

# The Impacts of Intercity Competition and Intergovernmental Factors on Local Affordable Housing Expenditures

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## *Abstract*

Public choice theorists predict that cities will not support local affordable housing programs, reasoning that city policy makers seek to provide the best cost-to-benefit ratio for public goods and services to attract residents and maintain fiscal health. This economic self-interest by cities results in interjurisdictional competition and the avoidance of redistributive policies such as affordable housing programs. Furthermore, some scholars argue that intergovernmental funding and mandates are necessary to motivate cities to support affordable housing programs.

This article examines the relative influences of intercity competition and intergovernmental factors on local affordable housing expenditures. The analysis uses survey data and data from the 1990 U.S. census. The findings show that intercity competition reduces the likelihood that cities will spend local dollars on housing programs. Intergovernmental factors, such as federal funding and state-mandated housing planning, on the other hand, positively influence cities to spend local funds on affordable housing programs.

**Keywords:** Housing; Local; Policy.

## **Introduction**

City policy makers all over the country face a tremendous challenge. Federal policy devolution and funding cutbacks as well as citizen resistance to increased taxes create a tough decision-making environment for local leaders (Clark 1994; Wright 1988). Cities attempt to deliver adequate services without raising costs to residents. Localities unable to achieve this balance risk losing their residents and, therefore, their tax base (Swartz 1993). As a result, cities tend to favor fiscally advantageous policies and avoid redistributive policies such as affordable housing programs.

Public choice theory seeks to explain local decision making. In this view, economic self-interest by cities stimulates competition among local governments. City policy makers seek the best cost-to-benefit ratio for public services in their city to remain competitive and attract residents. Typically, public services spending for low-income residents is higher per capita than for middle-income residents,

but lower-income households provide a smaller overall tax base (Downs 1994). Because redistributive policies shift resources from middle- and upper-income to lower-income people, they involve a higher cost-to-benefit ratio for wealthier residents. These better-off residents may choose to move to a nearby community with a lower cost-to-benefit ratio. The loss of middle-income people both erodes the tax base and is detrimental to fiscal health (Peterson 1981; Schneider 1989). For these reasons, public choice theorists reason that city policy makers will eschew redistributive policies such as affordable housing programs.

Abundant evidence of the resistance to affordable housing development exists in the literature. For example, some cities encourage large lot, single-family housing development or exclude high-density residential development, an affordable housing alternative in many jurisdictions, through zoning regulations (Advisory Commission on Regulatory Barriers to Affordable Housing 1991; Babcock 1966; Kantor 1988). Two well-known cases heard in the New Jersey Supreme Court, *Southern Burlington County N.A.A.C.P. v. Township of Mt. Laurel* (1975) and *Southern Burlington County N.A.A.C.P. v. Township of Mt. Laurel* (1983), demonstrate the level of resistance to affordable housing in cities (Daye et al. 1989; Frug 1988). In these cases, the court considered the claim that zoning in the township of Mt. Laurel excluded low- and moderate-income people (exclusionary zoning). The court found the township's practices exclusionary and mandated that cities in the state provide their fair share of low- and moderate-income housing (Andrews 1997; Kirp, Dwyer, and Rosenthal 1995).

Public choice theory and zoning practices in some communities strongly suggest that communities will avoid affordable housing policy. However, many cities do develop and implement affordable housing initiatives (Nenno and Brophy 1982; Stegman and Holden 1987; Van Vliet 1997). The bulk of housing program funds used by cities, however, originate from higher levels of government, particularly from the federal government (Basolo 1997; Goetz 1995). In addition, federal and state governments often require cities to undertake activities against their preferences (Schneider 1989). For example, a state may require its cities to set aside local revenue for affordable housing programs.

The purpose of this article is to investigate the impacts of intercity competition and intergovernmental factors on local support for affordable housing programs.<sup>1</sup> Specifically, this research asks, "To

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<sup>1</sup> Affordable housing programs are defined here as in the mail survey: programs targeted to low-income (80 percent or less of the area median income) and moderate-income (81 to 120 percent of area median income) households.

what extent do interjurisdictional competition and the policies of higher levels of government affect local affordable housing expenditures in cities?" To answer this question, the article presents descriptive and multivariate analyses using mail survey data collected from city professional staff in 1996, as well as 1990 U.S. census data. The survey involved a probability sample of U.S. cities with 25,000 or more residents to attain representativeness of this population of cities.

The first section of the article reviews public choice theory and its predictions about city policy making. The second section discusses the influence of intergovernmental factors on affordable housing policy in cities. Following this discussion, I present the research questions and survey methodology. The next section provides descriptive data and the results of the multivariate analyses. The article concludes with a discussion of policy implications based on the study's findings.

### **Intercity competition**

Competition among cities is natural and inevitable, in the view of some public choice scholars. These scholars reason that cities provide services to residents and must maintain a certain level of services at a reasonable cost, or tax rate, to maintain their population base and fiscal health. If cities fail to deliver adequate services at an acceptable rate, residents will move to another city that better serves them. Moreover, cities will not be able to attract new residents and maintain economic health when more fiscally desirable alternatives exist for the mobile population.

Charles Tiebout laid the foundation for the public choice argument. In his classic work, "A Pure Theory of Local Expenditures" (1956), Tiebout assumes a set of strict conditions to develop a market theory for public goods.<sup>2</sup> He posits that individuals choose to locate in a community that maximizes their preferences for local services. As he states, "The consumer/voter may be viewed as picking that community which best satisfies his preference pattern for public goods" (p. 418). If the community fails to satisfy the preferences of the consumer, he will move or "vote with his feet."

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<sup>2</sup> These assumptions include full mobility of the individual, full knowledge of local communities, the existence of a large number of local communities, no employment restrictions, public services supplied in one community have no effect on other local communities, optimum community size, and communities will compete to reach equilibrium (optimum size).

The Tiebout theory has captivated many social scientists over the past four decades. Scholars recognize the elegance of the argument even as they question Tiebout's highly restrictive assumptions (Keating 1991; Oates 1977). In addition, researchers note that Tiebout's theory does not consider all the criteria considered by individuals in their decisions to move (see Zax 1989). Residential mobility studies, for example, identify many relevant factors in locational decisions, such as life cycle, distance to work, and proximity of family and friends (Michelson 1977; Orr 1975; Speare 1974; Varady 1983).<sup>3</sup> Despite the criticisms of Tiebout's theory, studies about local public services (Lowery 1982a, 1982b), size of the local public sector (Zax 1989), local governments' ability to share in residents' profits (Epple and Zelenitz 1981), and information costs in jurisdictional selection (Weiher 1991) reflect his influence. In fact, the rise and dominance of public choice theory in the literature attest to the Tieboutian view as an explanation for positive outcomes as well as a basis for normative prescriptions (Bish and Ostrom 1973; Ostrom, Bish, and Ostrom 1988).

Paul Peterson (1981) extends Tiebout's thesis to explain residential choice and local public decision making. Even without Tiebout's assumptions, Peterson reasons that people "consider the relative costs and benefits of government services in choosing places of residence" (p. 32). City decision makers, therefore, consider the impacts of their taxing decisions and compete with other cities by formulating policy to their city's economic advantage. As a result, cities will eschew redistributive policies because they shift resources from the middle- and upper-income groups to lower-income people and, as a result, are detrimental to the economic vitality of a city.

Peterson concludes that the federal government should be responsible for redistributive activities, since local governments will avoid this type of policy. Although much disagreement exists about Peterson's theoretical argument, other policy scientists share his normative position about the level of government best suited to finance and administer redistributive policies (see Ladd and Doolittle 1982).

Mark Schneider (1989) contributed to the Tiebout tradition in his study of public goods and services in suburban cities. Schneider posits that the wide range of goods and services as well as the differences in taxes in local municipalities result in a local market for

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<sup>3</sup> In moving from the microlevel (individuals) to the macrolevel (decisions by cities) in public choice theory, Paul Peterson (1981) argues that city decision makers only possess one way—public policies, including taxes and expenditures—to affect individual move decisions. Other factors in individuals' decisions to move are beyond the control of public officials. Therefore, at the macrolevel, the costs and benefits of public policies are very important, even if at the microlevel they are not the primary factor in decisions to move.

public goods. He identifies local businesses and residents on the demand side of the market and local elected officials and professional bureaucrats on the supply side.

Schneider's contribution rests with the synthesis of three seminal works from the public choice perspective. First, the concept of residents as buyers and cities as sellers comes from Tiebout. Second, he considers William Niskanen's theory of bureaucratic budget maximization. Niskanen (1971) argued that bureaucrats attempt to expand their power and increase their own salaries by seeking larger budgets. Third, Schneider examines the motives of city decision makers as expressed by Peterson. As Schneider states,

I especially rely on Peterson's insight that it is the relationship between the above-average-income community member and the local benefit/cost ratio which informs the interests of local governments (Schneider 1989, 201).

Furthermore, Schneider agrees with Peterson's view of local redistributive policy making. That is, policies such as affordable housing are redistributive and tend to benefit mostly lower-income people, but these individuals tend to pay lower taxes. Therefore, for redistributive functions, higher-income people gain little from these services, but pay more of their cost.

Schneider performs pooled, cross-sectional analyses of the factors influencing the types of expenditures in suburban communities. Independent variables in his regression model for redistributive expenditures include demographic, economic composition, inter-governmental, fiscal, and competition factors. The model proves to have little predictive power (adjusted  $R^2 = 0.14$ ). Although reluctant to draw strong conclusions from such a weak model, Schneider asserts that his results are consistent with Peterson's argument.

The view of cities as competitors has become commonplace in the literature. Anthony Downs (1994) assumes competition among communities. He emphasizes that cities must remain attractive and maintain a reasonable tax rate to attract residents and businesses. Redistributive policy is inconsistent with this goal regardless of the affluence level in the city. Downs argues,

. . . only wealthy communities can support major redistributive policies. And the residents of these localities have strong social and political motives to reject additional low-income residents and policies favorable to them (p. 24).

Lower-income communities have a weak tax base, but typically a higher per capita cost for many public services. In these localities, an increase in the tax rate to fund services yields a small return. Although these communities may elect officials sympathetic to their needs, the city decision makers still pursue economically beneficial policies such as subsidies to for-profit developers and discourage the attraction of additional lower-income people (Downs 1994). The solution to intercity competition, in Downs's opinion, involves state or regional coordination and allocation of resources.

David Rusk (1995) approaches the problem of disparities among jurisdictions in a region from a different perspective. Cities able to grow, especially through annexation, are considered to be "elastic" and to possess social benefits such as higher per capita incomes. Conversely, Rusk associates government fragmentation with negative outcomes. He argues for "cities without suburbs" or the consolidation of local governments, particularly general purpose governments. Consolidation versus decentralization of governments has long been debated in the literature. (See Lyons, Lowery, and DeHoog 1992 for a thorough discussion.) However, Rusk omits a key element of the debate in his analysis. Results from several studies indicate that decentralization in a region results in lower expenditures by general purpose governments (Eberts and Gronberg 1988; Nelson 1987; Zax, 1989). Lower levels of expenditures are associated with lower taxes for residents. It is therefore unclear from Rusk's analysis whether some of the benefits of consolidation to individuals might be offset by higher taxes.

Rusk supports regional governments and assigns roles to state and federal governments. States, for example, should facilitate annexation while the federal government should provide incentives for metropolitan organization and eliminate "anticity" policy. Downs and Peterson also propose intervention by higher levels of government to combat intercity competition and its effects on redistributive activities such as affordable housing policy. Therefore, intergovernmental relations, particularly extant financial support and policy mandates, are a crucial indicator of the potential success of these normative prescriptions.

### **Intergovernmental influences**

Many researchers have studied intergovernmental influences on local governments. These scholars examine federal and state regulations and mandates and their effect on local autonomy (Advisory Commission on Intergovernmental Relations 1981; Sylvester 1993) as well as the impacts of intergovernmental funding. Studies of intergovernmental funding include analyses of the effects of shifts

from categorical to block grants (Oates 1977), evaluation of the budgetary consequences of intergovernmental grants on all levels of government (Break 1993; Chubb 1985), and determination of local dependence on intergovernmental aid (Schneider and Logan 1985). The ongoing changes in the roles of all levels of government provide continuing interest in this type of research.

The national government has shaped local policy through regulations associated with federal grant programs. For example, early redevelopment efforts required cities to perform blight analysis and area planning (Baer 1986; Nenno and Brophy 1982). The recipients of federal funds such as the Community Development Block Grant (CDBG), often used for housing activities, have witnessed an evolution in mandated housing strategies, including the Housing Assistance Plan, the Comprehensive Housing Affordability Strategy, and the Consolidated Plan (Baer 1986; Nelson 1992; Varady 1996). These documents require analysis of local housing conditions, including the availability and affordability of housing for all income groups.<sup>4</sup>

Historically, the federal government has provided leadership and a preponderance of the funding for housing programs (Basolo 1998; Goetz 1995). Over the past 20 years, federal housing policy has reflected a change in attitudes about the functions of the national government. A philosophical shift that began in the 1970s emphasized a smaller central government and the return of community concerns such as housing to local control (Advisory Commission on Intergovernmental Relations 1991; Wright 1988). The change in federal policy was accompanied by a devolution of responsibilities to lower levels of government as well as funding uncertainties.

The past two decades have been a tumultuous period for federal housing policy and financial commitment. The late 1970s through the mid-1980s witnessed a significant decline in new federal budget authority for low-income housing (Stegman et al. 1991). From 1986 to 1990, federal budget authority for assisted housing declined gradually; between 1990 and 1998, it fluctuated up and then down. Since 1978, however, federal budget outlays for assisted housing have increased steadily (Dolbear 1998). Also, in the late 1980s, the federal government authorized the Low-Income Housing Tax Credit (LIHTC) as a new source of funding for affordable housing development. The LIHTC is not an actual outlay of federal funds. Instead,

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<sup>4</sup> Local housing plans, whether mandated by a higher level of government or initiated at the local level, generally address low-income housing issues. In fact, in a review of local housing plans over a 30-year period, Varady and Raffel (1995, 128) found "that virtually all the plans . . . focus exclusively on low-income housing needs."

the cost of these tax expenditures is in the form of revenue losses. Since 1990, tax expenditures from the LIHTC have increased substantially (Dolbeare 1997). Table 1 shows the changes in federal housing assistance over time.

*Table 1. Federal Assisted Housing Funding over Time  
(Billions in Constant 1996 Dollars)*

Housing Assistance	1982	1990	1998
Budget authority	24.1	13.7	19.8
Outlays	14.4	19.6	28.8
LIHTC tax expenditures	NA	0.138	3.087

*Note:* Figures for 1998 are estimates (from Dolbeare 1997). NA = not applicable.

Federal policy changes over the past 20 years anticipated that cities would assume some of the affordable housing burden in their communities and would learn to leverage federal funds with local, state, and private sources of dollars. Nevertheless, the federal government continues to be the largest source of funds for affordable housing and is crucial to local affordable housing efforts. In fiscal year (FY) 1994–95, federal dollars, excluding monies spent by public housing authorities, comprised more than 59 percent of local government housing expenditures in cities with a population of 50,000 or more and almost 48 percent in cities with a population below 50,000.<sup>5</sup> This funding is used for a range of programs, including facilitating lowincome homeownership, housing rehabilitation, rental subsidies, homeless assistance, and grants to local community development corporations (Basolo 1997).

The states also play an important role in local housing policy. State regulations may direct policy at the local level and require local jurisdictions to perform certain activities. For example, local jurisdictions in California must prepare a general plan consisting of seven mandatory elements: land use, circulation, housing, conservation,

<sup>5</sup> These data were collected in the mail survey discussed later in this article. The focus of the sample survey was the support for affordable housing by cities. Funds controlled by public housing authorities (PHAs) were excluded because PHAs do not exist in many cities, especially smaller ones; however, local residents may receive subsidies from a county or other regional PHA. By excluding funds controlled or budgeted by PHAs, I attempt to eliminate a problem in comparing expenditures among the cities in the sample. However, it should be noted that the U.S. Department of Housing and Urban Development (1999) reports budget outlays of \$24.1 billion for public and Indian housing in 1998. Therefore, the percentage of federal dollars spent for housing in communities would rise considerably if PHA dollars were included in the analysis.

open space, noise, and safety. The housing element requires localities to assess the community's housing needs for all income levels and to develop a strategy to meet those needs (Curtin 1987). Furthermore, California law mandates that redevelopment agencies set aside a percentage of earnings (tax increment) for low- and moderate-income housing (Southern California Association of Governments 1990).

Federal devolution motivated state governments to become more active in finding affordable housing solutions. Prior to 1980, states typically offered only one housing assistance program: the sale of tax-free bonds for housing development. Many state housing finance agencies, as well as hundreds of new state housing programs, were created during the 1980s (Hoben 1981; Nenno 1997). Despite this increase in state involvement in housing, state funding for local affordable housing programs remains considerably less than federal assistance. In cities with a population of 50,000 or more, the state contributed just under 9 percent of the housing funds expended by these cities in FY 1994–95. For cities under 50,000 in population, state funds accounted for about 11 percent of the total affordable housing expenditures. Still, state dollars provide valuable funding for a variety of programs, including aid to help shelter the homeless, loans for affordable rental housing development, low-income homeownership, and housing rehabilitation initiatives (Basolo 1997).

## **Research questions and methods**

The research in this article investigates the impacts of intercity competition and intergovernmental factors on affordable housing policy in U.S. cities with populations of 25,000 or more. The research was designed for a cross-sectional analysis with cities as the unit of analysis. The data come from several sources, including a mail survey of local housing and economic development professionals, the 1990 U.S. Census of Population and Housing (U.S. Bureau of the Census 1992, 1993), and the *1994 County and City Data Book* (U.S. Bureau of the Census 1995). The next section presents the formal research questions and is followed by a description of the survey methodology.

### *Research questions*

Public choice theorists argue that cities will avoid redistributive policies such as affordable housing programs and support policies aimed at maximizing the local tax base. They assert that variation in the support for particular policy types is affected by the level or

degree of intercity competition in the local public market (Peterson 1981; Schneider 1989). From this perspective, the degree of competition in a local market should influence the level of support for affordable housing in cities. Therefore, the first research question, based on public choice theory, is stated as follows: Are cities with higher levels of interjurisdictional competition less likely to spend local dollars on affordable housing programs, compared with cities in less competitive environments?

Intergovernmental (IG) sources provide a substantial portion of the funding for local affordable housing programs. This funding may stimulate cities to implement programs that otherwise would be unavailable. Furthermore, many intergovernmental grants have local matching requirements and, as a result, are not “free” money (Schneider 1989). In this way, IG funds stimulate cities to spend local revenue. The second research question asks: Do cities spend more local dollars on affordable housing programs as the level of IG funding for affordable housing increases?

Intergovernmental mandates force local governments to perform certain tasks. Although federal block grant programs require preparation of a consolidated plan, not all cities come under this requirement. State-mandated housing planning affects all local jurisdictions within a state. States also may require each locality to determine its regional share of affordable housing and identify strategies to meet these housing needs. State-mandated housing planning motivates cities to address affordable housing policy and should provide a positive influence on local support for these programs, compared with cities without such a mandate. In addition, cities in some states are required to set aside local dollars for affordable housing. Clearly, this mandate should have a direct and positive effect on local support for affordable housing. The last two research questions reflect these relationships: Are cities required by the state to prepare a housing plan more likely to spend local dollars on affordable housing programs than cities without such a requirement? And, finally, are cities with state set-aside mandates for affordable housing more likely to spend local dollars on affordable housing programs than cities not subject to these mandates?

### *Mail survey methodology*

The study population consists of all U.S. cities with a 1990 population of 25,000 or more ( $N = 1,070$ ). A disproportionate, stratified random sample of cities ( $N = 709$ ) was selected from the study population. The sample was stratified with population size and geographic region as stratification variables. (Stratification vis-à-vis

unstratified simple random sampling improves sample efficiency [Foreman 1991; Kish 1967].) The largest class of cities, those with populations of 250,000 or more, were oversampled because fewer of these cities exist. (Oversampling this class of cities results in a higher likelihood of their representation in the final results.) Weighting each case before statistical analysis accounts for the sample design and response rate.<sup>6</sup>

The sample design and data weighting allow generalization to the population of cities. The housing questionnaire was returned by 437 (61.6 percent) of the city professionals. However, if respondents differ from nonrespondents in a systematic manner, the results are no longer representative of the population. It is possible to determine the representativeness of the final results by comparing respondent to nonrespondent cities. Because survey data was unavailable for nonrespondents, secondary data from the 1990 U.S. census was used to test for response bias. A logistic regression using response as the dependent variable (1 = responded, 0 = no response) and city-wide characteristics as independent variables revealed that cities with higher unemployment rates were less likely to participate in the survey. All other city characteristics were not statistically significant at the 0.05 level. (See Appendix for complete model results.) Generalization to the population therefore includes the caveat that results do not necessarily apply to cities with higher unemployment rates.

The mail survey used recommendations from Dillman (1978) to improve the response rate. First, the survey instrument was pretested twice to determine an appropriate length for the questionnaire, question clarity, and expected response rate. Second, a reliable source, the *Municipal Directory*, published by Carroll Publishing (April/September 1996), was used for the survey mailing list. Third, the National Association of Housing and Redevelopment Officials (NAHRO) endorsed the survey. Finally, nonrespondents received multiple follow-up mailings encouraging them to participate in the study.

The data collected in the mail survey were compiled and reviewed for data entry errors. These data were combined with information from the 1990 U.S. Census of Population and Housing and the *1994 County and City Data Book*. This master database was used for the analyses presented in the results section.

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<sup>6</sup> Each case received a weight equal to the inverse of the sampling proportion times the response rate in its stratification cell. The sample design and weighting are used by SUDAAN, a statistical program, to produce the correct statistical estimates.

## Study results

### *Descriptive analysis*

The public choice perspective views the relationships among cities as necessarily competitive. However, city staff responding to the survey perceived more cooperation than competition among their city and neighboring jurisdictions, at least in terms of economic development activities.<sup>7</sup> More than 48 percent (194) of the respondents thought their city cooperates with its neighbors to achieve regionally balanced economic development, while only about 19 percent (77) perceived competition between their city and neighboring jurisdictions. Approximately 32 percent (128) answered that their city pursued economic development goals without considering the activities of neighboring cities (see table 2).<sup>8</sup>

*Table 2. Intercity Relationships for Economic Development Activities*

Relationship	Number	Percent
Competes with neighboring cities	77	19.3
Cooperates with neighboring cities	194	48.6
Does not consider other cities	128	32.1
Total	399	100.0

<sup>7</sup> The survey data used in this article come primarily from responses by city housing staff to a housing policies and programs questionnaire. However, this question also appeared on an economic development questionnaire sent to the same sample of cities. The economic development questionnaire mainly asked about economic development programs and related city expenditures. The questionnaire was sent to the economic development director, if listed in the *Municipal Directory*. If the directory did not identify an economic development director, the questionnaire was sent to the city or town manager. A response bias test on the survey of economic development professionals had similar results to the test for response bias for the housing survey. That is, cities with higher unemployment rates were less likely to participate in both surveys. The full results for the response bias test for the economic development survey are available from the author.

<sup>8</sup> It is important to emphasize that this question relates to economic development activities only. Cooperation on economic development activities does not necessarily result in cooperation on affordable housing efforts. Although interlocal cooperation across policy domains is possible, the level and depth of such cooperation is an empirical question to be pursued in future research. Also, the responses are subjective and may not be reliable. In fact, Basolo (1999) tests the relationship between the responses on this question from her sample of economic development officials and mayors in the same cities. She finds no statistically significant association between these responses.

Federal and state governments provide funding for local affordable housing programs. Many cities combine local, federal, state, and other dollars to finance housing programs in their jurisdictions. Table 3 presents the mean and median, by source of funds, for city housing expenditures in FY 1994–95.<sup>9</sup> These data reveal two items of interest. First, the mean values indicate that the federal government is the largest source of funding. Cities also appear to be spending their own funds for affordable housing. However, the distribution of each funding source is substantially and positively skewed. For this reason, a few cities expending a large amount of local dollars affect the mean and diminish its utility as a measure of central tendency.<sup>10</sup> Second, and related to the first point, the median value for city expenditures is zero, as it is for state and other funding sources. In fact, the mode is also zero, as 56.4 percent (230) of the respondents reported that their city spent zero local dollars on affordable housing programs in FY 1994–95 (N = 408). By comparison, 79.7 percent (325) of the cities spent some federal dollars on housing programs during the same period (N = 408). Clearly, the mean value is misleading. From these data, it appears the federal government funds the lion's share of affordable housing programs in cities.

*Table 3. Source of Affordable Housing Expenditures in Cities, FY 1994–95*

Funding Source	Mean (\$)	Standard Error (\$)	Median (\$)
Federal government <sup>a</sup>	2,896,184	609,546	333,000
State government <sup>b, c</sup>	959,184	422,691	0
City government <sup>a, b</sup>	2,461,684	1,113,870	0
Other source <sup>b, d</sup>	198,664	39,272	0

*Note:* Values have been rounded up to the nearest dollars

*Source:* Basolo (1998).

<sup>a</sup>N = 408.

<sup>b</sup>The mode is also zero for these sources.

<sup>c</sup>N = 410.

<sup>d</sup>N = 406.

Local housing professionals were queried about the importance of federal and state funding to the success of low-income housing programs in their city (on a scale of 1 to 7, where 1 = not important at all and 7 = very important). The mean value for the importance

<sup>9</sup> The means and standard errors were produced by SUDAAN. The medians were generated in SAS software using cumulative frequencies of the weighted normalized data.

<sup>10</sup> Note the standard error of \$1,113,870 for city expenditures.

of federal funding was 6.07 with a standard error of 0.06 (N = 435). This figure indicates that federal funding is very important to local housing programs. According to housing professionals, state funding is less important; the mean was 4.50, with a standard error of 0.08 (N = 431).

State mandates for housing planning and set-aside funds require cities to consider affordable housing issues in their community. State-mandated planning is much more prevalent than housing set-aside requirements. More than half of the housing survey respondents (234) answered that their state mandated a housing plan (N = 437). Only 23.1 percent (101) reported that their state required a set-aside of local dollars for affordable housing programs (N = 437).

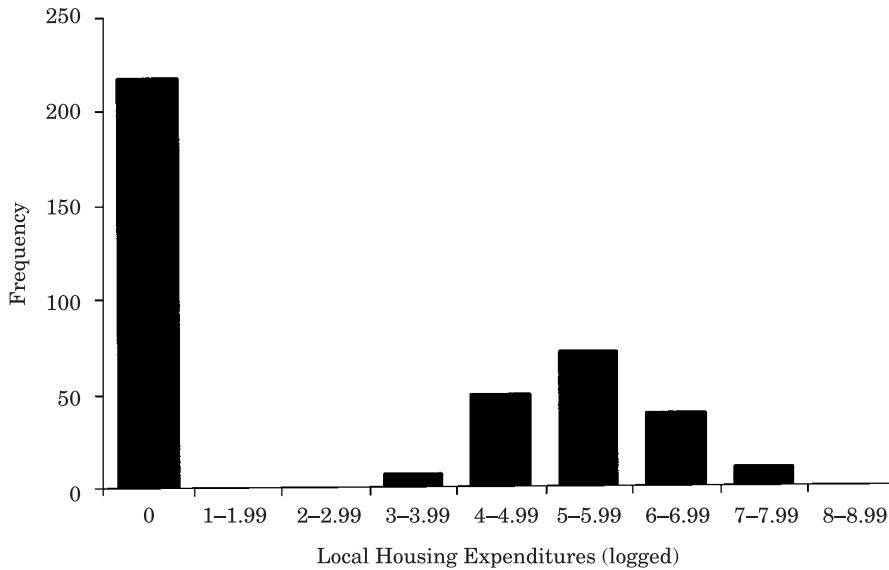
The descriptive data provide useful information about intergovernmental activities and intercity competition. The data clearly indicate that cities rely heavily on intergovernmental dollars, especially federal grants, to implement housing programs. However, the effects of intergovernmental funds and mandates on the expenditure of local dollars for housing remain unknown. In addition, the impact of jurisdictional competition on local support for housing programs cannot be determined by staffs' opinions about intercity relationships. The survey responses about these relationships are based on individual perceptions and may not reflect the actual level of competition among cities in a region. The next section uses multivariate regression analyses to test the research questions about the effects of intercity competition and intergovernmental factors on local support for affordable housing programs.

### *Multivariate analysis*

The research questions concern local own-source expenditures for affordable housing policy. The distribution of local housing expenditures shows more than half of the respondent cities spent zero city dollars on housing programs in FY 1994–95. Figure 1 shows the distribution for local affordable housing expenditures after logging the variable. This bimodal distribution suggests that two decisions occur for housing program expenditures: (1) whether to spend local dollars or not; and (2) if the city decides to spend local funds, how much to spend.<sup>11</sup> In order to model these decisions, the data were divided into subsets to correspond to the two decisions. The statistical models used in the analysis as well as their dependent

<sup>11</sup> In some situations, the existence of many zero values for a variable suggests an alternative analytic approach such as the Tobit model. The Tobit model assumes that the zeros actually reflect nonobserved, or censored, values and that the "real" values could be negative. However, if the values of the variable represent actual decisions, the Tobit model is inappropriate (Maddala 1988).

*Figure 1. Distribution of Local Housing Expenditures*



*Note:* Nonzero values logged, N = 396

variables reflect the two-decision process. Table 4 provides a description of the dependent variables.

The main independent variables in the models include intercity competition and intergovernmental factors. The perception of intercity relationships as reported by survey respondents is one measure of jurisdictional competition. However, this measure is subjective and was asked in relation to economic development activities only. Researchers have developed numerous objective measures of

*Table 4. Dependent Variables*

Variable	Description
Local housing support (logistic regression model)	1 If local source dollars expended on housing programs in FY 1994–95; excludes funds budgeted and controlled by a local housing authority 0 If no local dollars spent
Local housing support* (linear regression model)	Local dollars expended by cities on affordable housing programs in FY 1994–95; excludes funds budgeted and controlled by a local housing authority

\*Variable was logged prior to analysis because of substantial positive skewness.

interjurisdictional competition. Basolo (1999) reviews the various competition measures, including market measures inspired by Tiebout, a new hybrid measure based on Tiebout and average distance to work in cities, and measures based on specific economic development tools used in cities.<sup>12</sup> The latter approach is not appropriate for this research because it is not generalizable outside of economic development policy. The hybrid measure shows promise, but empirical tests on the measure suggest the need for additional development.

Market measures depend on a count of the number of governments in a market area, but extant studies and their measures differ in several ways. First, the definition of the market includes the state (Eberts and Gronberg 1988; Nelson 1987; Oates 1985), counties (Eberts and Gronberg 1988; Zax 1989), and standard metropolitan statistical areas (SMSAs) (Eberts and Gronberg 1988; Forbes and Zampelli 1989; Schneider 1989).<sup>13</sup> Second, while researchers are interested in the effect of competition on the size of the local public sector, their definition of the latter is inconsistent. For example, Oates (1985) measures public-sector size as the total of state-local receipts divided by personal income, and Zax (1989) uses total own-source revenue from all governments divided by personal income in a county. Third, several authors use a simple count of governments in the market (Eberts and Gronberg 1988; Forbes and Zampelli 1989; Oates 1985), while others normalize the count by land area or governments per square mile (Eberts and Gronberg 1988; Zax 1989) or population (Eberts and Gronberg 1988). Schneider (1989) measures intercity competition as the number of cities on the border of each of his sample cities.<sup>14</sup>

Only Eberts and Gronberg (1988) report the statistical results of models using a different competition measure in each analysis. They find that interjurisdictional competition, whether measured as a simple count of general purpose governments (GPGs), GPGs per capita, or GPGs per square mile, has a negative and statistically

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<sup>12</sup> See Advisory Commission on Intergovernmental Relations (1991) for an earlier review of interjurisdictional competition measures.

<sup>13</sup> Two of the studies consider both general-purpose governments such as cities or counties and single-purpose governmental units such as school districts. Zax (1989) and Eberts and Gronberg (1988) find a negative relationship between competition and local public-sector size among general purpose governments and a positive relationship for single-purpose governmental units.

<sup>14</sup> Schneider (1989) also measured intercity competition as a simple count of cities in an SMSA. However, he dropped this variable from his analysis as a result of multicollinearity with the SMSA dummy variables in his model.

significant relationship with local public-sector size in an SMSA market area.<sup>15</sup>

The measure of intercity competition chosen for this study is the simple count of local governments in a metropolitan statistical area (MSA). This measure was chosen for four reasons. First, the measure has theoretical validity derived from public choice theory and its extensions. Second, the measure is reliable or consistent. Third, Eberts and Gronberg's findings suggest that normalization of the count by population or land area fails to produce substantially different results than a simple count in analyses of local public sector size. Fourth, interpretation of a simple count of governments is clearer than a normalized version of the measure (Basolo 1999). Therefore, for each city in my analysis, I summed the number of counties and cities (1990) within its MSA, or within its primary metropolitan statistical area (PMSA) if the city is in a consolidated MSA (CMSA). In rural areas, I added all cities within the sample city's county plus that county. A larger value for this variable indicates a higher level of competition.

Intergovernmental factors include funding, state-mandated housing planning, and housing set-aside requirements. Intergovernmental funding is divided into federal and state sources as reported in dollars by the survey respondents. The measures for state requirements (housing planning and set-asides) are dichotomous variables. That is, a city has the requirement or not. (See table 5 for a description of the main independent variables.)

Additional variables in the models include other influences on local policy making as well as local characteristics as controls. For example, the level of interest group involvement is thought to influence city policies (Clark and Ferguson 1983; Dahl 1961; Goetz 1995). For the interest group variable in this study, I use a subjective measure provided by city staff about the activity level of nonprofit housing organizations in their city. Other contextual factors also may influence the policy making process. The city's fiscal condition, for example, is thought to affect local government expenditures (Clark and Ferguson 1983; Clark and Walter 1991; Mikesell 1993). Population, growth, geographic region, the percentage of blacks in the community, per capita income,<sup>16</sup> and poverty level also may affect the sup-

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<sup>15</sup> Their regression coefficients ( $C$ ), reported as elasticities, were similar for the simple count of GPGs ( $C = -0.063$ ) and GPGs per square mile ( $C = -0.065$ ), and not dramatically different for GPGs per capita ( $C = -0.076$ ).

<sup>16</sup> I used median household income in the original specification of the model. This variable, however, was highly correlated to median housing value. Per capita income was substituted for median household income to reduce multicollinearity in the model.

Table 5. Main Independent Variables

Variable	Description
Intercity competition*	For each of the sample cities, the sum of all incorporated cities plus counties (1990) in its MSA (or PMSA if the city is in a CMSA); for cities outside an MSA, the sum of all incorporated cities plus the county in the sample city's county
Federal dollars*	Federal dollars expended by cities on affordable housing programs in FY 1994–95 (excludes public housing funds)
State dollars*	State dollars expended by cities on affordable housing programs in FY 1994–95
Housing planning	1 If city is required by the state to prepare a housing plan 0 If city is not required to prepare a housing plan
State-mandated set-asides	1 If city is required by the state to set aside dollars for affordable housing 0 If city is not required to set aside dollars

\*Variable was logged prior to analysis because of substantial positive skewness.

port for certain city policies (Clark and Ferguson 1983; Goetz 1995; Waste 1989; Wong 1990). Finally, other housing dollars, private and county sources, entitlement status for federal grants such as the CDBG,<sup>17</sup> and local housing market characteristics such as housing value, ownership rate, housing conditions,<sup>18</sup> and vacancy rate are used as controls in the models. (See table 6 for a description of the other independent variables.<sup>19</sup>)

<sup>17</sup> Entitlement status refers to the eligibility guidelines for formula grants such as CDBG and HOME. The measure used in this analysis is a proxy based on the population criterion for cities as stated by the U.S. Department of Housing and Urban Development (1997).

<sup>18</sup> The housing physical conditions variable is an index constructed from 1990 U.S. census data. It includes the percentage of units in a city with the following conditions: (1) lacking complete plumbing facilities; (2) lacking complete kitchen facilities; (3) boarded up; and (4) built before 1950. For each case, the Z scores on all four variables were computed, then summed to create a continuous variable. The index yields a Cronbach's alpha of 0.78, and therefore appears reliable (Bohrstedt and Knoke 1988).

<sup>19</sup> The data were inspected for potential problems prior to running the regression models. This inspection resulted in three alterations to the data set. First, the dependent variable, housing expenditures, was logged because of positive skewness. In addition, many of the independent variables also had skewed distributions and were transformed to address the problem. (See tables 4, 5, and 6 for identification of the transformations.) Second, several variables had missing values. Two cases were missing from the housing nonprofit variable and ten cases from the revenue-to-expenditure ratio. The means of the respective variables were substituted for the missing cases. The population growth rate for 1980 to 1990 was missing for

*Table 6. Other Independent Variables Included in the Models*

Other dollars <sup>a</sup>	Other dollars (private and county funds combined) expended by cities on affordable housing programs in FY 1994–95
Entitlement status	1 If city is an entitlement jurisdiction for federal programs (1990 population of 50,000 or greater) 0 If city is not an entitlement jurisdiction (1990 population below 50,000)
Housing nonprofit activity;	Ranges from 0 (no activity) to 7 (very active) Subjective estimation based on the perceptions of housing professionals
Fiscal condition	City total general revenue to total general expenditure ratio, 1990 to 1991
Median housing value <sup>a</sup>	Median value of owner-occupied housing, 1990
Housing conditions <sup>a</sup>	An additive index of the Z scores for four structural conditions, 1990. Higher value = worse conditions
Vacancy rate <sup>a</sup>	Percent of total housing units vacant, 1990
Ownership rate	Percent of total housing units owner occupied, 1990
Black (percent) <sup>a</sup>	Percent of black persons in population, 1990
Per capita income <sup>a</sup>	Per capita income, 1989 (income), 1990 (population)
Poverty rate	Percent of persons below poverty, 1989
Population <sup>a</sup>	Total city population, 1990
Growth rate <sup>b</sup>	Percent change in population, 1980 to 1990
Regions	1 If city is in the region 0 If not
Midwest (reference)	
Northeast	
South	
West	

<sup>a</sup>Variable was logged prior to analysis because of substantial positive skewness.

<sup>b</sup>An inverse transformation of the variable occurred prior to analysis because of severe positive skewness.

The first regression analysis models the decision to spend local funds on housing programs versus not spending own-source revenue. The results of this logistic regression appear in table 7.<sup>20</sup> The

eight cases, because a 1980 city population was unavailable from the census data. For each of these cities, the respective county population growth rate for 1980 to 1990 was substituted for the missing value. Forty-one cases were missing data for the expenditure variables and were removed from the analysis. An additional observation was deleted because the values on the expenditure questions were significantly higher than those for any other city. Specifically, New York reported extremely high expenditures from all sources compared with other cities. The respondent was telephoned and the figures were confirmed. Although these figures were correct, this case is an outlier and very influential; therefore, it was dropped from the analysis. The final data set contains 396 cases for analysis.

<sup>20</sup> The logistic regressions were run in SUDAAN, a statistical program that accounts for the sampling design and provides correct standard errors.

Table 7. Logistic Regression of Local Housing Expenditures, FY 1994–95

Variable	Parameter Estimate	Standard Error
Intercity competition (log)	−0.766***	0.247
Federal dollars (log)	0.154***	0.058
State dollars (log)	−0.021	0.045
State-mandated housing plan	−0.122	0.241
State-mandated set-asides	0.345	0.324
Control variables		
Other dollars (log)	0.078	0.049
Entitlement status	−0.885***	0.277
Housing nonprofit activity	0.174***	0.045
Revenue-to-expenditures ratio	−0.461	0.676
Median housing value (log)	3.035***	0.938
Housing physical conditions (log)	−0.146	0.871
Vacancy rate (log)	14.201	14.179
Ownership rate	−0.567	1.190
Percent black (log)	−0.149	2.416
Per capita income (log)	0.706	1.824
Percent below poverty level (log)	2.372	16.808
Population (log)	1.564***	0.421
Population growth rate 1980 to 1990 (inverse)	−1.911***	0.682
Northeast region	−1.190***	0.484
South region	−0.407	0.306
West region	−0.234	0.373

Note: N = 396. Satterthwaite adjusted  $F$  (overall model) = 4.984 with 21 degrees of freedom ( $p$ -value = 0.00).

\* $p$  = 0.10 \*\* $p$  = 0.05 \*\*\* $p$  = 0.01.

coefficient for the competition measure (logged) is negative as predicted in the public choice literature and statistically significant ( $p = 0.01$ ). In other words, as the level of intercity competition rises, cities are less likely to spend local funds on affordable housing programs. The estimate for federal dollars (logged) is positive and significant ( $p = 0.01$ ). That is, as the amount of federal funding for affordable housing increases in cities, cities are more likely to spend at least some of their own-source dollars on housing programs. The sign of the coefficient for state dollars (logged) is negative and not significant. Controlling for other variables in the model, state mandates for housing planning and housing set-asides appear to have little effect on the decision to spend local dollars versus spending no local dollars on housing programs; neither coefficients are statistically significant.

Six control variables used in the model are statistically significant. Control variables with negative effects include the inverse of the

population growth rate from 1980 to 1990 ( $p = 0.00$ ), the Northeast region dummy ( $p = 0.01$ ), and entitlement status ( $p = 0.00$ ). By exponentiating the coefficient for the independent variable, a multiplicative interpretation of the effect of entitlement status on the dependent variable can be presented. For example, the exponentiated coefficient for entitlement status is 0.413; therefore, entitlement cities, compared with nonentitlement cities, are approximately 41 percent as likely to spend local dollars on housing programs.<sup>21</sup> This finding may seem contrary to the results about the effects of federal dollars on local expenditures. However, nonentitlement cities may be required to provide a local match of funds for competitive state or regionally administered federal grant programs; therefore, it is possible that these cities might spend more proportionally from local funds than entitlement cities. The control variables with positive effects are the log of median housing value ( $p = 0.00$ ), the log of population ( $p = 0.00$ ), and the level of nonprofit housing activity ( $p = 0.00$ ).

The multiple regression model uses the log of local dollars spent on housing programs in FY 1994–95 as the dependent variable. Once again, this model is conditional; only cities that spent local dollars on housing programs are included in the regression analysis. Table 8 displays the results from this model. The parameter estimate for the competition measure (logged) is positive, but not statistically significant ( $p = 0.29$ ). Intergovernmental funding, from both federal and state sources, appears to have no effect on the level of local dollars expended on housing programs; neither coefficients are significant. The estimates for state-mandated housing planning and housing set-asides are positive and significant ( $p = 0.01$  for both estimates). In other words, cities required by the state to prepare a housing plan spend more local dollars on affordable housing programs than cities not required to do so. Also, cities under a state mandate to set aside local dollars for affordable housing spend more city funds on housing programs than do cities not subject to this mandate.

The estimates for two of the control variables are statistically significant. The estimate for the ownership rate ( $p = 0.01$ ) indicates that as the rate of homeownership in cities increases, the amount of local funds spent on affordable housing decreases. The estimate for the log of population ( $p = 0.00$ ) is positive, as would be expected.

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<sup>21</sup> If the exponentiated coefficient is subtracted from one, the interpretation can be restated as follows: Entitlement cities compared with nonentitlement cities are approximately 59 percent less likely to spend local dollars on affordable housing programs.

*Table 8. Multiple Regression Analysis of Local Housing Expenditures, FY 1994–95*

Variable	Parameter Estimate	Standard Error
Intercity competition (log)	0.126	0.118
Federal dollars (log)	0.001	0.027
State dollars (log)	0.018	0.022
State-mandated housing plan	0.310***	0.124
State-mandated set-asides	0.474***	0.167
Control variables		
Other dollars (log)	0.003	0.022
Housing nonprofit activity	0.022	0.020
Revenue-to-expenditures ratio	-0.403	0.422
Median housing value (log)	-0.370	0.450
Housing physical conditions (log)	0.343	0.463
Vacancy rate (log)	-11.386	8.269
Ownership rate	-1.497***	0.603
Percent black (log)	1.322	1.072
Per capita income (log)	0.044	0.910
Percent below poverty level (log)	-7.228	7.883
Population (log)	1.223***	0.149
Population growth rate 1980 to 1990 (inverse)	0.054	0.420
Northeast region	0.021	0.218
South region	-0.225	0.179
West region	0.070	0.155

Note: N = 178; adjusted  $R^2$  = 0.44.

\* $p$  = 0.10 \*\* $p$  = 0.05 \*\*\* $p$  = 0.01.

The linear regression model yields an adjusted  $R^2$  of 0.44. In other words, the independent variables explain 44 percent of the variation in local spending for affordable housing programs.

## Conclusion

The analyses in this article test four research questions about the effects of intercity competition and intergovernmental factors on the expenditure of local dollars for affordable housing programs. The public choice thesis that intercity competition results in avoidance of affordable housing programs by cities is supported only partially by the results from these data. As intercity competition increases, cities are less likely to spend even a token amount of local dollars on affordable housing programs. For those cities that do spend local funds on housing programs, however, competition has no effect on the amount of these housing expenditures.

The tests of the effects of intergovernmental factors on city housing expenditures also offer mixed results. Federal dollars appear to motivate cities to spend at least some of their own funds on affordable housing programs. However, for cities that did spend local dollars on affordable housing, the amount of federal dollars does not influence the level of local dollars expended on these programs. State dollars neither encourage a city to initiate spending local funds on affordable housing nor influence the level of local monies spent on housing programs. On the other hand, states do affect local housing expenditures through state-mandated housing planning and local set-aside requirements. While neither requirement motivated cities to initiate spending local funds, in cities that did spend local dollars, these requirements have a positive influence on the amount of local-source dollars spent on affordable housing programs.

While the influence of interest group activity on local expenditures was not a primary question in this research, the analytical results on this variable should be mentioned. The logistic model indicates that higher levels of nonprofit housing activity are associated with the expenditure of at least some local dollars on housing programs. However, I caution against a conclusive interpretation of this finding. The measure for the housing interest group variable is the level of activity of nonprofit housing organizations in cities. This activity level may increase in some cities because these cities are spending local dollars on housing programs. In other words, the availability of local dollars for the activities of nonprofit housing organizations increases the nonprofits' activity level. Causation clearly cannot be determined in this research. Nevertheless, the relationship of the housing nonprofit activity variable to local housing expenditures is notable. It is reasonable to suggest that the positive association between local housing expenditures and nonprofit housing activity indicates an "interest infrastructure" for affordable housing policy. The interaction between local governments and nonprofit housing organizations can result in a strong base of support for affordable housing policy in communities.

The implications from the results are twofold. First, the finding that cities in a competitive region are less likely to spend any local dollars on affordable housing suggests variation among cities in their commitment to affordable housing. Some local officials may perceive federal programs as adequate to meet the demand for affordable housing in their cities. While federal programs, including block grants, public housing, and Section 8 subsidies, are available across cities, these programs are unlikely to meet the need for affordable housing in all the cities with zero housing expenditures (more than half of the sample). Unmet demand for housing assistance could have severe consequences for lower-income residents. Poor renter households may not be able to afford adequate housing,

while low-income homeowners may be unable to obtain the financial resources needed to repair or maintain their dwelling units. Without the stability of a secure, decent place to live, these households may have difficulty maintaining employment, accessing educational opportunities for their children, and participating fully in the community.

Second, the findings show that the policies of higher levels of government affect local expenditures on affordable housing. Federal dollars appear to influence cities to spend at least some of their own funds on housing. In cities spending local dollars on housing, state-mandated housing planning and set-aside requirements have a positive influence on the amount of these funds spent on housing programs. Therefore, federal and state policies should continue to encourage cities to engage in affordable housing programs.

The analyses in this article reveal that intercity competition and intergovernmental factors do affect local affordable housing expenditures. Cities in competitive regions are less likely to spend even a token amount of local funds on affordable housing programs. Increased federal funding, however, can encourage cities to spend at least some of their own funds on such programs. Additional federal housing support, combined with local matching requirements, may be the best incentive for cities to begin to invest own-source dollars in affordable housing. In cities already spending local dollars on housing, state housing planning and set-aside mandates appear to increase local affordable housing investment. Therefore, the normative prescriptions offered by Paul Peterson (1981) and Anthony Downs (1994) are sound and still relevant to policy makers today, at least in terms of increasing local investment in affordable housing programs.

*Appendix*

The test for response bias is on the initial sample of 709 cities; therefore, the analysis involves unweighted data. The response bias model uses population and region dummies (the sample strata) as controls. However, post-weighting for the descriptive and multi-variate analyses accounts for the sample design and, as a result, statistically significant estimates on these dummy variables are not a concern in evaluating response bias.

*Table A.1. Logistic Regression for Housing Survey Response Bias*

Variable	Parameter Estimate	Standard Error	P-Value
Median housing value <sup>a</sup>	0.08	0.69	0.91
Vacancy (percent) <sup>a</sup>	-0.02	0.53	0.97
Ownership (percent)	-1.32	0.97	0.17
Housing physical condition <sup>a</sup>	0.35	0.56	0.53
Revenue-to-expenditures ratio	0.73	0.57	0.21
Per capita income <sup>a</sup>	-2.19	1.62	0.18
Below poverty level (percent) <sup>a</sup>	-6.10	10.78	0.57
Unemployment rate <sup>a</sup>	-2.96	0.97	0.00
Population growth 1980-90 <sup>b</sup>	0.42	0.64	0.51
Northeast region	-0.31	0.32	0.33
South region	0.32	0.26	0.21
West region	0.44	0.30	0.14
Population dummies			
50,000-99,999	0.47	0.19	0.01
100,000-249,999	0.70	0.27	0.01
250,000 or greater	0.71	0.35	0.04

Note: N = 709;  $\chi^2 = 39.39$  with 15 degrees of freedom ( $p = 0.00$ ).

<sup>a</sup>Variable was logged to correct for positive skewness.

<sup>b</sup>The inverse of the variable was taken to correct for extreme positive skewness.

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