources for aquatics maintenance, seasonal staffing, and park cleanup. Public Works will receive expanded funding for a neighborhood-based waste bin pilot, pothole repair, and fleet intern wages. To cover external obligations and internal maintenance, the City anticipates a **2.9% increase in water and sewer rates**.

Other departmental highlights include:

- **Economic Development:** zoning-related work tied to long-range planning.
- **Worcester Public Library:** continuation of its social worker position and addition of a second security officer.



- **Public Health:** transition away from the regional model toward Worcester-specific programs.
- **Human Resources:** staffing adjustments in preparation for the FY26 rollout of the Workday Human Capital Management system.

The budget also provides a **2% cost-of-living adjustment (COLA)** for municipal employees, along with salary adjustments to address wage compression. Only two new positions are being added, both tied to the public building security program launched in FY25, as part of a broader restructuring of compensation systems.

On the financial side, the City is budgeting a **\$5 million contingency fund**—down from \$6.9 million in FY25—to account for unsettled labor contracts and potential

reductions in state and federal funding. **The capital budget is \$23 million smaller than FY25's**, reflecting the end of MSBA borrowing for Doherty High School and an effort to preserve debt capacity ahead of a potential \$300 million Burncoat School project. Major capital allocations include \$18 million for park improvements, \$11 million for a new South Division Fire Station, and \$2.5 million for roof work at the Worcester Memorial Auditorium.

Overall, the FY26 budget reflects a cautious approach: growth in core service areas is managed carefully, new spending commitments and hiring are limited, and investments are targeted toward long-term obligations such as the Burncoat school project.

THE STATE BUDGET: OVERVIEW AND LOCAL EFFECTS

Governor Maura Healey signed the state's \$60.9 billion FY26 budget, which includes increased education aid, new housing policies, and ongoing cost-saving measures. The budget is \$130 million below the Legislature's final proposal after line-item vetoes. While \$125 million in earmarked local projects had initially been held back, the administration has since released those funds following a fiscal review. Chapter 70 education aid rises to \$7.36 billion, a 7% increase, with a new \$150 per-pupil minimum.

The FY26 Massachusetts state budget significantly impacts Worcester Public Schools (WPS), with the district receiving \$17.3 million in new state aid under the continued rollout of the Student Opportunity Act. This funding supports WPS's \$586 million budget, up \$33.8 million (6.1%) from FY25. However, rising costs for salaries, benefits, and inflation mean only about \$3.6 million is available for new investments.

WPS plans to use this limited flexibility to fund key priorities aligned with its new equity-based budgeting model, including eight new Culture and Climate Assistants, expanded teacher planning time in high-need schools, and updated math textbooks. The budget also maintains class sizes, guidance ratios, Chromebooks, school safety, nursing, and extracurricular transportation. No layoffs are anticipated, but the district remains cautious given continued uncertainty around federal funding, which accounts for roughly 9% of its total budget. For a deeper analysis of the Worcester Public Schools budget, including funding sources, spending priorities, and long-term fiscal challenges, see the companion report, [Paying for a Public Education](#).

In housing, the state bans tenant-paid broker fees and allocates \$253 million to the Massachusetts Rental Voucher Program (MRVP), supporting at least 10,000 low-income households with rental assistance. An additional \$276 million will sustain emergency shelter operations and housing stabilization efforts as the state continues to face elevated demand. **Local Housing Authorities, including the Worcester Housing Authority, will benefit from \$115.6 million in subsidies to support the roughly 70,000 residents living in state-aided public housing.** The budget also includes \$10.1 million for sponsor-based permanent supportive housing, helping residents transition from shelter into long-term housing with access to case management services. An added \$30 million is transferred to the Housing Preservation Trust Fund through a supplemental budget to support preservation and development of affordable housing stock.

The FY26 state budget makes significant investments to expand access and stabilize early education. It maintains \$475 million for Commonwealth Cares for Children (C3) grants to support providers, dedicates \$1 billion to help families afford care through Child Care Financial Assistance, and allocates \$17 million for the Commonwealth Preschool Partnership Initiative (CPPI), with an additional \$25 million in FY26 from the Fair Share Supplemental budget as part of a three-year \$50 million commitment. Together, these investments advance Governor Healey's **Gateway to Pre-K goal of delivering universal, high-quality preschool for all four-year-olds in Gateway Cities by 2026—positioning Worcester, now on track as a CPPI community, to expand affordable, aligned preschool options for local families.**



Public transportation funding is driven by Fair Share surtax revenues, with \$550 million transferred to the Commonwealth Transportation Fund to leverage over \$5 billion in borrowing. Additional allocations include \$115 million for regional transit authorities and \$35 million for income-based fare reductions. Regional Transit Authorities (RTAs) receive \$160 million in total operating funds again in FY26, maintaining the FY25 funding level. However, the Fair Share surtax adds an additional \$115 million in targeted grants for RTAs statewide, and \$35 million to fund income-eligible reduced fares. The Worcester Regional Transit Authority (WRTA) eligible for both base and supplemental transit funds.

The expansion of ConnectorCare means more Worcester residents—particularly those with low or moderate incomes—can gain affordable health coverage, reducing uncompensated care costs at local hospitals and clinics. The new Affirming Health Care Trust Fund and dedicated abortion access funding strengthen reproductive and

gender-affirming health services, which Worcester's diverse population can draw on as federal protections face uncertainty. Meanwhile, the \$201.6 million for veterans' services, including \$81.8 million to implement the HERO Act, ensures expanded benefits and eligibility for disabled and low-income veterans, a group well represented in Worcester, enhancing local support networks and easing financial strain on families.

Worcester will receive approximately \$51.7 million in Unrestricted General Government Aid (UGGA) in FY26, a modest increase of about 1.1% from the previous year. Statewide, UGGA totals \$1.34 billion, up \$14.4 million from FY25, reflecting a slowdown from the 3% increase cities and towns received last year.

The state also created a \$100 million contingency fund to respond to any midyear changes in the economy or federal policy, and the Governor has been granted expanded emergency budget-cutting authority. The

CONCLUSION

Worcester's FY26 budget reflects a continued effort to balance fiscal prudence with the City's long-term priorities. With a total appropriation of approximately **\$948 million**, the City has increased investments in education, public safety, and infrastructure while managing debt within the limits of its Financial Integrity Plan. The budget prioritizes core services, supports compensation adjustments for municipal employees, and funds targeted capital projects, including a new fire station and upgrades to schools and parks.

At the same time, Worcester continues to face structural fiscal challenges: a **heavy reliance on property tax revenue, rising fixed costs, and a significant share of land and property exempt from taxation**. While many of these tax-exempt institutions contribute to the city's vitality and economy, their presence also underscores the importance of continued dialogue and collaboration to ensure that Worcester's revenue sources can sustainably support core public services. While the City benefits from a **strong credit rating and disciplined fiscal management**, these strengths exist within a broader financial system that can constrain **equitable investment in high-need communities**.

As state aid continues to shape the education budget and federal cuts and program changes—not just uncertainties—loom on the horizon, the City's ability to maintain service levels and invest in future growth will depend on careful planning, transparent reporting, and sustained community engagement. Reductions to

programs such as Medicaid, SNAP, and federal housing and education supports, along with workforce cuts at key agencies like HUD, illustrate how both funding streams and administrative capacity may be affected in the near and long term. **The FY26 budget does not mark a dramatic shift, but rather a cautious continuation of existing commitments, setting the stage for larger decisions in the years ahead**, especially as the City prepares for investments such as the Burncoat school project. As always, the Worcester Regional Research Bureau will continue to monitor and report on how the City's budget aligns with residents' needs, institutional responsibilities, and long-term fiscal health.



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