

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 infrastructures, to deliver the essential services on which our residents depend.

Thanks to continued strength in local property tax revenue and growth of local receipts, particularly with excises for hotel occupancy and meals, the FY26 Operating Budget encompasses \$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%.



The Second International Day of Play on Boston City Hall Plaza

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) currently displays an increase of \$11.8 million, but will increase further when collective bargaining budget increases approved late in FY25 are added to FY26 BPS budget. This funding will go into schools and classrooms to bridge gaps in opportunity and achievement and will build a foundation for the district's future.

The robust \$4.5 billion FY26-FY30 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-FY29 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.

The 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. It 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-FY30 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, including hosting public meetings and creating educational videos and slide decks that live on boston.gov. For explanations of 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 the passage of Ballot Question 1 in 2021, the City created a new Office of Participatory Budgeting (OPB). OPB, funded in the finance cabinet, was charged with setting up

an equitable and binding decision-making process in which all Bostonians may participate. In collaboration with its board, OPB implemented its first idea solicitation and selection cycle, called Ideas in Action, in FY25. You can read more about the process and winning proposals by visiting OPB's website: <https://www.boston.gov/departments/participatory-budgeting/ideas-action>. The next Ideas in Action cycle will started in July of FY26.



Runners on Boylston St. during the 129th Boston Marathon

NEW 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, in which the City Council had the power to adopt or reject a budget or to reduce a specific item in a budget, to one in which the Mayor and the City Council hold budgetary powers together. The City Council is now 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 approved following the change to the City Charter. The City Council conducted a robust hearing process in the weeks following April 9, 2025 and approved the Adopted budget in June. The FY26 annual operating budget approval process was as follows:

- **June 4, 2025** - The City Council took action on the annual operating budget. They made several amendments to the budget, totaling \$7.9 million. Funding was shifted to priority areas including youth jobs, various housing services and a variety of core city functions (pest control, community programming, etc).
- **June 10, 2025** - Within the seven-day statutory requirement, the Mayor opted to approve rather than return the FY26 annual operating budget to City Council with further amendments.

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

THE GENERAL FUND

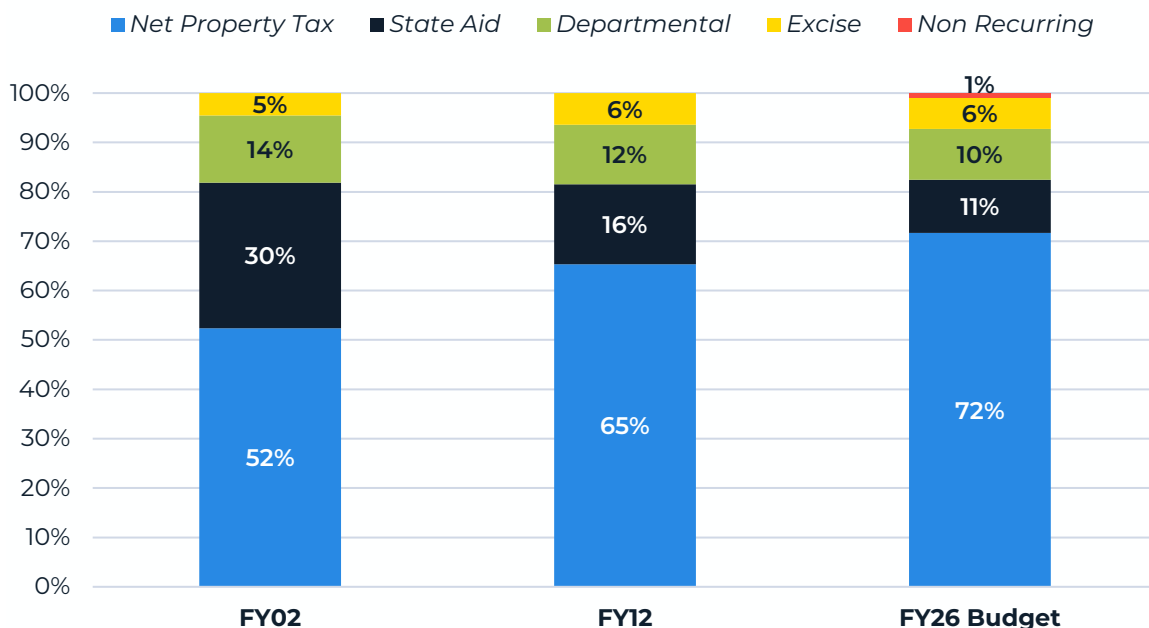
The City's entire budget of \$4.8 billion is funded through the general fund. All revenues discussed below are deposited into the City's general fund and reflected on a fiscal-year basis July 1 through June 30.

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 FY25. The City anticipates state aid to increase by less than 1%, based on the FY26 state budget as submitted by Gov. Maura Healey in January 2025.

The FY26 Operating Budget relies on \$4.8 billion in revenue, a \$96 million increase, 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 recurring 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

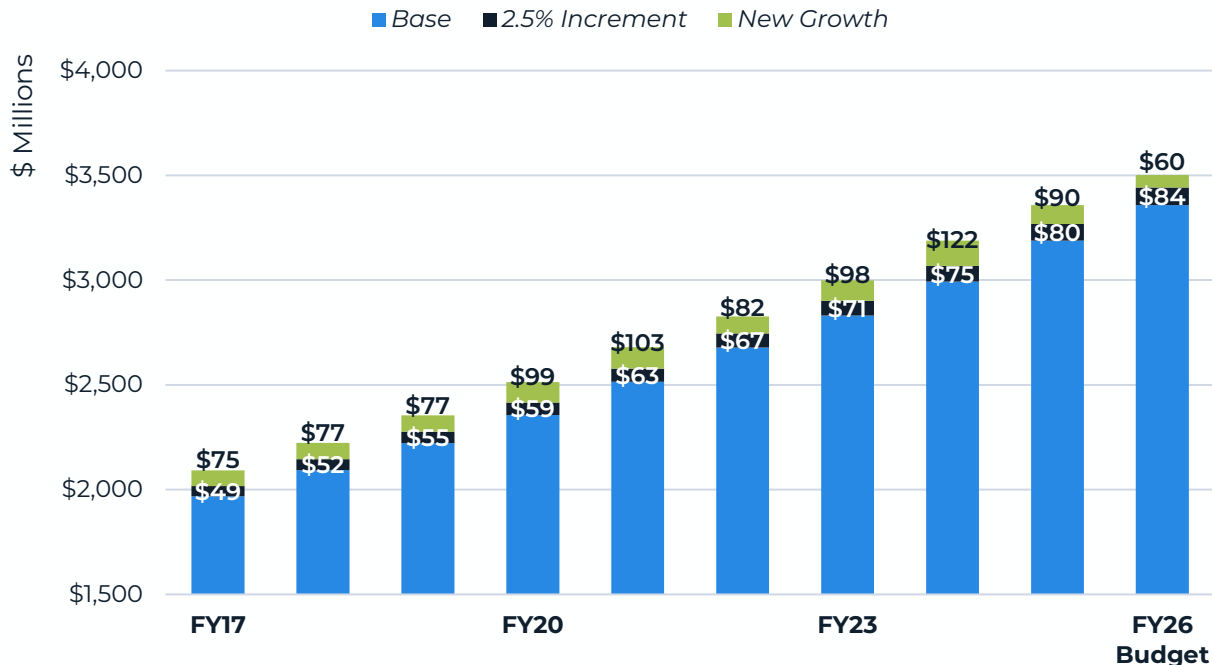


PROPERTY TAX

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, new growth is expected to be lower than in recent years due to economic uncertainty resulting from high interest rates, inflationary pressure on the construction industry, and existing commercial real estate availability. During the past six years, notable construction projects in Boston have entered the City's property tax base for commercial, mixed-use and residential properties, particularly 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. Recent local policy actions demonstrate success as residential taxes are more than 17% lower than the statewide average. For FY25, the City Council, with the approval of Mayor Wu,

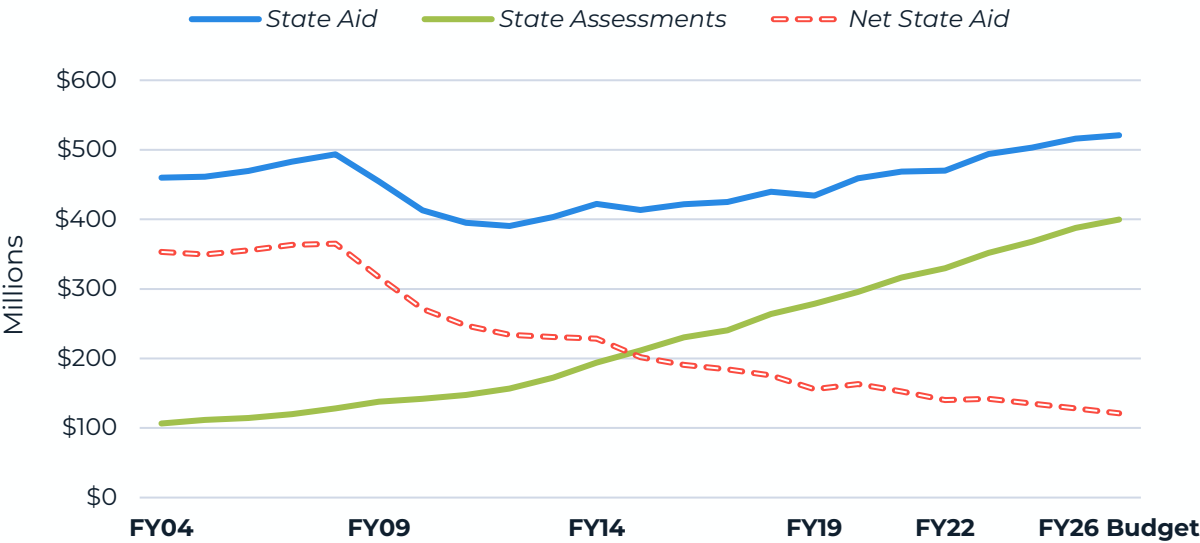
allowed the maximum residential amount for tax exemption, 35%. The residential exemption amount increased by \$374 from FY24, saving eligible taxpayers up to \$3,984 on their property tax bills.

State Aid

In 2002, state aid constituted 30% of the City’s annual budget and helped the City maintain a sustainable balance between revenue sources. In the following decades, Boston’s financial support from the state remained mostly flat, with the City filling the gap from other sources. Across all General Fund sources, the City expects to receive \$521 million in state aid in FY26, 10.9% of the City’s budget. This \$4.8 million, or 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) which constitute 92% of state aid revenues in FY26.

Net state aid, which is state aid revenue less state assessments, has been consistently decreasing since FY08. Net state aid is anticipated to decline by \$7.1 million in FY26 under the FY25 appropriation. This is driven primarily by increases in the state assessment for charter school tuition and a decrease in the reimbursable portion of that assessment.

Figure 3: State Aid, State Assessments and Net State Aid (in millions), FY04-FY26



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, net state 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, placing extraordinary pressure on the City to generate revenue from property taxes and other local revenue sources to fund services.

LOCAL RECEIPTS

Local receipts, or revenue the City is able to generate locally from sources other than property tax, 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 and FY25, and current economic forecasts.

Two-thirds of the year-over-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 have 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 continues 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. Given that local receipts are one area where the City can pursue new revenue streams and expand existing ones, the City will continue to study opportunities to raise revenue in a thoughtful, equitable, and sustainable manner.

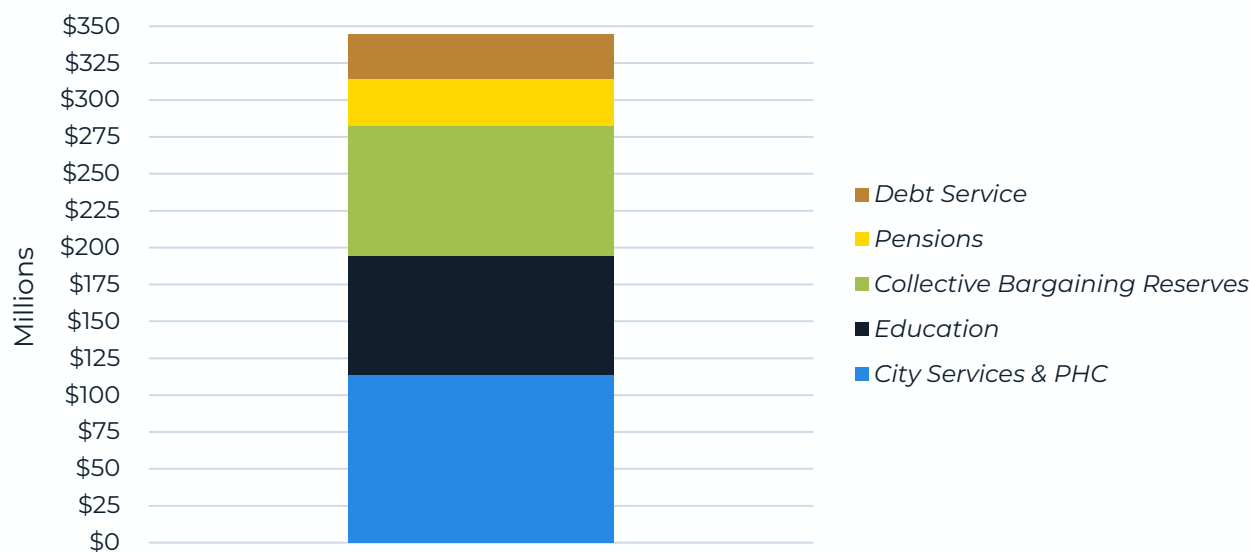
NON-RECURRING REVENUE

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 an additional \$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 to the Housing Accelerator Program are included in the FY26 budget.

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 \$71.2 million or -3.8% but, when adjusted for the one-time \$110 million FY25 appropriation for Housing Accelerator program City appropriations are increasing by \$38.8 million or 2.2%

The largest area of growth in the operating budget for City appropriations is in the People Operations Cabinet, which is growing by \$20 million or 7.4% 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 \$11.7 million or 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.

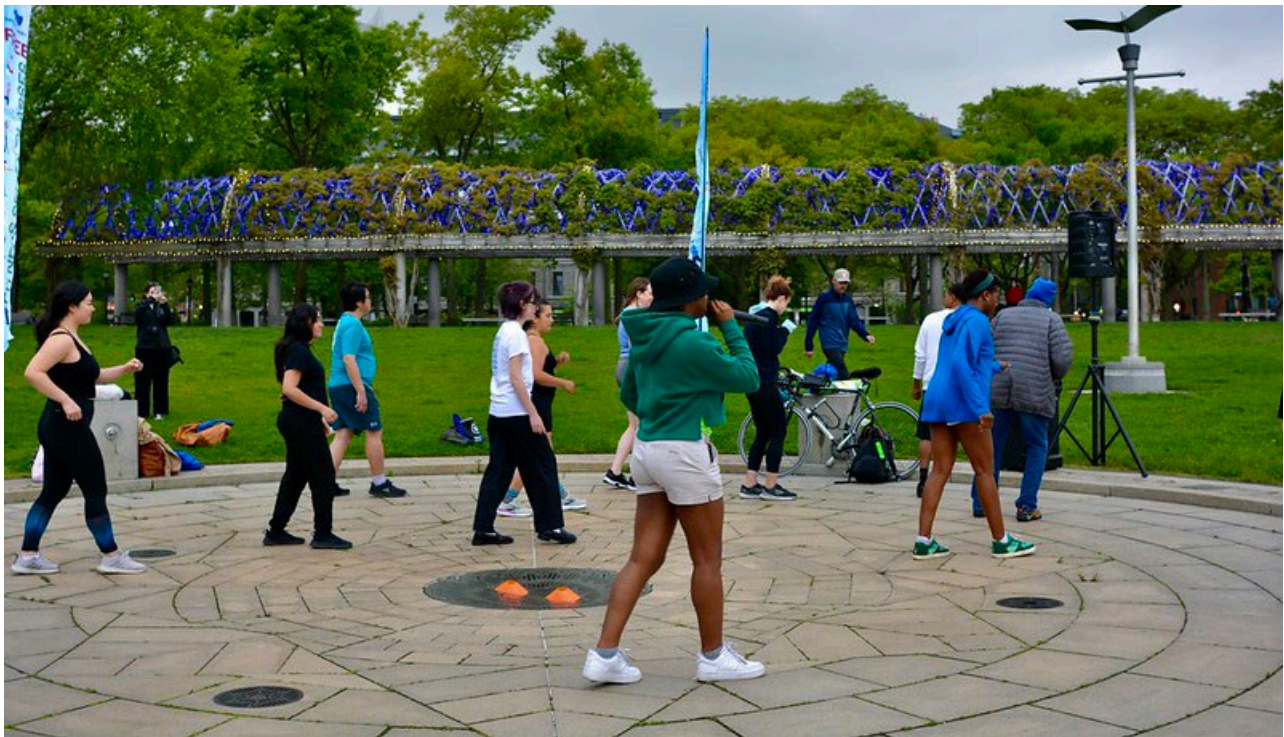
The remaining 15 City Cabinets in the City Appropriations grouping are described in additional detail in the Appropriations section of the Operating Budget Chapter.

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 pensions.



Bostonians exercise at Christopher Columbus Waterfront at the 2025 Summer Fitness Series Kickoff

Education

The FY26 operating budget for Boston Public Schools currently displays an increase of \$11.8 million, but will increase when collective bargaining budget increases approved in late FY25 are added to FY26 BPS budget.

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.

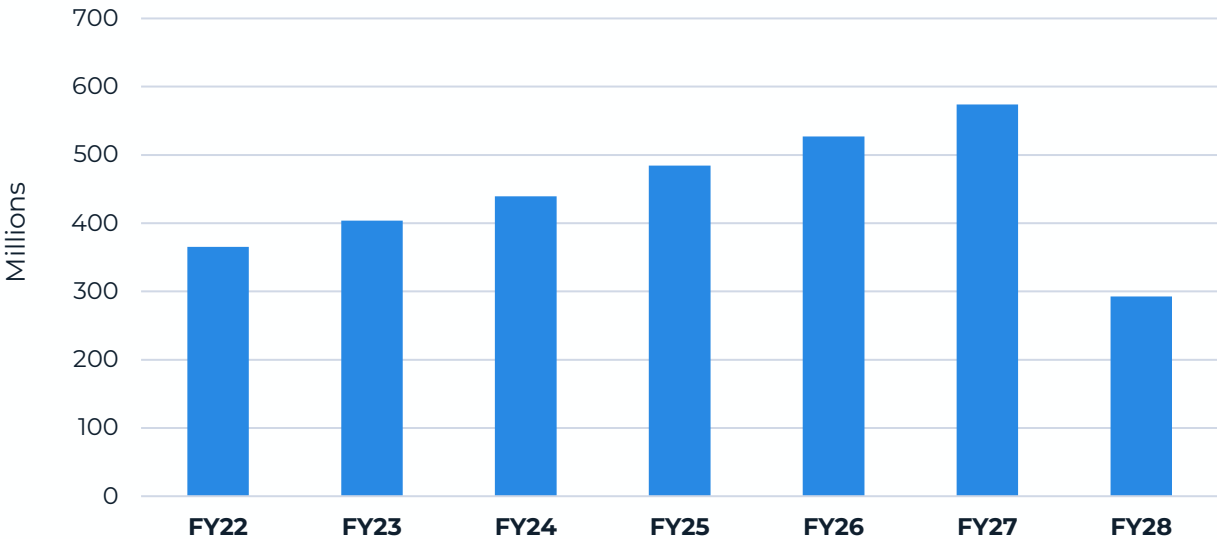
In addition, \$43 million, funded in part through identified cost savings in Central Office, will be dedicated to new investments going directly into schools, headlined by \$10 million for inclusion work to ensure that students with the highest need are educated in the least restrictive

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 support the City’s fixed costs for next fiscal year, including pensions, debt service and non-charter school state assessments, and will maintain the City’s level of reserves to buffer against changes in the larger economic landscape. Fixed cost growth consumes 47% 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.

FY26-30 CAPITAL PLAN

The \$4.4 billion FY26-FY30 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. Together, these projects will support Boston's dynamic economy and improve quality of life for residents by encouraging affordability, increasing access to opportunity, and promoting a healthy environment and public realm.

Planned bond issuances, the backbone of the Plan's financing stream, is expected to stay relatively level over the FY25-FY29 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 (MSBA).

The investments made in the FY26-FY30 Capital Plan align 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, which demonstrates the City's leadership and commitment to sustainable funding for the arts by setting aside 1% of the City's annual capital borrowing for the commissioning of public art.