

# State Innovations in Affordable Housing Policy: Lessons from California and New Jersey

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## *Abstract*

Decades of diminishing federal leadership and support for affordable housing policy have opened up a gap in public response to housing needs. Filling this gap is critical if the long-held goal of decent (and affordable) housing for every American is to be honored and communities are to thrive. This article investigates state governments in an era of federal retreat by examining the factors associated with innovations in housing policy in California and New Jersey, two reputed leaders in state housing policy.

We collected data through interviews with key informants, as well as from meetings, reports, public documents, agency records, and other secondary sources. Our analysis indicates that state innovations in housing policy are influenced by bureaucratic (internal) factors, such as funding and agency structure, and by environmental (external) factors, such as local autonomy and interest group activity. We conclude with the policy and research implications of our findings.

**Keywords:** Affordability; Policy; State

## **Introduction**

Who will be the leaders in affordable housing policy in the future? Decades of federal policy devolution, as well as fluctuations in federal funding for housing (Goetz 1995; Katz et al. 2003), have left a gap in leadership and introduced significant uncertainty as to the future of housing policy. In what Goetz labels the “new era of postfederal housing innovation” (1993,

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1), emphasis has shifted away from the nation's capital toward state capitals, city halls, and nonprofit organizations. In these settings, innovation in housing policy, including the adoption of policies and programs that are new to a particular government agency or nonprofit organization (Nice 1994), is a crucial response to federal devolution.<sup>1</sup>

Researchers have identified numerous, often innovative, activities by state and local actors working to fill the gap in federal leadership; activities include ongoing housing rehabilitation and new construction, new regulatory approaches, and creative financing options (Keyes et al. 1996; Meck, Retzlaff, and Schwab 2003; Nenno 1991; Stegman 1999). However, researchers also raise concerns about the ability of local actors to provide adequate leadership and effectively address housing needs, as well as the limited capacity of many community development corporations (CDCs) to develop and manage housing (Cowan 2006; Koschinsky 1998; Rohe and Bratt 2003; Stoecker 1997).<sup>2</sup>

Much of the literature on the evolving housing policy infrastructure has emphasized local governments, CDCs, and regional governments as potential leaders and innovators (Basolo 1999; Bollens 2003; Rohe and Bratt 2003). Less attention has been focused on the housing policies of state governments, despite Orlebeke's observation on the "ascendant role for state...governments" (2000, 490) in this domain, as well as the general "trend toward a more state-centered federalism" (Sapat 2004, 141). Researchers have studied state housing planning and state mandates for local housing planning (Deyle and Smith 1998; Toulan 1994); catalogued and described existing state and local housing programs (Davis 2006; Lubell 2006; Schwartz, Ferlauto, and Hoffman 1988; Stegman 1999; Twombly et al. 2001); presented potential state approaches to housing policies and programs (Lubell 2006; McNichol and Springer 2004; Schwartz, Ferlauto, and Hoffman 1988); discussed state housing agencies, some programs, and statewide housing coalitions (Goetz 1993); and examined specific examples of state housing policies (Bratt 1989).

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<sup>1</sup>This representation is based on Nice's more general definition of state policy innovation as the development and implementation of a "program or policy which is new to the state adopting it, no matter how old the program may be or how many other states have adopted it" (1994, 5).

<sup>2</sup>Some state and local governments undertake housing planning and provide funding for housing programs; however, much of the funding for housing still comes from the federal government (Basolo 1999; Goetz 1995). Further, government funding, including direct and pass-through federal funding, is critical to the production of housing by nonprofit CDCs (Bratt et al. 1998; Fredericksen and London 2000). It is unlikely that many of these activities would continue if federal funding was drastically reduced.

Among these efforts, only the last example, Rachel Bratt's (1989) treatment of the Massachusetts model, offers an in-depth analysis of state-sponsored housing activities, many of which can be characterized as innovative. Bratt (1989) reviews the actions taken by the state of Massachusetts over approximately two decades and describes the evolution of a number of programs and organizations that, as a whole, represent a public support system for housing. Her analysis concludes in part that governors and executive departments have the "power and prestige" (Bratt 1989, 282) to create housing programs and that the state is an appropriate level for the administration of these programs.

With the exception of this research on Massachusetts, there are few in-depth studies of state housing policies in the literature. Moreover, extant studies in general do not treat state innovation in housing policy or the factors associated with this innovation directly. Given the potential for this level of government to formulate policy and to redistribute resources among jurisdictions, these omissions are surprising.

This article aims to provide a better understanding of state-led innovation in housing policy. We focus on two states, California and New Jersey, and explore a set of interrelated questions about affordable housing efforts there:

1. How are California and New Jersey responding in an era of federal retreat from affordable housing policy?
2. What factors affect innovation in affordable housing policy in these states?
3. What are the challenges to state-led housing policy in California and New Jersey?
4. What lessons drawn from the experiences of these states might be useful to other states seeking innovations in affordable housing policy?

We take a multiple case study approach and use data from numerous sources to address these questions.

This article is divided into five sections. The first reviews state engagement in housing and develops a link to the literature on policy innovation. The second presents the research design and methodology we used. The third describes each state's context and presents case data. The fourth analyzes the results to identify the factors associated with innovation in housing policy in each state and to highlight some of the challenges to state-led housing policy. Finally, we conclude with some thoughts for discussion among researchers and practitioners.

## States, housing, and policy innovation

States are important administrators and financers of affordable housing through both federally sponsored and state-sponsored initiatives. Since the 1960s, state housing finance agencies have been issuing federally tax-exempt bonds for the purchase and construction of affordable housing. Since the 1970s, a variety of state agencies have been given significant control over the administration of decentralized federal programs in nonentitlement areas including the Community Development Block Grant program and a portion of the HOME Opportunities Partnership Program. Further, some participate in managing several housing assistance programs, including project-based Section 8, the Housing Choice Voucher Program, and the Mark-to-Market Program (Khadduri 2003; U.S. General Accounting Office 2001). They also manage federal homeless and special needs programs such as Housing Opportunities for People with AIDS and McKinney-Vento Homeless Assistance Funds. Perhaps most important, states agencies are the sole administrators of federal Low-Income Housing Tax Credit (LIHTC) allocations for multifamily housing production (National Council of State Housing Agencies 2005).<sup>3</sup>

Apart from these federal initiatives, states have increasingly sponsored the development and funding of new housing programs. In 1980, there were only 44 state-sponsored housing programs, and those were primarily located in California, Connecticut, and Massachusetts (Thompson and Sidor 1990). Just nine years later, 177 unique programs were operating throughout a number of states (Thompson and Sidor 1990). By 2000, there were too many diverse programs to provide more than a targeted snapshot of the different strategies in use (Stegman 1999). To fund these new programs, states have been creating their own resources. By 2001, states were spending \$3.6 billion on housing and community development combined, compared with just \$837 million (in 2001 dollars) 20 years earlier (Schwartz 2006). Today, at least 37 states operate housing trust funds sustained through a variety of designated revenue sources, including real estate transfer taxes, document recording stamps and fees, and state appropriations (National Council of State Housing Agencies 2005). In addition, 14 states operate their own housing tax credit programs separate from or in conjunction with the LIHTC program (Elbert 2005).

This expansion of state government engagement in affordable housing has involved a process of policy innovation that includes the development

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<sup>3</sup>An exception is the city of Chicago, which receives its LIHTC allocation separately from the state of Illinois.

and adoption of strategies not previously implemented in a particular state. The literature identifies two general categories of factors that influence innovation within state agencies: (1) environmental (those external to the agency) and (2) bureaucratic or internal (those existing within a state agency). Environmental factors include public perception of a crisis or dissatisfaction with the status quo, economic and social conditions, political cultures, party politics, public opinion, and interest groups (Gray and Hanson 2004; Harris and Kinney 2003; Nice 1994; Ripley et al. 1973).

Numerous hypotheses about environmental effects have emerged over decades of research on state innovation in a variety of policy areas, including environmental protection, education, lotteries, and taxation (Berry and Berry 1990, 1992; Mintrom 1997; Sapat 2004). Researchers have found that the perception of the severity of a crisis influences innovation (Nice 1994; Sapat 2004) and that states with a higher previous commitment to addressing a policy problem are more likely to continue innovation in that same area (Sapat 2004). Other contextual factors associated with increased state innovation include wealth, as well as diversity and degree of urbanization within the state (Harris and Kinney 2003; Ripley et al. 1973; Walker 1969). Political context also appears to be related to innovation. Studies show that states with a more liberal political ideology and electorate are more likely to innovate, as are those with more highly contested elections and a unified government (where both the executive and the legislative branches are controlled by the same party) (Berry and Berry 1990, 1992; Beyle 2004; Nice 1994; Sapat 2004). Finally, high interest group activity, especially in the business and labor sectors, is associated with policy innovation as well (Thomas and Hrebendar 2004).

Bureaucratic or internal factors affecting innovation include agency maturity and personnel, institutional structures, attitudes toward change on the part of staff, and availability of resources (Harris and Kinney 2003; Leach and O'Rourke 1975; Nice 1994; Osborne 1990; Ripley et al. 1973). Studies indicate that older, more experienced agencies and those with larger staffs tend to have a greater propensity to adopt policy innovations (Ripley et al. 1973; Sapat 2004). Ripley et al. (1973) suggest that more centralized institutional structures inhibit the initiation of innovation, but help in its implementation, while complex organizations that maintain a division of labor among specialists seem to have the opposite effect. Governors are also thought to be important to innovation through the cultivation of an internal environment that either stimulates or stymies it (Beyle 2004; Osborne 1990). State legislatures can encourage or discourage innovation by the degree of autonomy they give administrative agencies to interpret vague legislation or

pursue their own agendas (Maynard-Moody 1989). Finally, extra human and financial capital are expected to contribute to higher levels of policy innovation (Nice 1994).

The research in this article examines innovation in housing policy in California and New Jersey to better understand the possibilities for state-led housing efforts in the postfederal period. While previous studies on innovation within other policy domains provided guidance for our research, our study is unique in its focus on state innovation in housing policy. Therefore, our study begins to fill a gap in the literature. In the next section, we will discuss our research methodology.

### **Research design and methodology**

We used a multiple case study design with state agencies in California and New Jersey as the primary units of analysis. We selected these states for several reasons. First, both have relatively high housing prices and attendant problems compared with the rest of the country and thus exist in an environment more likely to induce policy response and encourage innovation. Both have high median housing values and median contract rents relative to the United States as a whole (see table 1). They also have a relatively high percentage of households experiencing one or more negative housing conditions, defined as being overcrowded, lacking complete kitchen or plumbing facilities, or paying more than 30 percent of their income for housing costs. As shown in table 1, in 2000, 44.2 percent of the households in California and 34.5 percent of the households in New Jersey experienced at least one negative condition; these values were higher than the national figure of 30.5 percent.

Second, comparing the housing policy responses for these states has been of interest to scholars and practitioners over the years, because they have adopted, by judicial mandate and by choice, a number of progressive housing policies (see, for example, Calavita, Grimes, and Mallach 1997).<sup>4</sup> Our research adds to these earlier studies by examining new policies and programs with a focus on innovation.

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<sup>4</sup>Calavita, Grimes, and Mallach (1997) focus on inclusionary housing in the two states. Generally, inclusionary housing is policy encouraging (or requiring) that some percentage of housing units affordable to low- and/or moderate-income households be provided in new residential developments. These authors note that inclusionary housing was mandated in New Jersey by the state supreme court through the *Mt. Laurel* decisions (discussed later in the article), while California's inclusionary housing is a local response to a housing crisis and state-mandated housing planning (also discussed later). These authors conclude that inclusionary housing has achieved some limited impact, but that it should be considered one strategy among many to address an undersupply of affordable housing.

**Table 1.** Selected Sociodemographic and Housing Characteristics

Selected Characteristics	California	New Jersey	United States
Population	35,055,227	8,503,294	285,691,501
Median household income	\$51,185	\$61,672	\$44,684
Poverty rate	13.3%	8.5%	13.1%
Overcrowding <sup>a</sup>	8.3%	2.7%	3.1%
Homeownership rate	58.6%	68.1%	67.1%
Median housing value	\$391,102	\$291,294	\$151,366
Median contract rent	\$844	\$786	\$591
"With Conditions" <sup>b</sup>	44.2%	34.5%	30.5%
Household cost burden exceeding 30 percent (owner) <sup>c</sup>	30.1%	28.2%	21.4%
Household cost burden exceeding 30 percent (renter) <sup>c</sup>	40.3%	35.7%	38.6%

Note: The data in this table, except as indicated in notes b and c, are estimates from U.S. Bureau of the Census (2005).

<sup>a</sup> Overcrowding is defined here as households with more than 1.01 persons per room.

<sup>b</sup> "With Conditions" is defined as a household having at least one of the following housing conditions: lacking complete plumbing facilities, lacking complete kitchen facilities, with more than 1.01 persons per room, and selected monthly owner costs greater than 30 percent of household income (1999), or gross rent as a percentage of household income (1999) of greater than 30 percent" (U.S. Department of Housing and Urban Development, 2005a).

<sup>c</sup> Cost burden values for the states are from 2000 (U.S. Department of Housing and Urban Development 2005b). Figures for the United States are from 2000 and based on Joint Center for Housing Studies (2005, table A-11).

Last, and most important, these states are actively engaged in state-led housing policy innovation today, providing fertile ground for exploring and extending existing knowledge. In other words, California and New Jersey were not chosen based on a probability sampling approach, but rather because they are exemplary cases,<sup>5</sup> as defined by Yin (2003) and suited to comparison or replication concerning influences on innovation. More generally, these cases have the potential to offer insights into state-led housing policy and to highlight some innovative approaches that might be transferable to other states searching for affordable housing solutions.

Primary data were collected through interviews conducted between 2003 and 2006<sup>6</sup> with a range of key informants, including current and former state agency staff, local government staff, developers, financial institutions and consultants, development and legislative consultants, and housing advocates.<sup>7</sup> Additional data were collected from records of organizations interviewed for

<sup>5</sup>We do not claim that California and New Jersey are the only possible exemplary cases. As one reviewer noted, Illinois, Massachusetts, and New York are potentially good examples of innovation in housing policy as well.

<sup>6</sup>The field period reflects the time required for on-site visits to geographically separate locales, as well as the desire to follow some programs over time and conduct follow-up interviews with key informants.

<sup>7</sup>Key informants were identified initially by a Web search of key contacts in state agencies, followed by administrative records on program participants and by the referral technique.

the study, observations at meetings, available public documents and other records, the literature, and the U.S. Bureau of the Census and other secondary data sources. These additional data supplement the interview data, as well as allowing us to assess the validity and reliability of interview data, a process known as methodological triangulation.

The interviews were semistructured, with guiding questions and the flexibility for interviewees to introduce new concerns and issues during the session.<sup>8</sup> Interviewees were asked about their organization, state housing policies and programs, and affordable housing in general. Interviews lasted from 25 minutes to four hours, although the typical interview was approximately 50 minutes long. A total of 78 people participated in the interviews, more than 75 percent of which were conducted face to face. The rest were done by telephone.<sup>9</sup> All but 10 of the interviews were audiotaped with the permission of the interviewee and transcribed. In all cases, the interviewer took handwritten fieldnotes.

Data from all sources were examined to separate background and analytical data. We repeatedly reviewed the analytical data and coded for categories, emergent themes, and dimensions, being guided by the policy innovation framework suggesting the importance of environmental and bureaucratic factors. In initial reviews of the data, we coded along general categories, such as organizational issues, activities of outside interests, and policy and program development. In later iterative reviews of the data, the coding was guided by themes found in the general literature on policy innovation (e.g., perception of the degree of the problem, catalysts and obstacles to new policies or programs). Through this iterative process, we identified and interpreted themes and concepts within each case study and analyzed relationships among concepts. Thus, the iterative process involved moving from the general to the specific with the goal of understanding the relationship between innovation and contextual factors as revealed in our data.<sup>10</sup>

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<sup>8</sup>The interview instruments provided sets of guiding questions with probes.

<sup>9</sup>Some participants chose to be interviewed with a co-worker. Follow-up interviews were conducted with a number of key informants from state and local organizations. One interview was conducted via written response. A total of seven potential respondents declined to be interviewed.

<sup>10</sup>The analysis of qualitative data requires reading repeatedly and determining meaning in textual data. Initially, data are divided into major files including background (e.g., legislative histories) and analytical (data potentially reflecting key concepts such as a mechanism, as well as data signifying a process and/or an outcome). Analytical data are reviewed and categorized/coded according to themes and concepts and reviewed multiple times as new data are added to assess initial interpretations. The coded data are analyzed for linkages between concepts (a mapping of the data), followed by an interpretation of these linkages. For discussions of qualitative research and analysis, see Denizen and Lincoln (2005), Dey (1993), and Lofland et al. (2006).

These results were used to compare the cases for commonalities and differences, and contextual data were analyzed to identify potential explanations for variations between cases.

## **Housing policies in two states**

Our two case studies provide rich environments for an investigation of state housing policies and innovations. In this section, we describe the contexts and housing policy activities in California and New Jersey. In doing so, we answer our first research question on how they are responding in an era of federal retreat from affordable housing policy. The data in this section also address our second and third research questions since they begin to reveal some of the factors influencing innovation and the challenges states have encountered along the way.

### *California*

Observers in California freely use the word “crisis” to characterize the state of affordable housing there. This crisis developed because of a strong demand for, and a lagging supply of, single-family and multifamily housing during the late 1980s through the 1990s<sup>11</sup> (see figure 1). In assessing this mismatch and projecting trends, a 2000 update to the Statewide Housing Plan estimated that 220,000 housing units must be added to the state’s inventory each year until 2020 to meet demand (Landis 2000); this is an ambitious goal since it exceeds the annual production numbers of the boom period of the 1980s.

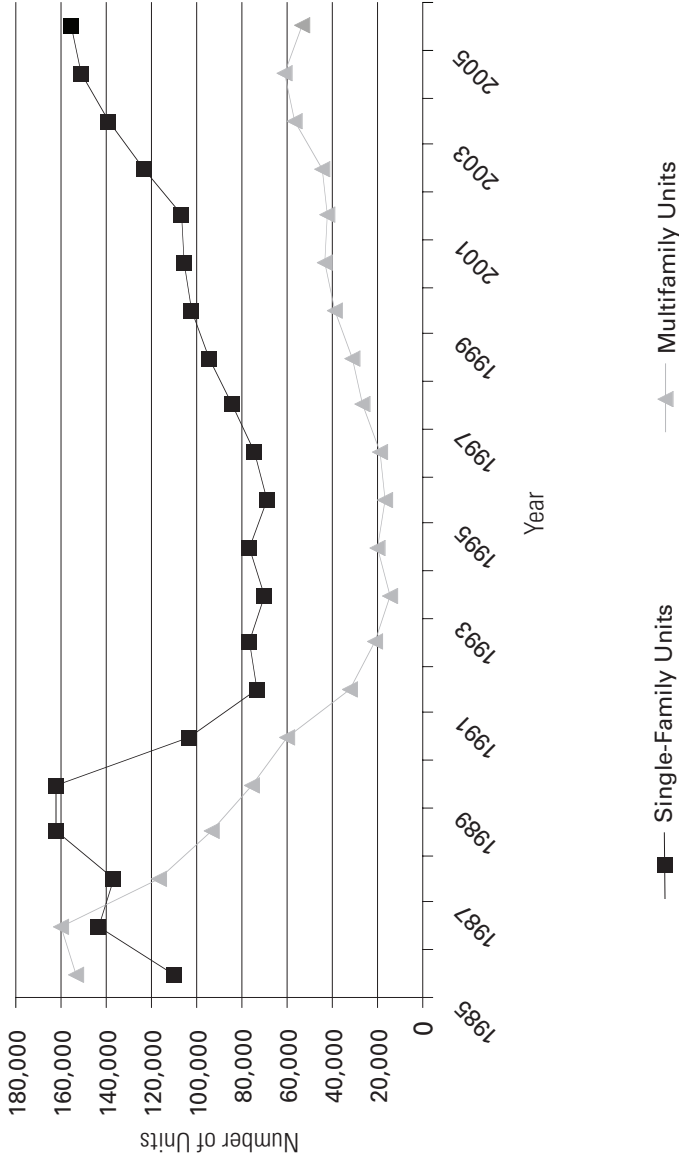
High demand and a relatively low supply of housing in California led to a predictable rise in housing costs over time. This rise, however, did not correspond to a similar increase in household incomes. The median sales price of existing homes increased at a much faster rate than median household income. From 1994 to 2003, the change in median household income was 44.6 percent, but the change for the median sales price of existing homes was 101.5 percent.<sup>12</sup> The rental market also reflects the increase in housing costs from the late 1990s to 2005. In 2005, the required full-time hourly wage needed to afford the fair market rent on a two-bedroom unit (housing wage) as defined by the U.S. Department of Housing and Urban Develop-

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<sup>11</sup>Scholars suggest multiple explanations for the lagging supply, including local regulations aimed at slowing growth (see, for example, Nguyen 2007).

<sup>12</sup>Data are from the California Department of Finance (2005), which cites the *Current Population Survey* (median household income) and the California Association of Realtors (median sales price) as the sources for these data. Calculations are by the authors.

**Figure 1.** New Privately Owned Housing Units Authorized by Building Permit in California, by Housing Type, 1985 to 2005



Source: California Department of Finance (2006).

ment (HUD) was \$22.09, up from \$14.37 in 1998 (National Low Income Housing Coalition 2005).<sup>13</sup>

The California Department of Housing and Community Development is the principal housing agency in the state and is central to understanding its housing policy.<sup>14</sup> The department's mission is "to provide leadership, policies and programs to preserve and expand safe and affordable housing opportunities and promote strong communities for all Californians" (California Department of Housing and Community Development 2003, 9).<sup>15</sup>

The department's Housing Policy Development Division (HPDD) advocates for and formulates policy. HPDD's most controversial role, however, lies in administering the state's housing element law, because land use issues such as housing are sacred in California's culture of home rule and local autonomy (Lewis 2003).<sup>16</sup> Housing element law requires cities and counties to plan for existing and future growth, which involves addressing a regional fair share allocation of housing needs by income category. Although the state mandates planning for affordable housing, it has no effective mechanism to compel jurisdictions to achieve the affordable housing targets in their plans (Fieldnote). Nevertheless, the state continues to tighten housing planning law, including the 2004 passage of Assembly Bill 2348 requiring localities within their housing element to identify sites (at the parcel level) suitable for residential development and declare which identified sites are available to meet a locality's regional housing needs allocation for all income groups.

For localities without adequately zoned land to accommodate their regional housing allocation for lower-income households, the state has instituted the requirement for a "by right" development program; that is, cities cannot require conditional use permits and certain other types of discretionary reviews for residential developments. The state continues to strengthen

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<sup>13</sup>The 2005 hourly minimum wage in California was \$6.75, a dollar more than it was in 1998. In other words, the change in minimum wage from 1998 to 2005 was 17.4 percent, while the change in the housing wage during the same period was 53.7 percent.

<sup>14</sup>Another agency, the California Housing Finance Agency (CalHFA), is considered the state's "affordable housing bank" (Fieldnote). CalHFA works primarily with private lenders to provide mortgage financing for first-time home buyers, and the agency also helps eligible home buyers with down payments, closing costs, and mortgage insurance. In addition, CalHFA provides permanent financing to developers for the preservation and production of low- and moderate-income rental housing. CalHFA has a relatively narrow scope of responsibilities and is self-supporting, using revenues from mortgage loans to repay tax-exempt bonds.

<sup>15</sup>This mission is operationalized through a broad range of housing activities, including planning, policy and program development, loans and grants, and regulation and enforcement.

<sup>16</sup>In California, cities and counties are required to prepare a comprehensive plan comprising seven elements, one of which is housing (see California Government Code, § 65300–65302).

housing element law; a 2007 law (Senate Bill 2) requires localities to identify zones allowing homeless shelters without a conditional use permit.

The Department of Housing and Community Development reviews and certifies local housing elements for compliance with state law.<sup>17</sup> While a jurisdiction with a noncompliant housing element is ineligible for certain state and federal funding for affordable housing and is more exposed to legal action that could end development in the community (Lewis 2003), the consequences for noncompliance are considered minimal, especially for localities with little desire for growth.

Historically, noncompliance has been a problem. In 1991, 42 percent of California jurisdictions were not in compliance (Lewis 2003). Moreover, conflicts between HPDD and local governments, and between local governments and the regional agencies that determine the fair share numbers, have been common over the years (Fieldnote). However, these circumstances appear to be improving, as reflected in a recent report:

Increasingly, local governments have effectively responded to the challenge of providing housing opportunities....[A]s of December 31, 2005, 74 percent of California's local governments have adopted compliant housing elements—the highest compliance rate ever achieved. (California Department of Housing and Community Development 2006, 1)

The rise in compliance is most likely due to two factors. First, our interview data indicate that the department undertook an aggressive education campaign throughout the state. Senior staff visited communities to inform public officials of the housing crisis, the impact on lower- and middle-income working families and individuals, and the need to plan for housing at all levels (Fieldnote). Second, Lewis suggests that “warning letters to local governments from the state attorney general” (2005, 181–82) contributed to the improvement in the compliance rate.

The department's Division of Financial Assistance (DFA) shapes policy through the implementation of more than 20 programs. Since the department is funded primarily by the state, many of these programs depend on

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<sup>17</sup>The department uses a checklist that is designed to ensure that specific provisions of the law are met in the housing element. (The review worksheet for the current round of housing element updates can be viewed at California Department of Housing and Community Development 2007). Requirements include, among other things, discussion of the public participation process, evaluation of progress from the previous housing element, and a housing needs assessment. If a jurisdiction initially meets all of the requirements or revises an element (after department review) to meet all of the requirements, it is deemed to be compliant; otherwise, it is noncompliant.

state budget priorities. State budget problems for the past five years have limited funding for housing initiatives (see Public Policy Institute of California 2005). While many state legislators, both Democrats and Republicans, acknowledge the need for affordable housing, they are constitutionally unable or politically unwilling to generate revenues in the traditional manner (raising existing taxes or creating new ones) for housing and other state needs (Fieldnote).<sup>18</sup> Instead, in 2002, the Democrat-dominated state legislature and then-Governor Gray Davis,<sup>19</sup> also a Democrat, passed the Housing and Emergency Shelter Trust Fund Act of 2002 (Senate Bill 1227), which placed Proposition 46 on the November ballot.<sup>20</sup> Housing advocates contracted with a private firm to conduct a survey to assess voter support for different types of housing assistance and reached voters through localized education efforts (Fieldnote). With a community-based, statewide effort by housing advocates and support from developers, local business, and others, Proposition 46 sought and won voter approval to issue \$2.1 billion in general obligation bonds for housing initiatives.

Proposition 46 provided capital for several existing and new Department of Housing and Community Development programs.<sup>21</sup> The largest piece of this bond funding, \$779 million, went to the Multifamily Housing Program (MHP),<sup>22</sup> an innovative response by the state to the financing needs of developers of affordable housing. It provides long-term, low-interest permanent financing to developers of low-income<sup>23</sup> rental housing and ensures that units will be kept affordable for 55 years.

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<sup>18</sup>California is not free from partisan politics, but Democrats hold a majority in the state legislature and have done so for decades. Predictably, opposition to funding housing programs comes mainly from Republicans in the legislature, but opposition is not uniform within the party. Compared with Democrats, Republicans also tend to favor certain types of housing assistance, such as programs aimed at increasing homeownership (Fieldnote).

<sup>19</sup>In a 2003 statewide election, Governor Davis was recalled (see Marinucci and Wildermuth 2003). In a subsequent election, Arnold Schwarzenegger, a moderate Republican, was elected governor.

<sup>20</sup>According to the California Constitution, any bill (in this case, Senate Bill 1227) seeking the issuance of general obligation bonds must be passed by two-thirds of the state senate and two-thirds of the state assembly, approved by the governor, and placed on the ballot for approval by voters. A simple majority of the voters was required to pass the bill.

<sup>21</sup>The Department of Housing and Community Development received an overwhelming share of Proposition 46 funds (approximately 85 percent of the total). CalHFA received the remaining funds for its homeownership programs.

<sup>22</sup>The MHP was created in 1999, but was never funded at the level provided by Proposition 46.

<sup>23</sup>The MHP program uses the income limits established by the Tax Credit Allocation Committee. These are based on a percentage of area median income. For MHP developments, 30 percent of the units in a development must be affordable to households at 60 percent of the area median income.

The MHP was designed to provide a reasonable alternative to the popular 9 percent federal LIHTC Program (Fieldnote).<sup>24</sup> In California, the demand for 9 percent tax credits typically exceeds availability by about 3 to 1 (California Tax Credit Allocation Committee 2004). Combining the MHP with the more accessible 4 percent LIHTC offers a good alternative to the 9 percent tax credit.<sup>25</sup> In the words of one nonprofit developer:

[The MHP] allows a way for many projects that have been in our pipeline for a long time structured as 9 percent tax-credit yields to achieve the same income targeting goals, the same basic structure, using the less competitive—noncompetitive—4 percent tax credit and the bond mortgage.

It was the consensus of the affordable housing developers interviewed for this study that the MHP is a responsive, effective approach to the development of lower-income rental housing. According to a recent report, over \$600 million of the Proposition 46 bonds have been committed or awarded under this program, resulting in the creation of 11,497 units (California Business, Transportation, and Housing Agency 2006).

The Local Housing Trust Fund Matching Grant (LHTF), a new program created and funded by Senate Bill 1227, is an example of a provocative, incentive-based initiative for affordable housing. The LHTF received \$25 million in funding from Proposition 46. As stated in the enabling legislation (Assembly Bill 1891, Chapter 725, Section 1(b)), the LHTF was aimed at “supporting local housing trust funds dedicated to the creation or preservation of affordable housing.” To fulfill this goal, the program assisted 11 existing trust funds through a competitive process and seven newly created local housing trust funds in an over-the-counter process (eligible applications on a first-come, first-served basis).

The LHTF offered successful applicants a dollar-for-dollar match. Existing and new local housing trust funds operated by local governments or non-

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<sup>24</sup>The 9 percent LIHTC, the primary federal strategy to encourage low- and moderate-income rental housing development, provides states with tax credits on a per capita (annual-inflation-adjusted) basis. States award these tax credits through a competitive proposal process to developers of lower-income housing. (See McClure 1990 for a more detailed description of the program and McClure 2000 for a more recent overview.)

<sup>25</sup>Both the 9 percent and 4 percent tax credits are sold to investors to acquire capital for lower-income housing developments. The 9 percent credit is subject to an annual cap set by federal law and awarded by states through a highly competitive process (see footnote 24). It is more desirable than other financing schemes because it yields greater up-front equity for a project, thus reducing debt service. The noncompetitive 4 percent credit is automatically provided (“as of right”) to projects using state bond financing and has no cap. It yields less up-front capital than the 9 percent credit.

profit organizations were eligible for the program. Applicants were required to provide between \$1,000,000 and \$2,000,000 as a local match<sup>26</sup> and to explicitly identify revenue sources for contributions to the housing trust fund for the next five years. They were also required to use the money for construction loans to rental developments with units priced for households earning less than 60 percent of area median income and carrying a 55-year affordability restriction. (California Department of Housing and Community Development 2003). According to many of our interviewees, the competitive application scoring favored commitments to fund projects with 30 percent of the units affordable to households at 30 percent of area median income. Moreover, the LHTF funds could not be used on a project receiving MHP program funds.

Department of Housing and Community Development staff noted that the LHTF attracted relatively few applications. On the basis of comments from local staff we interviewed for the study, we determined that the reasons for a low level of interest are complex, but are related in part to program requirements. For example, the income targeting and other restrictions seem to have reduced interest in the program. Even LHTF recipients expressed uncertainty about using their allocation and match as described in their application. When considering committing 30 percent of a project's units to households at 30 percent of the area median income, staff from one of the communities receiving an award commented, "There is a stigmatization when you have that large a concentration in a place—you tend to label a project as an extremely low income project."<sup>27</sup>

In our interviews, those who received funding cited two shortcomings of the LHTF program. First, the prohibition on combining MHP and trust fund dollars made it difficult to attract developers. Second, the requisite income targeting reduced the flexibility of local trusts to use matching funds to support a range of goals (Fieldnote). After extensive dialogue between the state, program recipients, and housing advocates, legislation (Assembly Bill 2638) was passed in 2006 to allow the use of future LHTF awards with the MHP, among other things. The LHTF is an innovative program that succeeded in motivating the creation of seven new local housing trust funds, and an August 2006 report by the California Business, Transportation, and Housing Agency reveals that almost \$24 million in program funds have been committed or awarded.

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<sup>26</sup>The source of the matching funds varied by locality, including, among others, ongoing fees on developers (opting out of providing inclusionary housing), commercial impact fees, agency reserves, and general funds (Fieldnote and department records).

<sup>27</sup>This response reflects concerns about the perceptions of community residents and is consistent with the chronic NIMBY ("not-in-my-backyard") syndrome reported by LHTF recipients, developers, and housing advocates.

Overall, California exhibits policy innovation in regulation and programs. We now turn to our second case to examine state housing policy efforts in New Jersey.

### *New Jersey*

Like California, New Jersey has experienced an annual decline in the number of privately owned housing units authorized for construction since the mid-1980s (see figure 2). The state's single-family production has never recovered, while multifamily construction has recently returned to its 1980s high. While household income has remained high in New Jersey, it has failed to increase at a rate even close to housing costs. Between 2000 and 2005, New Jerseyans experienced a gain in median household income of \$7,400, adjusted for inflation, reaching a national high of \$61,672 in 2005 (U.S. Bureau of the Census 2005). At the same time, state housing costs continue to increase at least twice as fast as income growth (Anti-Poverty Network of New Jersey 2005). For renters, the housing wage needed to afford a two-bedroom apartment at HUD's fair market rent, paying no more than 30 percent of income toward rent, increased from \$15.94 in 1998 to \$20.87 in 2005. This represents an increase of almost a third.

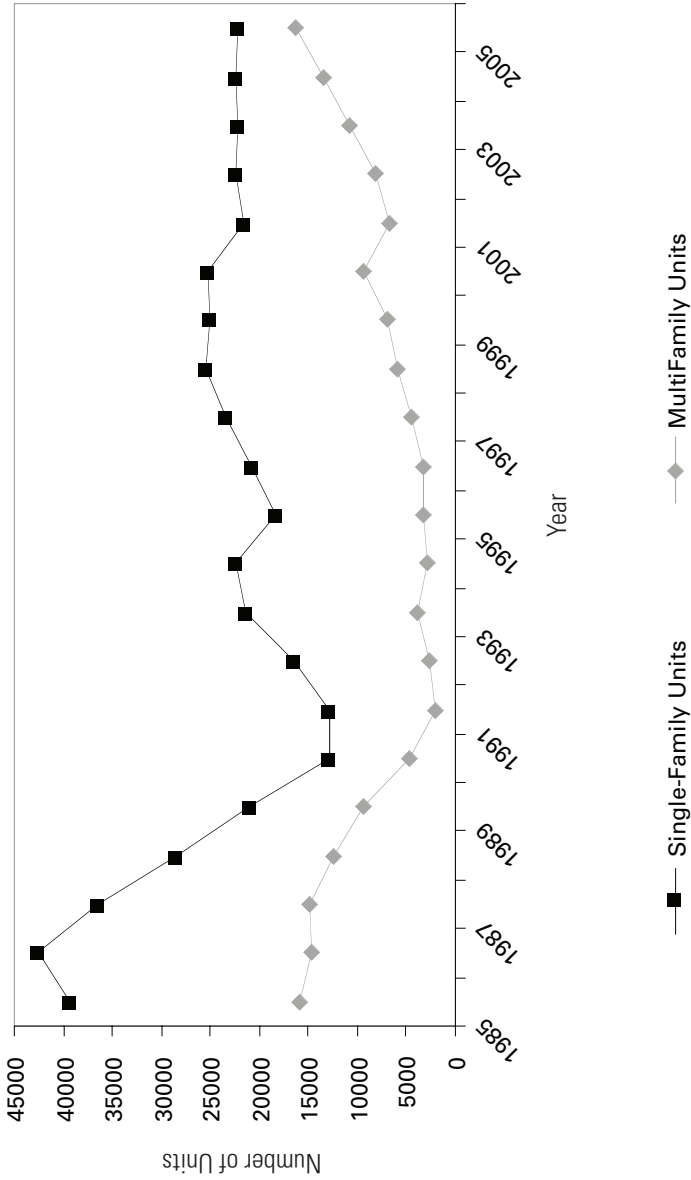
Despite the many housing issues facing New Jersey, there was a consensus among the developers and advocates we interviewed that, as one developer noted, "No objective observer...would claim or assert that New Jersey has a housing policy. Housing in New Jersey is a policy afterthought." This view persists despite an innovative housing history, including a statewide comprehensive plan with a housing element (State Planning Commission 2001), state court-ordered inclusionary housing requirements through the Mt. Laurel decisions, and other significant housing-specific initiatives that will be discussed later.

New Jersey has a complicated government infrastructure for dealing with housing issues; members of the housing developer and advocacy communities jointly criticized it as "separate state agencies undertaking housing programs or carrying out housing strategies with little or no connection to them."<sup>28</sup> Key housing responsibilities are split among three agencies, each with a narrowly defined role: the Department of Community Affairs (DCA), the New Jersey Housing and Mortgage Finance Agency (HMFA), and the Council on Affordable Housing (COAH).

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<sup>28</sup>This critique seems justified when, after 16 years of statewide comprehensive planning, New Jersey is still trying to "coordinate *for the first time* three state agencies with a housing mission (Department of Community Affairs, HMFA [Housing and Mortgage Finance Agency], and COAH [Council on Affordable Housing]" (State Planning Commission 2001, 85, emphasis added).

**Figure 2.** New Privately Owned Housing Units Authorized by Building Permit in New Jersey, by Housing Type, 1985 to 2005



Source: U.S. Bureau of the Census (2007).

DCA is the lead state agency under which the other two are subsumed and is responsible for managing most federal and state housing subsidy programs. Its Division of Housing oversees several innovative state-initiated and -funded programs, most notably the State Rental Assistance Program (SRAP) and the Neighborhood Preservation and Balanced Housing Trust Fund (Balanced Housing). SRAP administration began in fiscal year 2007 with an appropriation of \$25 million and has been maintained at this level in Governor Corzine's fiscal year 2008 budget. The program mimics the federal Housing Choice Voucher and project-based Section 8 programs by providing vouchers directly to tenants, with a small portion (17 percent) reserved for project-based assistance. Families and homeless participants can receive assistance for up to five years; for seniors and disabled participants, there are no time limits. The program relies on annual state appropriations and is set to expire in May 2010.

The Balanced Housing program was created in 1985 as part of the requirements of the Fair Housing Act adopted in the aftermath of the state supreme court's Mt. Laurel decisions. It was only the second state housing trust fund in the country adopted with a dedicated revenue stream, in this case, real estate transfer taxes (Fieldnote). Balanced Housing funds serve as gap financing for the "construction and preservation of permanent, high quality, location efficient affordable housing that meets the demand for units affordable to low and moderate income families and individuals residing in New Jersey" (New Jersey Administrative Code 5:43-1.1 et seq., as amended July 2, 2007).

HMFA is New Jersey's oldest housing agency. As a quasi-government entity that is by law "in, but not of" DCA, it is significantly more independent from legislative and budgetary processes than DCA itself. HMFA serves as the state's housing finance agency and is responsible for financing affordable housing development and purchase through the use of tax-exempt bonds, as well as administration of the LIHTC allocation. It also administers the new, innovative Special Needs Housing Trust Fund established in 2005 to finance the development of housing for persons requiring supportive services to live independently. New Jersey is one of only a handful of states to have two separate housing trust funds (the second will be discussed shortly) and one of several to specifically target special needs populations (Fieldnote and Brooks 2007).<sup>29</sup> Initially capitalized in 2006 with \$200,000 in general revenues, the Special Needs Housing Trust Fund is structured as a revolving loan pool.

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<sup>29</sup>Other states with two housing trust funds are Connecticut, Nebraska, Nevada, Oregon, and Washington. Washington's second fund specifically targets homeless families.

COAH monitors municipal compliance with New Jersey's Fair Housing Act, a legislative response to judicial mandates originating from a series of court cases involving Mt. Laurel Township.<sup>30</sup> The New Jersey Supreme Court insisted that the state develop a procedure for ensuring that each municipality would provide "a realistic opportunity for a fair share of its region's present and prospective needs for housing for low and moderate income families" (New Jersey Statutes Annotated 52:27 D-301). (For excellent previous analyses, see Calavita, Grimes, and Mallach 1997; Haar 1997; and Kirp, Dwyer, and Rosenthal 1995). Like HPDD does in California, COAH certifies housing plans submitted by local governments. In this case, however, the incentive is immunity from builders' remedy lawsuits, which allow mandatory density bonuses to developers winning a legal challenge against a municipality that rejects their plans to build affordable housing. As of January 2006, 287 out of 566 municipalities had petitioned COAH for plan certification under the third round of rules issued to date (COAH 2006).<sup>31</sup>

Despite these attempts, and the 53,000 units built or rehabilitated as of September 2004 as a result of this legislation (COAH 2006), many of the state officials and members of the development community we interviewed reported a continuing suburban prejudice against affordable housing throughout New Jersey. As one developer commented, "The towns are all looking to grow with senior citizens who have no kids, and houses that are over \$500,000." As many interviewees from the public, private, and non-profit sectors alike pointed out, this "overt hostility" at worst or "bad taste for affordable housing" at best can lengthen the development process, adding to project costs and making it less attractive for developers to pursue projects that include affordable units. As one representative of the development community observed, "Local approval and support" for an affordable housing development are still hard to obtain, and there are very few people who "are willing to spend the time and energy to fight to get a site approved." New Jersey remains a classic example of the fact that local government attitudes toward affordable housing can be pernicious, even in the face of both adjudication and legislation.

Convoluting state funding processes often cater to, rather than challenge, local attitudes. The fact that some state funding streams are contingent on

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<sup>30</sup>*Southern Burlington County NAACP v. Township of Mt. Laurel*, 336 A.2d 713 (N.J. 1975), commonly referred to as *Mt. Laurel I*, and *Southern Burlington County NAACP v. Township of Mt. Laurel*, 456 A.2d 390 (N.J. 1983), known as *Mt. Laurel II*.

<sup>31</sup>An Appellate Division decision in January 2007 struck down part of COAH's round three regulations and stayed all but three of the municipal plans. Since new rules will be developed, these numbers may change.

receiving local approval of the project's desirability greatly hampers the development of affordable housing throughout the state (Fieldnote). In addition, housing projects being developed with units intended to count toward a municipality's fair share requirement are not eligible for Balanced Housing funds. According to one state housing official, the logic behind this restriction was that other incentives being offered to the developer (e.g., density bonuses) should lower project costs enough to adequately cross-subsidize affordable units with market-rate ones (Fieldnote).<sup>32</sup> This disconnect between state goals and actions in the face of local opposition remains a significant impediment to any comprehensive housing initiative in New Jersey.

The institutional infrastructure in New Jersey requires developers to go to different agencies for different needs, quite often for the same project (Fieldnote). For-profit developers seem to have an easier time because they are well capitalized and are often seeking just one or two sources of funding to make their projects viable—usually federal tax credits and Balanced Housing funds (Fieldnote). This process has recently been made easier through a joint application for both funds. Nonprofit developers often do deals requiring multiple layers of financing and find assistance from the various state agencies uneven (Fieldnote). Differing agency goals (e.g., financing units versus subsidizing households) and program regulations (e.g., targeting households within specific income and/or special needs groups; applying and maintaining various affordability controls) can conflict to the point of forcing developers to choose between resources, when all are in fact needed to make a project feasible (Fieldnote). At least one multi-interest housing coalition has called for the creation of a separate department focused exclusively on housing and community development as one way to better coordinate the state's efforts in these areas (Homes for New Jersey 2005).

Further complicating housing initiatives in New Jersey is the fact that the state has had six different governors in just 16 years (1990–2006), with frequent shifts in party control over both the governorship and the legislature. Some elected officials, including a recent string of Democratic governors, have taken a greater interest in housing than others (Fieldnote). A policy goal set by Governor James McGreevey (2002–04) created or preserved over 20,000 affordable units in four years. In 2005, with the support of the advocacy community, Governor Richard Codey (2004–06) created the Special

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<sup>32</sup>The same logic governs regional contribution agreements, through which one municipality "pays" another to transfer up to 50 percent of its fair share burden; the \$35,000 minimum per unit currently required by COAH rules is inadequate for financing either new construction or rehabilitated affordable units in the primarily urban communities receiving the extra units.

Needs Housing Trust Fund as a new source of money for the production of special needs housing (Fieldnote). Most recently, also at the suggestion of a broad coalition of statewide housing interests, Governor Jon Corzine (2006–) announced a goal of building or preserving 100,000 affordable homes and apartments over 10 years (New Jersey Department of Community Affairs 2006). Although each governor has left his mark, the impact has been uneven. Ultimately, such turnover has created an environment of unpredictability in New Jersey housing policy, contrary to the consistency desired by housing developers and advocates to promote efficient, comprehensive solutions to the affordable housing challenge (Fieldnote).

Both in the public forums observed and in the reports reviewed for this study, state agency staff gave credit to nonprofit advocacy groups and coalitions for suggesting many of the policy goals, programs, and funds the state has recently created, including the SRAP voucher program and the Special Needs Housing Trust Fund (Fieldnote; see also New Jersey Department of Community Affairs 2006). Another major advocacy effort began during the 2006 gubernatorial campaign when a variety of representatives from the private and nonprofit sectors decided to form a coalition to make housing an election issue. This coalition, headed by a former HMFA director and including a former governor, led the charge to target the production and preservation of 100,000 units in 10 years (Homes for New Jersey 2005). Calls by advocates for “decisive leadership from state government, drawing together the private sector, local communities, non-profits and advocates to forge a solution” (Anti-Poverty Network of New Jersey 2005, 5) were answered by a receptive Governor Corzine.

## **Discussion and analysis**

The preceding section described how California and New Jersey are responding to housing needs in an era of federal retreat and revealed some of the difficulties they have experienced in doing so. Clearly, the case studies demonstrate that California and New Jersey are facing challenges as they develop and implement innovative housing policies and programs, including state-mandated housing planning and regional fair share considerations, as well as unique programs such as state and local housing trust funds.

In this section, we turn our attention to our second research question—the factors associated with affordable housing policy innovation in California and New Jersey. In this analysis, we also respond to our third research question by elaborating on the challenges to state-led housing policy in these states.

### *Factors associated with housing policy innovation*

Our data reveal six factors associated with housing policy innovation. Specifically, we found evidence of four environmental (external) and two bureaucratic (internal) factors. We will consider each of them separately and also suggest ways in which they might interact to affect innovation.

*External factor 1: Perception of a crisis.* Extant research finds that the perception of a crisis, especially its severity, influences innovation. Thus, we reasoned that recognizing significant affordable housing needs is required to induce state innovation in housing policy. The conditions in California and New Jersey, as measured by objective indicators such as housing production numbers and housing costs relative to income clearly demonstrate a strong need for affordable housing. We found that in both states, key informants from the public, private, and nonprofit sectors knew and recited these statistics and routinely characterized the lack of available, affordable housing as a serious and severe problem, using the term “crisis” in nearly all cases.

These crises have made housing more visible on policy agendas and strengthened existing innovative housing policies and programs as well as created new ones. New Jersey’s state housing element and California’s mandate for local housing elements demonstrate the importance of housing in those states. The increasing requirements of housing element law in California reflect concern over the severity of the problem and willingness to craft creative legislation, such as parcel-level identification of suitable sites for residential development and the “by right” development program, to address the housing crisis. New funds recently created in New Jersey to support rental and special needs housing, as well as increasingly ambitious affordable housing construction and preservation goals, show a greater commitment to addressing growing affordability problems. In both states, therefore, our case study data support earlier research finding that innovation is stirred by the perception of a crisis.

*External factor 2: Interest group activity.* Interest groups exist across all policy arenas and can spark innovation. While these groups have different activity levels, different memberships, and varying degrees of success in promoting their agendas, the literature suggests that business leaders and labor, in particular, are associated with new policy advances. In our cases, housing advocates—individuals committed to the production and preservation of affordable housing—played a major role in influencing policy. In California, housing advocates conducted survey research to understand voters’ priorities about housing. With this information, they designed a community-based strategy to educate voters on housing issues and to campaign for a \$2.1 billion bond measure to fund affordable housing initiatives. Without their effort, the

state could not have fueled existing and new programs. In New Jersey, advocacy efforts resulted in new state resources for SRAP and the Special Needs Housing Trust Fund and a new effort to coordinate the activities of multiple state agencies to create and preserve 100,000 affordable housing units.

The success of housing advocates was most certainly related to the agreement among various groups, including business and the development community, that action was needed to address the housing crisis. Therefore, an element important to the success of the campaigns in both states was the ability to gain consensus on policy strategies among multiple stakeholders traditionally at odds with one another.

Our results generally agree with the findings from other studies that interest groups spur policy innovation. However, in housing policy, it is not necessary for business to be the primary voice. Rather, it appears that housing advocates are central to sustaining the policy agenda and promoting innovation, but their efforts are given a boost by other interests, including business. Our findings, therefore, are similar to Goetz's (1993) study on the importance of multistakeholder, statewide coalitions for housing.

*External factor 3: Local autonomy.* Our data reveal that local autonomy influences state innovation in housing policy in two significant ways. First, the resistance of local governments has led to state requirements aimed at compelling localities to plan for affordable housing. In California, modifications to the housing element law are increasingly creative, with recent provisions requiring "by right" development and identification of adequate sites for homeless shelters. In New Jersey, multiple court cases and the subsequent Fair Housing Act can be characterized as an innovative response to the challenges of local autonomy. In both states, regional fair share expectations represent innovations, although New Jersey goes a bit farther by allowing a meaningful incentive—immunity from builder's remedy lawsuits—to comply with these expectations.

Second, new state-level programs were designed to encourage, rather than force, localities to provide affordable housing. In California, for example, the LHTF program was intended to attract local government revenue to affordable housing developments. Despite the innovative program design, including a one-to-one match of funds, localities resisted program requirements, deeming them inflexible and insensitive to local conditions.

In both case studies, state efforts to encourage localities to plan and provide for affordable housing have met, for the most part, with reluctant conformity or hostile opposition from local jurisdictions. These results show that regardless of state policies, local governments have a vested interest in retaining control over land use decisions, including housing, in their juris-

dictions. Local governments may not succeed in thwarting the adoption of innovative state housing policies and programs, but they are central to implementing many of these initiatives. Thus far, therefore, we conclude that local autonomy has suppressed the influence of state housing policy and, as a result, is a significant challenge to state innovation in this domain.

The general literature on state policy innovation does not examine the influence of local autonomy. However, our findings support earlier studies on local resistance to affordable housing (Basolo and Hastings 2003; U.S. Department of Housing and Urban Development, Advisory Commission on Regulatory Barriers to Affordable Housing, 1991) and identify local autonomy or state-local relations as a key factor in future studies of state innovation in housing policy.

*External factor 4: Political context.* The literature finds that the state political climate can influence the level of policy innovation. We also found the political context to be an important external factor in our study. In California, where Democrats have had a majority in the state legislature for a long time, housing is a visible and critical issue. In addition to contributing to tightening the housing element law, state legislators went to the voters in 2002 for approval of more than \$2 billion in funding for affordable housing. In New Jersey, recent Democratic governors have seemed supportive of state innovation in housing policy, especially when challenged by advocates on the campaign trail in contested elections. Frequent turnover, however, has resulted in an unpredictable and unstable policy environment that may support the current governor's agenda while stifling other, more long-term innovations. While change in leadership in New Jersey presents a challenge to state-led innovation, it is a reflection of the political process itself, which is full of uncertainty.

The results from our study are consistent, in general, with the findings from previous research, especially the finding that a liberal political ideology appears to spark policy innovation in a state. However, in New Jersey, party control of the legislature and the executive branch has switched repeatedly, making it difficult to draw firm conclusions, since policy outcomes often lag behind changes in leadership. Also, in New Jersey alone, the data suggest an association between contested elections and state leaders' proclaimed support for affordable housing; this is similar to the finding in earlier studies.

*Internal factor 1: Resources.* New ideas may be introduced for policy discussion, but without adequate resources, these ideas will likely be dismissed as infeasible strategies to address a social problem. Therefore, we expect the availability of funding to affect state innovation in housing policy. Our data show that both California and New Jersey engage in substantial efforts to

create and target state resources to identified housing priorities. California has chosen a relatively unusual way to fund affordable housing programs. The legislature placed an initiative on the state ballot to authorize a multi-billion-dollar bond issue for affordable housing, and the voters approved it. The proceeds supported a set of new and underfunded existing housing programs. Some of these programs allowed more flexibility than others and met with varying degrees of success. While California relies on the will of a majority of the voters to create resources for affordable housing, New Jersey's past and recent funding for affordable housing seems somewhat more permanent, but remains tied to legislative and budgetary decisions in many cases. Further, in both states, obstacles to layering resources seem to impede the progress of innovations.

California and New Jersey have been creative in raising funds for affordable housing and also in putting these funds to work through innovative programs. However, whether these resources can be considered flexible—a condition that some researchers have found to spur innovation—varies and may attenuate the impact of innovative programs made possible through available funds. In other words, the knowledge that the use of resources is constrained may dampen the potential for successful outcomes from state innovation. These results are similar to the findings from earlier research.

*Internal factor 2: Institutional structure.* The second internal factor concerns the institutional structure for housing. California has a strong structure in the form of a principal agency with functional departments. Other state housing-related agencies have a much smaller and narrower scope. Having a clear lead agency with multiple functions, including the development of housing policy, fosters policy and program innovation in California. By contrast, the housing infrastructure for New Jersey's state government appears more segmented and uncoordinated, with each agency focusing on its specific duties without extensive collaboration. Recent gubernatorial initiatives to prioritize state housing needs and increase interagency collaboration are viewed as a step in the right direction. These factors lead to our assessment of the state government infrastructure in New Jersey as neither actively encouraging nor discouraging innovation in housing policy. These findings contrast with earlier research on policy innovation. We will now discuss these results in more depth.

Table 2 summarizes the results from this study for the six identified factors encouraging or impeding innovation in housing policy in California and New Jersey. We include the direction of the predicted effect on state policy innovation for each factor based on previous research for comparison with the actual results from our cases.

**Table 2.** Factors Influencing State Innovations in Housing Policy

Factors	Actual Results Current Study		Predicted Direction Existing Research
	California	New Jersey	
External			
1. Perception of a crisis	+	+	+
2. Interest groups	+	+	+
3. Local autonomy	-	-	?
4. Political context (liberal ideology)	+	o	+
Internal			
1. Resources/funding (availability)	+	+	+
Resources/funding (lack of flexibility)	-	-	-
2. Institutional structure (decentralized)	NA	o	+
Institutional structure (centralized)	+	NA	-

+ = positive influence on state housing policy innovation; - = negative influence on state housing policy; o = mixed influence on state housing policy; NA = not applicable.

Many of our findings are consistent with the literature. However, three results, in particular, warrant additional attention. First, the results suggest that the availability of funding and its flexibility are separate dimensions of resources. If these two dimensions are acting in opposite directions, policy innovation may be limited or the innovations may be less effective.

Second, local autonomy is clearly an obstacle to effective innovation, since many state initiatives depend on local adherence to planning mandates and strict programmatic rules. Local autonomy most likely interacts with funding availability and flexibility in cases where innovation requires state-local action to achieve a degree of success. In other words, the availability and flexibility of funding influence innovation, but in cases of state-created, but locally implemented programs, this relationship appears to be moderated by local autonomy.

Third, our findings on institutional structures are somewhat surprising, given the literature. Contrary to the expected result, the centralized structure of California's primary housing agency appears to support policy innovation. It may be that this agency's hierarchical structure facilitates innovation by allowing for internal staff specialization within distinct functional departments, while at the same time providing a centralized structure that facilitates coordinated implementation. In New Jersey, a decentralized structure appears to produce mixed effects on policy innovation because it lacks such coordination. Therefore, this study suggests that coordinated housing policy

may be necessary to achieve higher levels of innovation. However, it is not clear how coordinated state housing policy might be achieved without some centralized oversight.<sup>33</sup>

In the final section, we will discuss the policy and research implications of our research. Our discussion of policy implications responds to our fourth research question by highlighting the important lessons we can draw from our case studies for states seeking to innovate in the housing policy area.

### **Conclusion: Policy and research implications**

Housing policy in the United States appears to be in a protracted, transformative period that combines a lack of strong federal leadership with continued reliance on increasingly uncertain federal funding. Some states have responded to federal withdrawal by striking out on their own to define and meet the housing needs of their citizens. California and New Jersey are two housing policy leaders that have demonstrated policy innovation and confronted challenges. These states provide an initial understanding of the possibilities for affordable housing under state-centered federalism. Housing researchers and states facing affordable housing issues can learn from California and New Jersey, not only in designing policies and programs, but also in understanding the conditions that can foster or inhibit innovation.

Our results have both policy and research implications. On the policy side, local autonomy is clearly a recalcitrant obstacle to state innovation in housing. State officials demonstrated an ability and a willingness to innovate in housing planning, financing, and programs; however, efforts that required participation or compliance by localities were often met with resistance under the rubric of local autonomy. Local resistance threatens state housing policy, especially policy aimed at increasing the supply of affordable housing, because land use decisions are generally made at the local level. Thus, for states seeking to respond to affordable housing needs in the postfederal era, the overarching lesson from our study is that state-local relations are central to promoting many innovations in housing policy.

States could take a number of different approaches in working with local governments. They could mandate the planning for, and production of, a specific fair share of housing for every locality. However, this approach could be politically unwieldy. As shown in both case studies, fair share schemes

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<sup>33</sup>The study results may also have another interpretation. It could be that agency leadership and staff influence innovation, regardless of institutional structure. We do not have enough data from our research to investigate this proposition, however.

are unpopular with local governments. On the basis of California's efforts to inform localities about housing needs and the value of fair share planning, broad and intensive educational campaigns may induce some improvement to local participation in planning, but are likely not enough to promote the widespread production of affordable units.

A second approach, therefore, could be to offer financial incentives to localities that produce affordable housing. For example, linking state discretionary funds for large capital projects to meeting fair share housing goals is one strategy. A state could also offer special pools of funding for affordable housing projects in communities. This approach can be informed by our findings on the availability and flexibility of funding. While available funding spurs innovation, flexibility appears to be important as well, especially for state policy innovations requiring local participation during the implementation stage. State policy makers could balance their goals with local autonomy, possibly by providing financial incentives through programs developed jointly or negotiated with local governments. Such an approach requires building strong relationships between state and local governments, including reframing housing policy as a collaborative, state-local enterprise.

Another important implication from our research concerns the structure of the state agencies designing and implementing housing policy. Our case studies indicate that a more centralized housing agency, such as is found in California, promoted innovation, while New Jersey's decentralized approach had a mixed effect. While the New Jersey results may be due less to fragmentation and more to a lack of coordination among various agencies, states pursuing innovations in housing policy can learn from our study. Innovation appears more likely in an institutional structure with a well-defined system of coordination.

Our study has several research implications as well. In general, additional research is needed to fully understand the role of the state in housing policy innovation. We found a limited amount of empirical research, and virtually no theory, on state housing policy, especially with a focus on innovation and on state-local relations under continuing devolution. Clearly, additional research is warranted. More specifically, our study confirmed the importance of multistakeholder interest groups or coalitions in state innovation in housing policy. Therefore, research on the characteristics, campaigns, and outcomes of multi-interest housing coalitions would add to the literature and be valuable in organizing effective coalitions at the state level.

In addition, our study suggests that the relationship between innovation and the state institutional structure around housing policy warrants more attention from researchers. Finally, future research should build on our find-

ings to investigate the iterative process of innovation, implementation, learning, and adaptation in state housing policy. Such in-depth research would add to the literature and promise additional applications to housing policy in practice.

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