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# THE IMPACT OF POPULATION GROWTH ON CITY CREDIT QUALITY & ECONOMIC STABILITY

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## Key Takeaways

- As a city's population increases, a municipality's credit profile can change rapidly. Population growth is typically a favorable credit factor but can introduce challenges as well.
- As populations expand, municipal management teams must address indicators of financial health, including ensuring reasonable debt levels and maintaining revenue stability, while delivering essential services and monitoring key socio-economic quality-of-life factors.
- However, the inability of a municipality to capture the benefits of growth while shouldering the costs can result in a deterioration of key financial and non-financial metrics leading to lower credit ratings and increased borrowing costs.



In 2024, we met with municipal management in six cities and towns that have experienced rapid population growth. Our discussions helped us better understand challenges and opportunities, including impacts on infrastructure and public spending.

Risks to municipal financial and operational stability, and to the quality of life for residents and businesses, can manifest in multiple ways, including:

**Increased Demand for Services:**

As population grows, demand for public services (healthcare, education, transportation, public safety) increases, straining municipal budgets.

**Debt Management:**

Municipalities may issue bonds or assume debt to fund infrastructure and service expansion, which can impact financial stability, increase interest costs and reduce financial flexibility.

**Revenue Generation:**

Population changes can lead to fluctuations in revenue streams (property taxes, sales taxes, fees), complicating budget management. Growth without economic development can unbalance a city's tax base.

**Operational Efficiencies:**

Municipal responses to rapid population increases require efficient resource allocation and effective governance. Inefficiencies can increase costs and reduce public trust.

**Infrastructure Strain and Investment:**

Accelerated growth can overwhelm existing infrastructure, causing traffic congestion, inadequate public transportation, and deteriorating public services, which can affect quality of life, hinder further economic growth and necessitate significant infrastructure investment (roads, bridges, water supply, and sewage systems). Funding these investments can be challenging, especially if the municipality has limited revenue sources.

**Environmental Risks and Climate Resilience:**

Increased urbanization can lead to increased pollution, loss of green spaces, and strain on natural resources like water and energy, while climate-resilient infrastructure and adaptive strategies can sustain growth amid climate change (extreme weather events, rising sea levels, heatwaves).

**Governance Risks:**

Transparent decision-making, efficient resource allocation, and inclusive and equitable policies can help avoid corruption and mismanagement.

**Social Risks:**

Rapid population growth can worsen economic disparities. Inadequacies and inequalities (health care, education, services) can marginalize underserved communities, create social tensions, and destabilize a municipality.

**KEY RECURRING THEMES FROM OUR DISCUSSIONS:**

Several of the municipalities we met with benefited from holistic planning that prioritizes the sustainability of growth over the long term. Strategies include balancing growth with financial sustainability, diversifying revenue sources, meeting increased demand for essential services like schools and water and sewer services, implementing cost-saving measures, and fostering community involvement, among other tactics.



Two of the municipal management teams explained that they anticipated population growth due to the rapid expansion of nearby metropolitan areas. One city acknowledged that capital investment in new schools was not a priority until the 2000s, which exacerbated overcrowding. The state helped and today, most of the town's schools are newer and larger and student achievement rates are the highest in the county. Another city met the need for several new schools, while being intentional about keeping school sizes smaller, for ample student involvement opportunities.

Cities and towns near rapidly growing metropolitan regions often have affordable land that can support both commercial and residential development. To manage development, one city created a land-use map for the city. The map guided an approach that focused on aligning development with existing police, fire, water, and other municipal services. Development took place within the land-use map's in-fill boundaries to prevent sprawl and to support efficient delivery of government services.

We met with two city management teams that held conversations with residents and developers about how best to use undeveloped land. While community engagement can support strategic growth, it is not always a panacea. One city found that policies developed from stakeholder input proved unpopular. Over time, citizens grew unhappy with growth they perceived as uncontrolled.

Rather than turn away from community stakeholder input, officials met with the public again to update policies aligned with changing community needs. The city capped the number of new building permits, changed zoning codes, and raised fees, which the town used to construct new roads and fire stations.

The tactics slowed new construction, halved the influx of new residents, slowed growth to a point that brought stability to the community, and portrayed a municipal management approach that proactively addressed concerns stemming from community growth.

Municipal officials can employ a range of strategies to effectively manage rapid population growth including initiating new revenue streams, reducing spending, changing building and zoning codes, integrating support from county and state government, updating existing or adding new essential services, and engaging with community representatives for guidance and input. Anticipating population growth and flexibly addressing its challenges and opportunities characterized the cities we met with that effectively managed growth in recent years.

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