

Executive Summary

INTRODUCTION

The City of Boston's Fiscal Year (FY) 2026 budget is built on a robust and reliable financial foundation, based on years of strong budget management. Boston's \$4.8 billion FY26 Annual Operating Budget and \$4.5 billion FY26-FY30 Capital Plan reflects stability and constraint, while continuing to honor prior financial commitments, protect City-owned assets, and provide excellent city services. The Annual Operating Budget is a responsible approach to enacting continuous service enhancements and process improvements to deliver city services more effectively. The five-year Capital Plan creates and maintains our roads, sidewalks, schools, libraries, community centers, parks, public health, and public safety infrastructure, to deliver the essential services on which our residents depend.

Thanks to continued strength in local property tax revenue and continued growth of local receipts, particularly with excises for hotel occupancy and meals, the FY26 Operating Budget includes \$4.8 billion in spending. This reflects a year-over-year increase of \$96 million, or 2%, over the FY25 budget. Adjusting for a one-time Housing Accelerator Program appropriation in FY25, the year-over-year increase is \$206 million or 4.4%.

This fiscally responsible budget will also fully fund long-term liabilities, like pensions and debt service, enabling investment in our City's five-year Capital Plan. The plan touches all neighborhoods and supports capital projects, including renovations, new construction, and state of good repair for

our schools, libraries, community centers, parks, roadways, and major infrastructure.

The FY26 operating budget for Boston Public Schools (BPS) is an increase of \$45.5 million, which will go into schools and classrooms to bridge gaps in opportunity and achievement and build a foundation for the district's future.

The robust \$4.5 billion FY26-30 Capital Plan proposes investment in every neighborhood across the city, delivering state of the art new libraries, community centers, pools, schools, and parks. This year's Capital Plan decreases slightly from the FY25-29 Plan, both in terms of overall size and number of projects. This demonstrates fiscal responsibility while still delivering hundreds of transformative investments across Boston, and in many cases represents a consolidation and streamlining of investment planning.

This year's Capital Plan continues to focus on investments in the City's basic inventory of public assets: our roads, bridges, schools, libraries, and parks. Investment decisions are made to ensure that capital projects will deliver meaningful impact to constituents in all areas of the city, especially those that have seen historic disinvestment.

The Capital Plan invests in projects in every neighborhood, consistent with the strategic master plans that have been developed with the community. This ensures that the municipal, civic, and open space assets, which residents cherish in their neighborhoods, remain active and vibrant parts of the community.

The FY26-FY30 Capital Plan includes funding for new and renovated schools;

transformative mobility projects that make Boston's roads and bridges safe for all users, regardless of how they travel; major park upgrades in neighborhoods throughout the city; new community center and library buildings; and planning for the impact of climate change by dedicating significant City funding toward climate and coastal resilience projects.

For more information on the City's FY26 Operating Budget and FY26-30 Capital Plan, please visit:
<https://www.boston.gov/finance/fiscal-year-2026>.

PUBLIC ENGAGEMENT

In past years, the Office of Budget Management (OBM) coordinated a cross-departmental effort to engage Boston residents in the development of the city's budget. The office hosted public meetings and created educational videos and slide decks that live on [boston.gov](https://www.boston.gov). To view these materials explaining how the budget is created and how residents can get involved, visit:

<https://www.boston.gov/departments/budget/how-budget-works>

As a result of Ballot Question 1 passing in the fall of 2021, the City created a new Office of Participatory Budgeting (OPB). The Office is funded in the Finance Cabinet and was created to administer an equitable and binding decision-making process for all Bostonians. In collaboration with their board, OPB implemented their first *Ideas in Action* idea solicitation and selection cycle in FY25. You can read more about the

process and winning proposals by visiting their website:

<https://www.boston.gov/departments/participatory-budgeting/ideas-action>

The next *Ideas in Action* cycle will start in July of FY26.

CITY COUNCIL BUDGET APPROVAL POWERS

In November 2021, Boston voters approved Ballot Question 1, a City Charter change. This amended the City of Boston's existing budgetary process, from the City Council having power to adopt or reject a budget or reduce a specific item in a budget, to the Mayor and the City Council holding budgetary powers together. The City Council is able to modify and amend appropriation orders as long as the changes do not exceed the total amount of the Mayor's proposal.

The FY26 operating budget is the fourth budget to be submitted following the change to the City Charter. The City Council will undertake a robust hearing process in the weeks following the April 9, 2025 filing date. The FY26 annual operating budget submittal and the approval process will follow the schedule below:

- **June 4 or 11, 2025** - the City Council will take action on the Recommended annual operating budget.
- **June 11 or 18, 2025** - the Mayor has the option to return the FY26 annual operating budget to City Council with further amendments within the seven day statutory requirement.
- **June 25, 2025** - the last City Council meeting before the start of FY26. Depending on the actions taken by both the City Council and the Mayor on the previous dates, the City Council has the option to pursue override votes on any Mayoral amendments that may have been included in a returned

budget with a two-thirds majority vote and amended the budget within the Mayor's budgetary threshold.

- **July 1, 2025** - the FY26 annual operating budget is in place for the beginning of the fiscal year.

THE GENERAL FUND

The City's entire \$4.8 billion budget is funded through the general fund. All revenues discussed below are deposited into the City's general fund and are reflected on a fiscal year basis July 1 through June 30.

REVENUE

The City's growing revenue budget, growth that persisted even during recent pandemic-impacted years, is a testament to the resilience of Boston's economy and tax base. Property tax continues to drive year-over-year revenue growth through a combination of the allowable 2.5% increase and cautious new growth estimates. Local receipts, such as fines, fees and excise taxes, are expected to build on their strong performance in FY24 and through the first three quarters of FY25. Despite the performance of the local economy, the City anticipates State Aid to decrease based on the FY26 State budget as submitted by Governor Healey in January 2025.

The FY26 Operating Budget relies on \$4.8 billion in revenue, a \$96 million, or 2.0%, from budgeted FY25 revenue. Excluding the one-time Housing Accelerator Program appropriation in FY25 the year-over year increase is \$206 million or 4.4%. Property tax accounts for nearly 70% of all revenue growth in FY26. Departmental revenues including excises, permits, licenses, fees, and fines account for the remaining 30%. Interest on investments is anticipated to decrease by \$7.1 million.

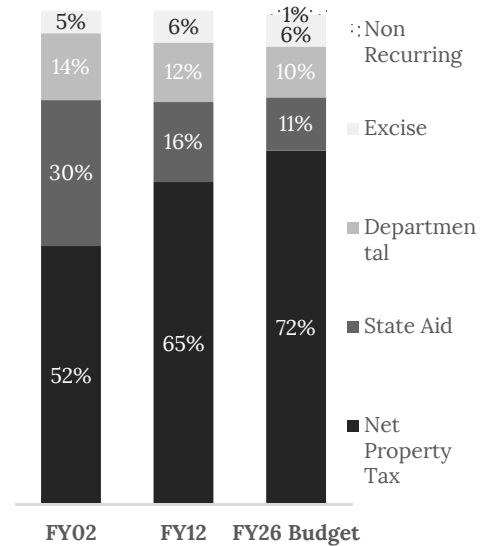


Figure 1 – Share of Revenue by Category FY02, FY12, and FY26

Property Tax

Property tax remains the primary revenue source for all City services and departments. In Massachusetts Proposition 2 ½ constrains the amount of property tax revenue the City can raise each year from its existing tax base to a 2.5% annual increase. Some of this limitation is eased by new growth (eg. new construction) that is added to the property tax levy outside of the 2.5% increase. Despite the addition of new growth, property tax growth lags behind the growth in property value. Total property value has grown 104% in the past 10 years while property tax revenue has grown by 80%. The growth in property value is consistent with the City's commitment to new housing construction and the strength of Boston's development climate. Consequently, property tax growth continues to be a point of strength for the City.

In FY26, we expect new growth to be lower than in recent years due to economic uncertainty resulting from increasing interest rates, inflationary pressure on the construction industry, and fewer upcoming tax agreement expirations. During the past

half dozen years, the City has seen notable construction projects in Boston enter the City's property tax base for commercial, mixed-use and residential properties, most notably in the Seaport District, Dorchester, and the Back Bay. More building activity is forthcoming, with significant volumes of commercial square footage approved but not yet permitted, especially in the laboratory market.

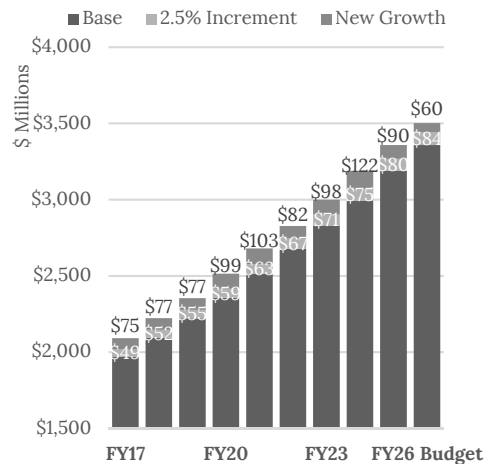


Figure 2 - Property tax levy Increase by Type (in millions), FY17 - FY26

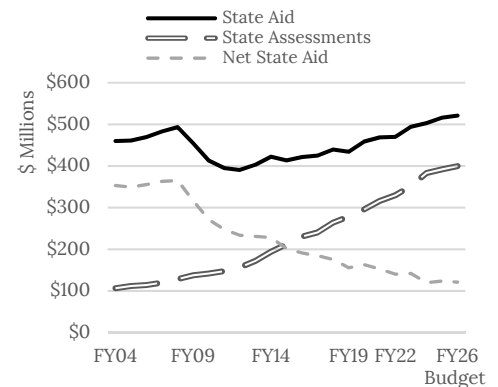
Despite the need to maintain and grow property tax revenue, the City is committed to keeping residential property tax bills affordable to retain more low- and middle-income homeowners in the City. Policies we have pursued are demonstrating success, as residential taxes are more than 17% lower than the statewide average. For FY24 the City Council, with the approval of Mayor Wu, once again was able to allow the maximum residential amount, 35%. Compared to FY24, the residential exemption amount increased by \$374, saving eligible taxpayers up to \$3,984 on their property tax bills.

State Aid

In 2002, State Aid comprised 30% percent of the City's annual budget and helped the City maintain a sustainable balance between revenue sources. In the following

decades the State investment in its municipalities remained mostly flat, with the City filling the gap with others sources. Across all General Fund sources, the City expects to receive \$521 million in FY26, 10.9% the City's budget and \$4.8, 0.9%, more relative to its FY25 appropriation. The City's two largest state aid sources are K-12 Education (Chapter 70) funding and Unrestricted General Government Aid (UGGA) and constitute 92% of state aid revenues in FY26.

Figure 3 - State aid, State assessments and net state aid (in millions), FY04-FY26



Net state aid, which is state aid revenue less state assessments, has been trending down steeply since FY08. Net State aid is anticipated to decline by \$2.8 million in FY26 over the FY25 appropriation. This decrease is driven primarily by a \$5.5 million decrease in the charter school tuition reimbursement. The FY26 projected net state aid totals \$121.2 million based on state budget negotiations at the time the recommended City budget was finalized. Compared to FY08 levels aid for FY26 will be \$243.9 million, or 77% less. Despite the annual increases in UGGA and Chapter 70 aid, assessments have outpaced aid revenues and have placed extraordinary pressure on the City to generate necessary revenue from property tax and other local revenue sources to fund services.

Local Receipts

Local receipts or revenue the City is able to generate locally, include items like excise taxes, fees, fines, and permits. This vital revenue source generally follows the City's overall economic health and was greatly impacted by the coronavirus pandemic and economic fallout, dropping \$190 million, or nearly a third, between FY19 and FY21. In FY26 local receipts are projected to increase by \$58.2 million, or 8%, over the FY25 budget, building on continued strength in collections in FY24, year-to-date in FY25, and current economic forecasts.

Two-thirds of the year-on-year increase comes from excises. Excises are anticipated to increase by \$38.5 million. The City's excises on lodging, meals, and aircraft fuel have benefited from strong local and tourism demand and accompanying price inflation.

Other local revenues are budgeted to register modest increases except for interest on investments. Interest on investments is sensitive to the Federal Funds target rate set by the Federal Reserve and City Fund balances. The interest rates experienced in recent years has propelled interest on investment revenues to record levels, but as the Federal Reserve has lowered rates, revenues have followed. This revenue will be negatively impacted if the Federal Reserve continue to reduce rates in the future. For FY26 the City is budgeting \$79.6 million for this account, \$7.1 million lower than the FY25 appropriation.

Local receipts can be more susceptible to macroeconomic factors than Property Tax. Therefore, a diversified revenue base is beneficial to the City's fiscal health. As local receipts are one area where the City can pursue new and expand existing revenue streams, the City will also continue to study opportunities to raise revenue in a

thoughtful, equitable, and sustainable manner.

Non-Recurring Revenue

In FY26, the City has budgeted the use of \$40 million of Budgetary Fund Balance. Budgetary Fund Balance is more commonly referred to as "Free Cash." These funds support the appropriation for Other Post-Employment Benefits (OPEB), the liability associated with retiree health insurance costs. The same amount was budgeted in FY25. The City appropriated another \$110 million in FY25 for a one-time investment in the Housing Accelerator Program, bringing total FY25 appropriations from Free Cash to \$150 million; no additional appropriations for this purpose are included in the FY26 budget.

In FY22 and FY23, the City utilized funds granted by the American Rescue Plan Act of 2021 (ARPA) for revenue replacement purposes. No revenue replacement funds from ARPA have been budgeted in FY25 or FY26.

EXPENDITURES

Overall FY26 operating budget expenditures are showing a year-over-year increase of \$96 million or 2% over FY25, however adjusted for one-time Housing Accelerator Program appropriation in FY25 the year-over year increase is \$206 million or 4.4% (see Figure 4). The FY26 spending growth falls within the City's projected revenue growth and continues core services and allows for strategic investments.

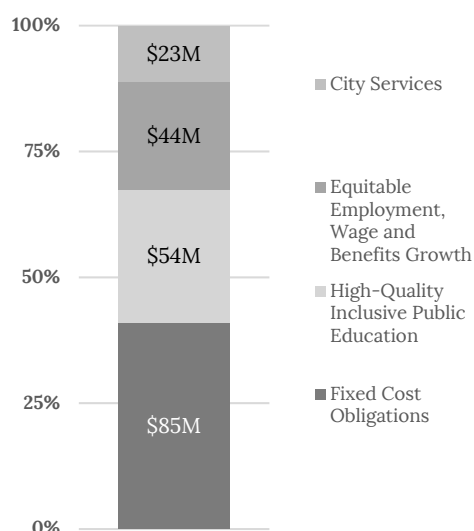


Figure 4 - Budgetary Growth by Category
City Appropriations

City Services such as Police, Fire, Public Works, Housing, and other central funds are projected to decrease by a total of \$67 million or -3.6% but when you adjust for the one-time \$110 million FY25 appropriation for Housing Accelerator program City appropriations are increasing by \$43.3 million or 2.5%

The largest area of growth in the operating budget for City Appropriations is in the People Operations Cabinet, which is growing by \$21.3 million or 7.9% driven in large part by the growth in the central Health Insurance appropriation of \$17.2 million or 7.4% which covers health insurance premiums for active and retired employees. Health insurance premiums are significantly impacted by the increased cost of medications covered by the City's health plans.

The Streets Cabinet is growing by \$12.8 million or 6.6% driven largely by new trash collection contracts that provide additional contracted labor and require new, more reliable trucks and new technology. Strengthened accountability terms such as continuous reporting on the status of staff and equipment will ensure quicker

collection times and fewer missed collections.

The Information and Technology Cabinet is growing by \$4.1 million or 7.7%. The cabinet will lead efforts in partnership with the Community Engagement Cabinet and all the service delivery departments to build out a new 311 constituent relationship management technology and permitting and licensing systems, improving constituents' experience with the City.

The remaining 15 City Cabinets in the City Appropriations grouping are described in additional detail in the Appropriations section of the Operating Budget Chapter.

The City believes its employees are its greatest resource for providing excellent city services. Fair wages are an important component to support the City's greatest resource. The City continues to negotiate successor agreements for the outstanding contracts. The FY26 budget includes a \$102.7 million reserve for collective bargaining. As contracts are settled, the funding, with the approval of the Boston City Council and the Mayor, will be moved from the reserve to the individual departmental budgets where the wages will be paid.

Public Health

The Public Health Commission (PHC) budget is growing by \$4.2 million (3%) in FY26. The Public Health Commission will focus on the most vulnerable populations struggling with substance use disorder and homelessness, as well as the general health and well-being of all residents. Unlike other city departments, the PHC budget contains health insurance and pension.

Education

The FY26 operating budget for Boston Public Schools (BPS) is seeing an increase of \$45.5 million. The \$1.58 billion appropriation reinforces recent year investments in priority areas that promote strong student outcomes, close

opportunity gaps, and eliminate disparities in achievement that are shared by large urban districts across Massachusetts and the nation as a whole.

In addition, \$43 million, funded in part through identified cost savings in Central Office, will be dedicated to new investments going directly into schools, headlined by \$10 million for inclusion work to ensure that students with the highest need are educated in the least restrictive environment. Additional school-directed investments aim to improve educational outcomes and the student experience.

Fixed Costs

The City is required by binding agreements to meet its long-term financial commitments, such as pensions and debt service. This budget will continue to support the City's fixed costs for next year, including pensions, debt service and non-charter school state assessments, and maintain the City's level of reserves to buffer against changes in the larger economic landscape. Fixed cost growth consumes 45.3% of the City's adjusted budgetary growth but this funding commitment is critical to maintaining Boston's AAA bond rating and securing the long-term fiscal health of the City.

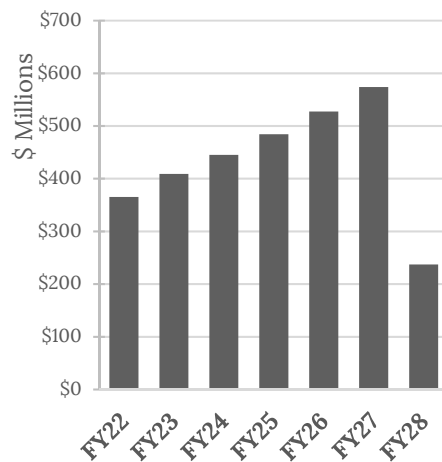


Figure 5 - Pension Funding Schedule

Boston's pension schedule used for the FY26 budget is based on an actuarial valuation as of January 1, 2024. Boston's pension liability was 85.9% funded and is estimated to be fully funded by 2028.

FY26-FY30 CAPITAL PLAN

The \$4.5 billion FY26-30 Capital Plan makes critical investments in the City's infrastructure in every Boston neighborhood: new and renovated schools, streets, arts, climate resilience improvements, green infrastructure, affordable housing, parks, and playgrounds. Taken together, these projects will support Boston's dynamic economy and improve quality of life for residents by encouraging affordability, increasing access to opportunity, promoting a healthy environment and public realm.

Planned bond issuance is expected to increase by 1% over the FY25-29 Capital Plan, representing fiscal responsibility and adherence to our debt management policies. As a result, the FY26-30 Capital Plan looks to maximize our bond dollars as well as our outside funding sources – other City funding, available federal funding, and State grants like Chapter 90 and our continued partnership with the Massachusetts School Building Authority.

The investments made in the FY26-30 Capital Plan are closely aligned with the City's planning efforts, and other strategic priorities, ensuring that our investments follow the long-term work of our user departments:

- Supporting the Boston Public Schools' Long-Term Facilities Plan, both through state of good repair investments and the construction of new schools and renovations to facilitate mergers and consolidations. This means investments for new construction with the MSBA Core and ARP programs, City investment in

facility and reconfiguration needs, and strategic reserves for future projects identified through strategic planning and community engagement.

- Making transportation and public works investments in our Streets to make streets that are safer and welcoming for all users, travel that is more reliable and predictable, and quality transportation choices that improve access to interconnect our neighborhoods for all modes of travel.
- Preparing for climate change by incorporating green infrastructure into our street, parks, and facility projects, and by continuing to develop and implement plans for coastal and storm water resilience. Our Coastal Resilience Reserve and ongoing planning efforts with the Army Corp of Engineers place the City in a strong position to begin coastal construction projects over the next decade.
- Construction and renovation of the City's civic buildings, focusing on libraries, community centers, and City Hall, to ensure that constituents have access to high quality public space.
- Supporting the Percent for Art Program and the City's commitment to the arts by setting aside 1% of the City's annual capital borrowing for the commissioning of public art.