

SUSTAINABLE INVESTING | APRIL 1, 2025

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

AUTHORS



Robert Fernandez, CFA
Director, Sustainable Research



Robert Azrin, CFA
Senior Research Analyst



Erika Smull, PhD
Senior Research Analyst

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.

For Investment Professional and Institutional Use Only.

#BCAI-03192025-TANUFQNR (3/24/2025)

DISCLAIMER: The above material is based on Breckinridge research and engagement activities as of March 31, 2025.

This material provides general and/or educational information and should not be construed as legal, tax or investment advice. It does not include all of the information necessary to make a decision to invest with Breckinridge. The content is current as of the time of writing or as designated within the material. All information, including the opinions and views of Breckinridge, is subject to change without notice.

All investments involve risk, including loss of principal. Diversification cannot assure a profit or protect against loss. Fixed income investments have varying degrees of credit risk, interest rate risk, default risk, and prepayment and extension risk. In general, bond prices rise when interest rates fall and vice versa. This effect is usually more pronounced for longer-term securities. Income from municipal bonds can be declared taxable because of unfavorable changes in tax laws, adverse interpretations by the IRS or state tax authorities, or noncompliant conduct of a bond issuer. There is no assurance that the customization or the approach will meet their objectives.

Breckinridge believes that the assessment of sustainability risks, including those associated with climate change, can improve overall risk analysis. When integrating sustainable analysis with traditional financial analysis, Breckinridge's investment team will consider sustainability factors but may conclude that other attributes outweigh the sustainability considerations when making investment decisions.

There is no guarantee that integrating sustainability analysis will improve risk-adjusted returns, lower portfolio volatility over any specific time period, or outperform the broader market or other strategies that do not utilize such analysis when selecting investments. The consideration of sustainability factors may limit investment opportunities available to a portfolio.

When considering sustainability factors, Breckinridge's investment team will include those factors that they believe are material. However, the investment team may conclude that other attributes outweigh these considerations when making investment decisions. Breckinridge can change its sustainability analysis methodology at any time.

Breckinridge's sustainability analysis is based on third party data and Breckinridge analysts' internal analysis. Analysts will review a variety of sources such as corporate sustainability reports, data subscriptions, and research reports to obtain available metrics for internally developed frameworks. Qualitative information is obtained from company reports, engagement discussion with corporate management teams, among others.

Any specific securities mentioned are for illustrative and example only. They do not necessarily represent actual investments in any client portfolio.

The content may contain information taken from unaffiliated third-party sources. Breckinridge believes the data provided by unaffiliated third parties to be reliable but investors should conduct their own independent verification prior to use. Some economic and market conditions contained herein have been obtained from published sources and/or prepared by third parties, and in certain cases have not been updated through the date hereof. All information contained herein is subject to revision. Any third-party websites included in the content
