



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.