STATES, HOUSING AND INNOVATION:

THE ROLE OF STATE HOUSING FINANCE AGENCIES

by

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ABSTRACT OF THE DISSERTATION

States, Housing and Innovation: The Role of State Housing Finance Agencies

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The gradual withdrawal of federal leadership in affordable housing has required states to step into an ever-widening gap in housing policy and finance. This has increased the influence of state housing finance agencies (HFAs), the only state-level housing agency that all fifty states have in common. This research expands current understanding of these agencies by asking: 1) how have HFA roles in creating, adopting, and implementing state housing policy evolved over time, and 2) what factors promote or constrain their ability to innovate, and how? Assisted by theories of organizational innovation and state policy innovation, innovation within HFAs is linked to a series of internal, organizational factors and external, environmental determinants, as well as forces of diffusion. This research employed a mixed methodology, using both quantitative analysis of longitudinal time-series data and qualitative case studies.

Results show that HFAs are filling substantially expanded roles in addition to their three historical functions as lender, administrator, and (re)developer of affordable housing. These include housing researcher and planner, coordinator of other state entities, educator, nonprofit capacity builder, and policymaker. An event history analysis of state adoption and HFA administration of a housing trust fund since 1985 revealed that environmental determinants are more important than influences from within the organization or from neighboring states in motivating innovation. In general, states with higher rates of new, single-family development, larger black populations, and a more liberal citizenry have a higher risk of adopting a HTF policy innovation. Finally, case studies of the Illinois Housing Development Authority and the New Jersey Housing and Mortgage Finance Agency indicated a variety of factors important in promoting or constraining HFA innovation in general, including public perception of a housing crisis, state housing policy context, political leadership, interest groups, resources, organizational structure, staff attitudes and retention, and national networks. These findings have important implications for state executives and legislators, HFAs, other state agencies, interest groups, and local governments, in order to create an environment more conducive to future state affordable housing policy innovation.

PREFACE

This research is an illustration of how practice influences learning. Working as an affordable housing developer for a nonprofit in a Midwestern city, I was introduced to a staff person from the state's housing finance agency. She mentioned a pilot program for financing homeownership that her agency was implementing in the U.S. Congressional district within which I worked; they had surplus funds that needed to be spent quickly. My response was threefold. First, I successfully convinced the agency to include our existing qualified homebuyers in their program. Second, I was left with several nagging questions floating around in my head. How did a state agency have *extra* money for affordable housing, during a time when such funds seemed to be drying up? Why did they choose to spend the money in this particular fashion, as opposed to other ways? Why did the process of getting our homebuyers enrolled seem much easier than my dealings with the local city government? Finally, I was struck by the significance of this additional financial assistance to real families purchasing their very first, newly constructed home in an urban neighborhood desperately trying to overcome decades of disinvestment and decline.

Now I know that slack, or extra, resources are hypothesized to encourage policy innovations at the state level. But there were of course other factors shaping the form the innovation took, such as political pressure from the U.S. Representative's office, and advocacy pressures from nonprofit developers such as myself. Perhaps agency staff thought this program would respond to a particular need they identified through internal research. Or maybe the federal or local government's emphasis on homeownership swayed the state housing finance agency to enact this program. Most likely it was a combination of these factors and more.

This research sought to uncover some of this mystery and bring more transparency to these state agencies that few scholars have studied since the 1970s. I believe it has served this purpose, and hope it will inspire others to take a closer look at them as key players in the future of U.S. housing policy.

ACKNOWLEDGEMENT

I am grateful to my extraordinary committee for their constant guidance and support: David Listokin (Chair, Rutgers), Victoria Basolo (UC Irvine), Jocelyn Crowley (Rutgers), and Norman Glickman (Rutgers). The late Don Krueckeberg (Rutgers) is also remembered for his initial encouragement and support of this project. He is missed by us all. David had unwavering belief in my ability to produce quality work under pressure, and offered direction and guidance at crucial moments. Victoria contributed her invaluable experience with qualitative housing research on California initiatives. Jocelyn provided her expertise on constructing and analyzing data utilizing event history analysis, and read and provided feedback on numerous chapter drafts. Norm, with whom I have worked on various projects over the last few years, kindly agreed to fill Don's place on my committee on short notice, and provided his usual combination of cheer, critique, and support.

Chuck Connerly at Florida State University's Department of Urban and Regional Planning also played a crucial role in shaping my interests and career: from first introducing me to HFAs, to pulling me aside after class one day and asking if I had ever considered a Ph.D., to having his class do research on HFAs for their term papers so that he could pass on the results to me. He has my sincere gratitude.

Data for this research were graciously provided by the National Council of State Housing Agencies, with special thanks to Garth Rieman and Maggie Doucette for their many hours of assistance in assembling the needed information. Kristin Larsen, University of Florida, provided data assistance on state housing trust funds based on her own survey research. Tireless data entry and verification was provided by Jonathan

Scally. My utmost thanks also goes to the numerous planning and policy professionals who contributed immensely through their candid insights throughout the interviews. Without their full participation, this research would not have been fruitful.

I also thank the U.S. Department of Housing and Urban Development who funded the qualitative case studies through an Early Doctoral Student Research Grant No. H-21493SG. This resulted in the publication of a final report in November 2006 titled " The Entrepreneurial Role of State Housing Finances Agencies in Affordable Housing Policy, Finance, and Administration." Points of view or opinions expressed here are my own and do not necessarily represent the official position or policies of the U.S. Department of Housing and Urban Development.

Finally, to my tremendous family who has supported me over the years, and has exhibited extraordinary grace during the Ph.D. process. To my Mom, Vickye, Dad, Don, father-in-law, Doug, and brother, Brett, who all gave selflessly of their time to help care for my daughter during the research and writing process. And most of all, to my husband of the last ten years, J.R., without whom I could accomplish little. His encouragement and faith have ushered me through the brightest and darkest times. And finally, to my daughter, Evelyn, who arrived halfway through this process and has provided an endless source of joy and inspiration.

DEDICATION

For

Don and Vickye Payton

Jonathan R. Scally

Evelyn R. Scally

My love and appreciation, always

In memory of

Donald A. Krueckeberg

"From everyone who has been given much,

much will be demanded;

and from the one who has been entrusted with much,

much more will be asked." (Luke 12:48)

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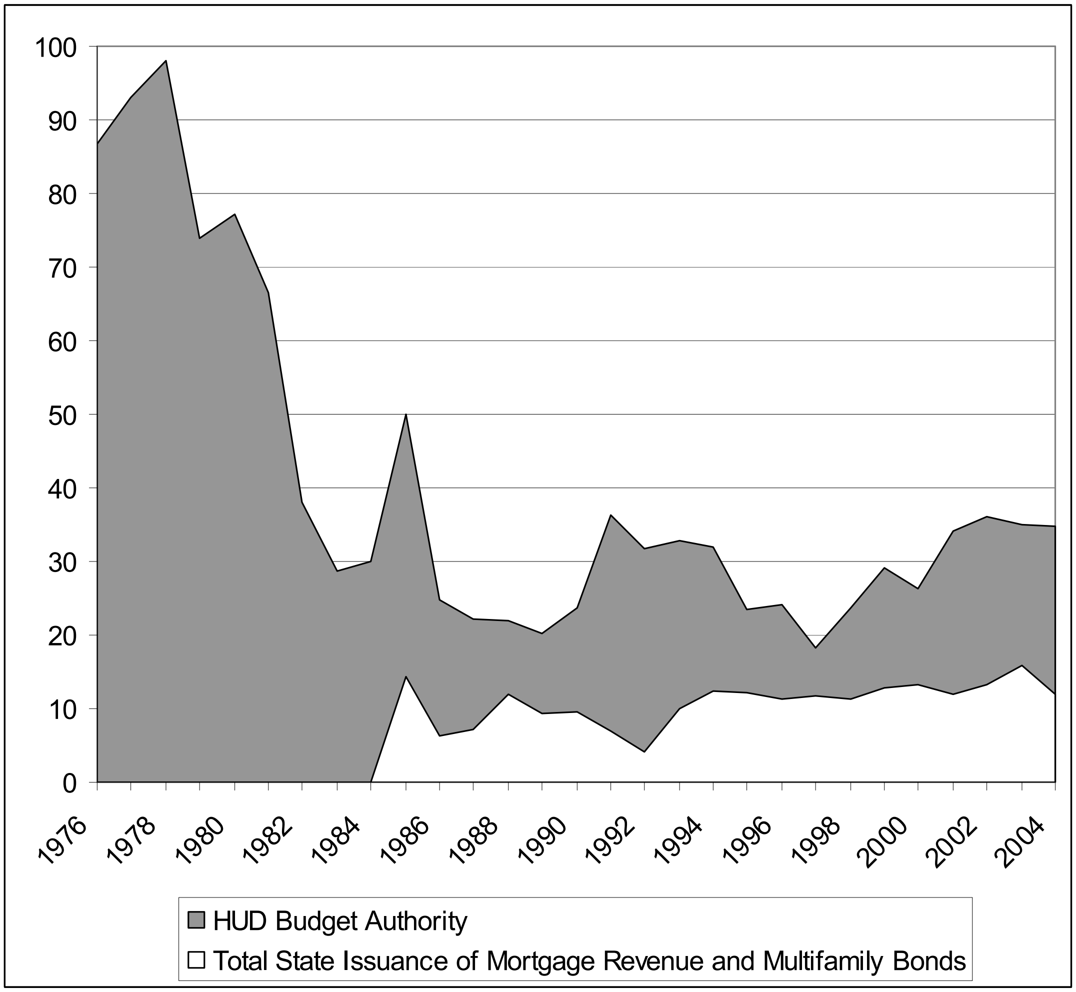
INTRODUCTION

A. Problem Statement

The gradual withdrawal of federal leadership in affordable housing has required states to step into an ever-widening gap in housing policy and finance. Since the mid-1970s, the annual budget authority of the U.S. Department of Housing and Urban Development (HUD) has decreased by 150% in constant 2004 dollars. This represents a drop from a high of over \$86 billion down to \$33 billion in 2004, dipping to a low of \$18 billion in 1997 (Figure 1). At the same time, total spending on housing by the fifty states has trended upward, as represented in Figure 1 below by state housing bond issuances. While states cannot possibly make up for federal budget cuts over the last several decades (Basolo, 1999), they can certainly target existing funds for increased impact and create new sources of funds directed towards their highest housing priorities. Much of this responsibility falls upon state housing finance agencies (HFAs) as the state's primary affordable housing lender and administrator.

HFAs have operated at the intersection of market-driven and mission-oriented affordable housing strategies for the past four decades. Structured primarily as quasi-governmental entities "in, but not" of state government, HFAs are the only state-level housing agency that all fifty states have in common. Despite early findings which showed HFAs beginning to fill a critical gap in affordable housing finance, administration, and development, in addition to the tremendous changes within the affordable housing arena over the last thirty years, HFAs have not been critically examined since the 1970s. This dissertation seeks to correct this oversight by analyzing how HFAs respond to state

Figure 1: HUD Budget Authority Vs. State Issuance of Housing Bonds, 1976-2004



Sources: (Dolbeare, Saraf, & Crowley, 2004; National Council of State Housing Agencies, Various years)
Notes: Numbers are according to fiscal year, which vary between federal and state governments. Federal 2004 numbers are estimates. Bond amounts by state are only readily available beginning in 1985 for mortgage revenue bonds, and 1988 for multifamily bonds. No mortgage revenue bonds were issued in 1992.

housing needs, and what influences their response. Specifically, it answers the following two research questions:

1. *How have HFA roles in creating, adopting, and implementing state housing policy evolved over time?*
2. *What factors promote or constrain their ability to innovate, and how?*

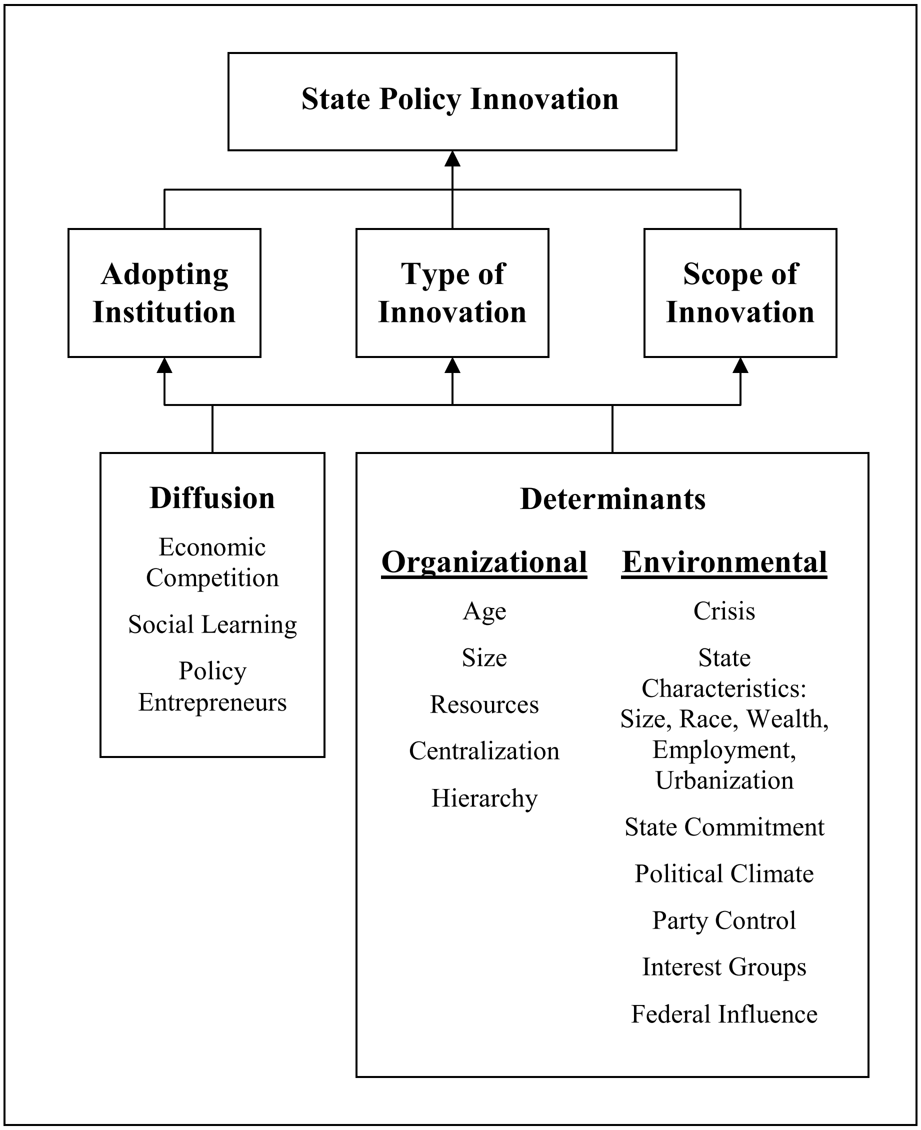
B. Theoretical Framework

These questions are answered utilizing a theoretical framework which blends elements from the related theories of organizational innovation and state policy innovation. According to these theories, a series of organizational and environmental determinants contribute to the likelihood of policy innovations within state HFAs. Additional factors aid in the diffusion of innovation between these organizations and their states. The direction and strength of these influences may vary based on the type of institution adopting the innovation (e.g. legislature versus state agency), the type of innovation adopted (e.g. related to internal, administrative processes versus technical service provision), and the scope of the innovation (e.g. incremental versus radical change in operations). These relationships are represented in Figure 1.2 below.

C. Methodology

This research utilized a mixed methodology employing quantitative analysis of time-series data and qualitative case studies in order to study innovation between states and within them. Longitudinal pooled cross-sectional data were assessed to identify the significant factors influencing HFA innovation, and the direction and magnitude of their impact. A multiple case study of two agencies – the Illinois Housing Development Authority (IHDA) and the New Jersey Housing and Mortgage Finance Agency (NJHMFA) provides more nuanced evidence as to the factors affecting innovation, to (1) generate alternative explanations for unanticipated quantitative results, (2) examine theorized relationships for which data were not available, and (3) expand and build a

Figure 2: A Unified Theory of State Policy Innovation



more grounded theory specifically based on state housing finance agencies and housing policy innovation.

D. Findings: Evolution of HFA Roles

Three decades ago HFAs were identified as serving several primary functions. Their most basic role was as a lender, primarily through bond financing. They were also establishing themselves as administrators of federal programs, represented primarily by the Section 236 program in the late 1960s and early 1970s. Finally, in a few limited circumstances, HFAs were serving as direct developers and/or managers of affordable housing themselves.

This research found HFAs filling substantially expanded roles, in additional to their three historical functions. As a researcher and planner, HFAs are responsible for assessing and planning for state housing needs and matching public, private and nonprofit resources to meet these needs. To do this, they act more frequently as a coordinator of other state entities serving low-income populations with housing needs. HFAs also work to educate the general public about affordable housing opportunities throughout the state, and to build the capacity of nonprofit organizations to develop more housing. Finally, while HFAs do not commonly engage in overt, radical policymaking, they may be forced to do so reluctantly (reluctant radicalist), or choose to do so in a more hidden manner (covert radicalist). HFAs also employ their decades of experience in implementing more incremental policy changes and adoptions.

E. Findings: Influences on HFA Innovation

To test the various relationships hypothesized between HFA policy innovation and a group of environmental, organizational, and diffusion covariates, an event history analysis was conducted to predict four models of housing trust fund (HTF) policy innovation that differ by scope of innovation and the adopting institution:

- **Model A:** Whether or not the state legislature has adopted any HTF.

- **Model B:** Whether or not the state legislature has adopted a HTF funded through a dedicated revenue source.
- **Model C:** Whether or not the HFA administers any HTF.
- **Model D:** Whether or not the HFA administers a HTF funded through a dedicated revenue source.

An event history analysis was performed on a longitudinal dataset covering forty-nine states over a twenty year time period, yielding 980 state-year observations. Cox proportional hazards regression analysis was utilized to estimate the hazard rate, or the probability, of a dependent variable equal to 1, indicating event occurrence.

According to the results of this analysis, whether or not an HFA administers a trust fund does not seem to reflect influences from within the organization or through diffusion from neighboring states, as much as it is a function of environmental determinants. In general, states with higher rates of new, single-family development, larger black populations, and a more liberal citizenry have a higher risk of adopting a HTF policy innovation.

The cross-case analysis of the Illinois Housing Development Authority (IHDA) and the New Jersey Housing and Mortgage Finance Agency (NJHMFA) provided unique insight into HFA innovation that complements and builds upon the statistical results. In sum, these environmental, organizational, individual, and diffusion factors have manifested themselves differently in the cases of IHDA and NJHMFA, producing mixed results in HFA innovation.

Growing public perception of a worsening housing crisis has helped in pressuring both states to adopting new policies, and create and modify programs to better target state housing needs. In terms of state housing policy context, Illinois has created a positive environment within which IHDA has expanded its housing concerns and capacities over the last several years, although before 2003 the state climate was portrayed as quite negative for housing innovation. In New Jersey, the overall state housing policy context has changed little since the mid-1980s, providing little incentive for NJHMFA to engage and evolve beyond its daily programmatic activities, although it has in fact done so. Recent initiatives hint that change may be on the horizon, but it is still too early to tell. In both Illinois and New Jersey, popular pressure has recently resulted in new state political leadership within the Governor's Office and State Legislature that is publicly committed to housing as a critical concern for both family well-being and state economic prosperity. However, the Legislature has been more positively engaged in Illinois than New Jersey. Interest groups present similar challenges to both agencies, as they often pull in opposite directions. It does seem in both states as if groups appealing to HFA mission have gained ground recently against the agency's inherent risk-adverse nature, and that multi-interest housing coalitions are increasingly effective in promoting innovations.

Burdensome resource restrictions and limited availability of funds have slowed innovation at both IHDA and NJHMFA, yet both have gained significant new sources of funds in the recent past. To the extent these new resources are flexible and target real state housing needs, they represent positive steps in housing policy and program innovation. The complexity of the organizational structure of both HFAs has allowed staff to specialize in ways that promote innovation. However, centralization of decision-making slows initiation and adoption of policy innovations while supporting implementation. HFA hierarchy is somewhat nebulous, giving interest groups some leverage in promoting their ideas to different decision-making agents.

In terms of individual-level factors, frequent turnover of top leadership positions at NJHMFA served as an obstacle to gaining agency momentum for positive change, whereas changes in IHDA staff seem to be positive although it is too soon to predict. Staff at IHDA were given high marks for being accessible and responsive to stakeholder concerns, while NJHMFA staff were judged as lukewarm.

Finally, both agencies are linked into national networks, and connected to professional associations and individuals who disseminate policy innovations for their consideration. They also gain policy ideas from pioneering states and nationally-networked advocates.

F. Summary and Policy Implications

This research has made significant strides in updating the current understanding of the role of state housing finance agencies in housing policy, finance, and administration at the state level. With the decline of federal leadership and funding in the housing arena over the past two decades, and the emergence of new state leadership, HFAs are positioned to be a key player in the future of state housing efforts. HFA decision-making and, ultimately, achievements, are shaped by a variety of factors both external to and internal to the agency. Taken together, the event history analysis and multiple case study provide evidence that these factors combine in unique ways to enhance or limit housing policy innovation by states in general, and HFAs specifically.

Improvements and changes in the environmental context in which HFAs operate can both encouraged innovations and slow them. Improved, accessible data has made assessment of state housing needs easier, while more sophisticated communication strategies are being utilized to disseminate analyses and market solutions. Comprehensive housing plans can be part of this solution by setting goals and priorities to govern all state housing agencies and resources. However, they can also limit innovation in areas outside the scope of the plan, and where scarce resources and political expediency trump priority needs. The emergence of statewide multi-interest housing coalitions has brought together representatives from the private and nonprofit sectors to push a unified, broad agenda which deemphasizes low-income housing in favor of workforce housing.

In terms of the agencies themselves, several key changes could help further policy innovations. Greater transparency of HFA decision-making and priorities can help dispel negative perceptions held by their partners, while increased public and political accountability is necessary to make them work harder in fulfilling their public purpose. This includes a reevaluation of state hierarchies concerning housing to ensure their efficiency and foster greater interagency collaboration where clients and housing concerns overlap. In addition, increasing HFA effectiveness in policy innovation requires greater political will, more permanent and targeted financial resources, and hiring and retaining knowledgeable staff. Diffusion of innovations occurs through national networks of HFAs and housing advocates, usually when a solution to a particular problem is actively sought.

A final issue examined through this research is the perpetual conflict between state and local housing policies. State inability to effectively confront local exclusionary practices leaves HFAs powerless to work in municipalities where affordable housing is not wanted. There is a fundamental disconnect between those managing where, what type, and how affordable housing can be built, and the primary state financing mechanisms available through HFAs to build affordable housing. It seems that unless significant steps are taken to challenge local autonomy in the face of state housing needs which conflict with local policies, little progress will be made in expanding housing opportunities in municipalities either hostile or apathetic toward affordable housing.

CHAPTER 1:

Housing Crisis, Intervention, and Innovation - The Emergent Role of State Housing Finance Agencies

A. Problem Statement

State housing finance agencies (HFAs) have operated at the intersection of market-driven and mission-oriented affordable housing strategies for the past four decades. Structured primarily as quasi-governmental entities "in, but not" of state government, HFAs are the only state-level housing agency that all fifty states have in common.[1] As state government involvement in housing has rapidly increased during this time period, these HFAs have gained in influence over state affordable housing policy and finance. Today, there are fifty-six HFAs managing a diverse portfolio of programs targeted toward the specific populations and housing needs of their states (National Council of State Housing Agencies, 2005).[2] Through 2004, these HFAs have issued a cumulative total of $192 billion in mortgage revenue bonds to service 2.4 million home loans, and over $55 billion in multifamily bonds to fund 687,000 apartment units. They have also supported the development of over 1.7 million rental units as administrators of the federal Low Income Housing Tax Credit (LIHTC) program since its inception in 1987 (National Council of State Housing Agencies, 2005).

When HFAs debuted on the housing stage in the late-1960s, just as the federal government was stepping out of the spotlight, there was great interest in understanding

[1] The last state to adopt an HFA was Kansas in 2003. Fewer than one-fifth of all HFAs are actually "of" state government, in that they are coterminous with a state department (National Council of State Housing Agencies, 2005).

[2] Each of the 50 States has one HFA, as does the District of Columbia, Puerto Rico, and the Virgin Islands; New York has four distinct agencies.

their functions and limitations, and whether or not they could perform more flexibly and efficiently than the federal government. Researchers quickly identified a concise list of roles that the HFA industry was fulfilling: (1) direct and secondary lender, (2) administrator of subsidy programs, and (3) (re)developer (Alexander, 1972; Kozuch, 1972).

The most fundamental role of an HFA was as a mortgage *lender* for low- and moderate-income housing production and ownership. HFAs were given authority to sell tax-exempt bonds to private investors, allowing them to loan out the bond proceeds at lower interest rates than private market financing, thereby increasing affordability to the borrower.[3] They also financed projects at higher loan to cost ratios and with longer mortgage terms than conventional lenders (Morris, 1974). Some functioned as a secondary market for low-income mortgages by purchasing them from private lenders who had originated them, with some states creating separate HFAs just to fulfill this function (Council of State Housing Agencies, 1980).[4] In general, HFAs tended to finance the new construction of multifamily housing affordable to a more moderate-income population, with a few exceptions (Betnun, 1976; Morris, 1974).

HFAs quickly cut their teeth as an *administrator* of federal housing finance programs, beginning with the Section 236 interest rate buy-down program and the

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[3] These bonds could be mortgage revenue bonds (MRBs) or general obligation bonds. MRBs are secured by the loan repayment income from specific housing projects; some states limited HFA bonding authority for MRBs, while others did not (Morris, 1974). General obligation bonds are backed by general state revenues, and are utilized to finance a variety of state-level projects including housing. There was initial concern over whether or not MRBs were backed by the "full faith and credit" of the state, or by a weaker "moral obligation" clause, or not at all, in case of default on repaying outstanding bond notes (Alexander 1972; Morris 1974). By the mid-1970s, many HFAs were already self-sustaining and required no allocations from state revenues to sustain their operations, making this concern a moot point in most cases. New York's Urban Development Corporation, which defaulted in February 1975, is a notable exception. See Betnun (1976) for a discussion of the trouble faced by this particular HFA.

[4] Examples include New Jersey and New York in 1970, and Massachusetts in 1974.

Section 101 rent supplement program (a precursor of today's voucher program). According to Kozuch (1972), the proportion of Section 236 funds allocated through the states increased from 3 percent in 1969, to 5.6 percent in 1970, with a jump to 21.2 percent in 1971.

The final role defined for HFAs was that of *(re)developer*. Some agencies were given the authority to acquire land, and develop and manage properties. This was intended to overcome obstacles posed by land assembly, especially in urban areas, by allowing agencies to buy land when available and hold it until all needed parcels were assembled (Alexander, 1972; Morris, 1974). While almost half of the 23 HFAs in existence by 1973 had land acquisition authority, only a handful had actually utilized it, and only one had actually built or rehabilitated housing directly.[5]

Compared to the U.S. Department of Housing and Urban Development (HUD) in the 1970s, HFAs seemed to be performing well. Specifically, Betnun (1976) assessed the multifamily production record of the six oldest HFAs utilizing the federal Section 236 program, and compared it to HUD's administration of the same program.[6] Key findings in favor of HFAs over HUD included their abilities to maintain a greater level of project financial solvency, reach a greater percentage of low-income households using a variety

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[5] By 1973, 10 out of 23 operating HFAs had land acquisition powers; two of these (Wisconsin and Virginia) only had limited powers, while the Urban Development Corporation in New York actually had more expansive eminent domain authority, along with the ability to override local zoning decisions (Alexander, 1973; Kozuch, 1972). As of August 1973, only Hawaii, Idaho, Illinois, and New York City had acquired land, and only the Hawaii Housing Authority had engaged in construction or rehabilitation activities directly (Morris, 1974).

[6] The agencies studied were the New York State Housing Finance Agency, Michigan State Housing Development Authority, Massachusetts Housing Finance Agency, Illinois Housing Development Authority, New Jersey Housing Finance Agency, and the New York State Urban Development Corporation.

of federal and state subsidies[7], employ a "nonbureaucratic, handcrafted approach" to project management (Betnun, 1976, p.233), and formulate policies more "appropriate to varying local conditions" (Betnun, 1976, p.6). At the same time, HFAs faced greater difficulties in controlling financial risk to investors, were less able to provide deep subsidies, and were more influenced by other state agencies and special interest groups, potentially weakening their effectiveness in serving their public purpose. In short, HFAs provided broad but shallow housing finance for moderate-income households, applying contextually-sensitive programmatic solutions while oftentimes acquiescing to the demands of financial, political and special interests.

In sum, this body of research found both great potential and pitfalls in the future of HFAs as efficient, entrepreneurial providers of affordable housing. As one scholar concluded, HFAs had "the tremendous potential for state innovation of housing finance mechanisms to meet specifically addressed community needs at a reduced cost" through "flexible funding" mechanisms (Morris, 1974, p.125). Indeed, they were capable of becoming "the central point in state government for carrying out housing goals" (Kozuch, 1972, p.22), and were expected to "take over a larger share of the production and management of subsidized housing" in general (Pearlman, 1974, p.649). However, this was all dependent upon their own financial solvency, a robust investment market, and new and continued deep subsidies from the federal (and, increasingly, state) government.

Despite these significant findings, and tremendous changes within the affordable housing arena over the last thirty years, HFAs have not been revisited. They have garnered only brief mention, if any, in compendiums of state housing programs (Luallen,

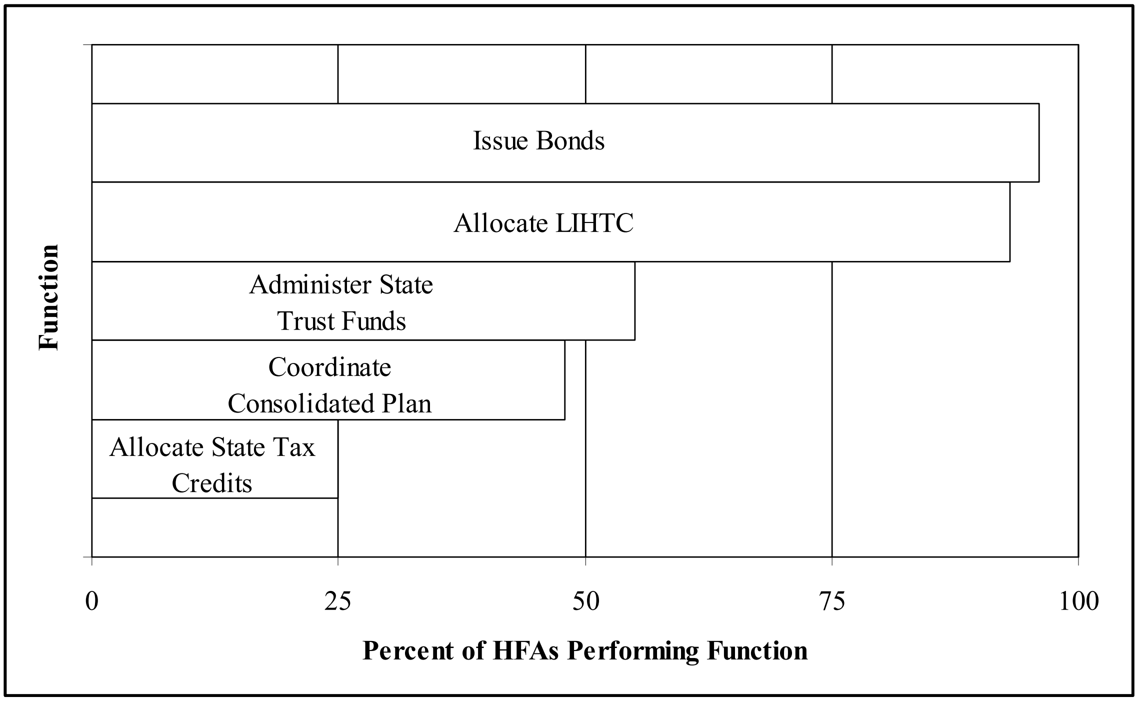
[7] Although when omitting the financially insolvent Urban Development Corporation from consideration, this was no longer the case.

1993; Sewell, 1993; Stegman, 1999; Stegman & Holden, 1987; Thompson & Sidor, 1990), in research on specific types of affordable housing programs and strategies, such as preservation (Burchell, 1991; Gustafson & Walker, 2002; National Housing Trust, 2004), or monographs on U.S. housing policy as a whole (Schwartz, 2006). An assessment made by Goetz (1993) summarizes current dismissive assumptions made by many housing researchers about the role of HFAs today. Goetz describes their role as "quite limited historically," reliant on federal program administration and bond financing (p.27). As a result, they have a "conservative, bankerlike outlook on housing development," which accounts for the fact that they "have not been innovators in housing assistance" (p.28). Instead, they remain overshadowed by other state agencies which operate innovative, state-funded programs, while they are relegated to the role of financing homeownership through mortgage revenue bonds.[8]

No comprehensive or comparative research has been done to either prove or refute these assumptions during the last several decades. The only data produced regularly on HFA responsibilities and accomplishments has been through the national membership association of HFAs created in the mid-1970s to represent their interests on Capitol Hill – the Council of State Housing Agencies, now the National Council of State Housing Agencies (NCSHA). These data, gathered from NCSHA member HFAs each year since 1979, provide some evidence that current scholarly assumptions may be too narrow (National Council of State Housing Agencies, 2005). Specifically, HFAs have expanded from affordable housing lenders to administrators of complex federal and state housing programs (See Figure 1.1) (Luallen, 1993; Sewell, 1993). With these new

[8] While Goetz was writing during implementation of the federal LIHTC program, which began in 1987, he does not mention the significant HFA role in administration of this program.

Figure 1.1: Percentage of HFAs Performing Various Functions, 2004



Source: National Council of State Housing Agencies, 2005.

responsibilities have come intense requirements for research and planning. As allocating agencies of the LIHTC program in all but two states, HFAs have been preparing and submitting annual Qualified Allocation Plans (QAPs) to HUD for almost twenty years. Almost half of the agencies also lead the development and implementation of Consolidated Plans for distributing federal HOME Investment Partnership (HOME) program funds and other smaller housing programs. HFAs also serve as primary conduits for state housing trust fund and tax credit allocations, where available (National Council of State Housing Agencies, 2005). A summary search through HFA websites, housing finance magazines, and media coverage reveals that HFAs have been engaged in wide-ranging activities targeting diverse goals: from developing comprehensive housing plans, to drafting new administrative program rules, to assisting nonprofits in building their housing development capacity, to leading statewide education campaigns on the local benefits of affordable housing (see, for example, Housing Finance Agency Forum, 2006).

As key players in existing and emergent state housing strategies to fill the federal housing gap, it is critical to understand more about the role of HFAs within state housing policy. While states cannot possibly make up for federal budget cuts over the last two decades (Basolo, 1999), they can certainly target existing funds for increased impact and create new sources of funds directed towards their highest housing priorities. Much of this responsibility falls upon HFAs as the state's primary affordable housing lender and administrator.

This dissertation examines how HFAs respond to state housing needs, and what influences their response, by answering the following questions:

1. *How have HFA roles in creating, adopting, and implementing state housing policy evolved over time?* For example, are they merely conservative lenders and administrators, or have they diversified their roles? Are they passive implementers or active initiators?
2. *What factors promote or constrain their ability to innovate, and how?* For instance, how important is government institutional structure in determining HFA innovation? Are HFAs developer-driven, or do other interests play an equal, or more important, role in innovation?

B. Setting the Context: The National Affordable Housing Crisis

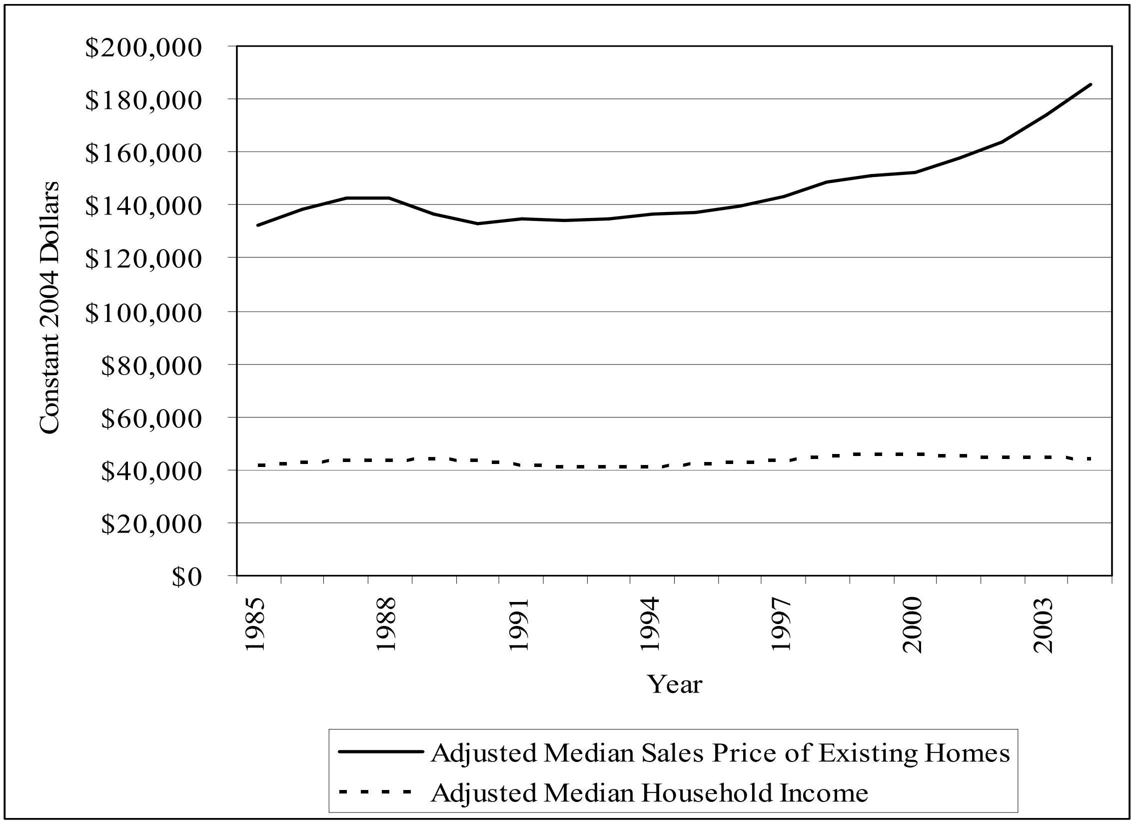
There is substantial evidence that the United States is in the midst of a growing affordable housing crisis, where the supply of affordable units is failing to keep up with demand. Specifically, the U.S. is experiencing a gap of 5.4 million homes and apartments affordable to households earning $16,000 or less annually (Joint Center for Housing Studies, 2006). By 2004, 15.8 million households were paying more than half of their annual income for housing, and therefore experiencing a severe housing cost burden (Joint Center for Housing Studies, 2006).

Part of this problem is due to housing costs outstripping wages nationally. Between 1985 and 2004, the median sales price of existing homes increased by 40 percent in constant 2004 dollars, while median household income grew by only 7 percent (see Figure 1.2 below). The turn of the 21st century saw an especially dramatic gap in growth, with housing prices escalating at a rate more than 6 times faster than household income between 2000 and 2005 (Joint Center for Housing Studies, 2006). According to the National Low Income Housing Coalition (2006), minimum wage earners can no longer afford a one-bedroom apartment anywhere in the U.S. without paying more than 30 percent of their income towards rent.[9] In cities, 88 percent of renter households cannot afford a two-bedroom unit with two minimum wage earners. In spite of these statistics, only 25 percent of income-eligible households receive some kind of federal rental housing assistance (Joint Center for Housing Studies, 2006).

Even as wages lag and housing cost burdens remain high among low and moderate income households, the supply of affordable units is threatened by a number of factors. Older, privately-owned housing stock is being abandoned within depressed housing markets, and being demolished or converted to higher end housing within revitalizing markets. Between 1993 and 2003, these combined losses equaled 1.2

[9] This assessment is based on Fair Market Rents calculated by the U.S. Department of Housing and Urban Development.

Figure 1.2: Median Sales Price of Existing Homes and Median Household Income, in Constant 2004 Dollars, 1985-2004



Sources: National Association of Realtors; U.S. Census Bureau, Current Population Survey.
Note: Author's calculations using the CPI-U to adjust nominal dollar amounts.

million rental units that had been affordable to households earning $16,000 or less annually (Joint Center for Housing Studies, 2006, p.24). At the same time, two-thirds of new private rental construction targets higher income groups (Joint Center for Housing Studies, 2006). The number of publicly-owned and subsidized units is also in jeopardy as temporary use restrictions reach their expiration dates and the public housing inventory dwindles through obsolescence and redevelopment (Katz & Turner, 2003; Schwartz, 2006; Smith, 2006).

Taken together, these conditions leave many low-income, and an increasing number of moderate-income, households without the "decent home" and "suitable living environment" to which "every American family" should have access, according to the 1949 Housing Act. Instead, this National Housing Goal appears to be more elusive than ever, while the consequences of failing to meet it multiply.

C. Four Eras of Federal Housing "Solutions"

The nature of federal response to the national housing crisis has changed over time, reflecting the evolution of the crisis from one of structural safety and adequacy at the turn of the 20th century, to modern-day concerns of affordability (Katz & Turner, 2003). Various interventions have been employed to promote housing development through the public, private, and nonprofit sectors, and encourage demand through restructuring financial markets and providing income supports. These can generally be organized into four distinct, chronological eras of U.S. housing policy as summarized by Table 1.1 below.

1. The Pre-Federal Era: 1900-1920s

Prior to World War I, housing concerns were linked primarily with urban public health and aesthetical considerations (Krueckeberg, 1983). Homes were perceived as dwellings that provided shelter and shaped moral character. As such, certain "social, political, and health problems" threatening cities could be mitigated by implementing good design standards, building code regulation, and property management (Fairbanks, 2000, p.21). These were viewed as primarily local issues requiring little federal leadership.

Table 1.1: Four Eras of Federal Housing "Solutions"

Era	Goals	Strategies
Pre-Federal Era *1900s-1920s*	• Improve public health • Upgrade built environment	• Design standards • Building codes • Property management
Federal Era *1930s-1950s*	• Preserve/encourage homeownership • Promote residential construction • Eliminate blight • Provide low-income housing	• Mortgage insurance • Secondary mortgage market • Capital development subsidies • Urban renewal • Public housing
Transition Era *1960s-1970s*	• Assist moderate-income households • Encourage private production • Decentralize administration • Consolidate funding	• Below market interest rates • Project-based subsidies • Block grants • Vouchers
Postfederal Era *1980s-Present*	• Decrease public production • Increase state/local government involvement • Provide income supports	• Tax credits • Block grants • Vouchers

Even so, the seeds of increasing federal government intervention in housing were planted during this era. For example, 1913 income tax legislation allowed the deduction of interest payments and taxes from an individual's taxable income (Radford, 1996), an exemption which would grow to one of the federal governments largest tax expenditures, due to homeowner mortgage interest and property tax deductions (Dolbeare et al., 2004). To boost war efforts, the federal government also dabbled in housing construction for the first time, producing 15,000 units for war-time laborers through two entities controlled by the U.S. Shipping Board and the Labor Department. These units were immediately sold off after World War I (Radford, 1996).

2. The Federal Era: 1930s-1950s

During the post-war era of the 1930s through 1950s, housing was no longer seen simply as a matter of public health and moral character, but was increasingly viewed as a critical component of individual self-sufficiency and wealth, and national economic prosperity. The aftermath of the 1929 stock market crash – rising unemployment coupled with precipitously declining housing starts – created a national housing crisis. High rates of residential mortgage foreclosures left families homeless and banks holding a housing inventory they could not divest (Radford, 1996). In response, federal intervention created institutions such as the Home Owners' Loan Corporation (1933), which refinanced troubled home loans and restructured the standard mortgage product by lengthening the amortization period and reducing down payment requirements (Crossney & Bartelt, 2005). The Federal Housing Administration (1934) was formed to increase affordability by providing mortgage insurance to banks, thus reducing the risk of residential lending (Hays, 1995). A secondary mortgage market was established through the Federal National Mortgage Association (1938) to buy mortgages from banks, increasing their ability to make new loans (Goetz, 1993; Hays, 1995).

In addition to these mechanisms for maintaining and increasing the demand for single-family homes, an injection of federal funds into the multifamily construction industry was expected to create both jobs and housing (Radford, 1996). Successive federal agencies were created and disbanded to coordinate public housing construction and management, including the Housing Division of the Public Works Administration (1933) and the Housing and Home Finance Agency (1947), which later became the cabinet-level HUD in 1965 (Hays, 1995; Radford, 1996). This production of new public units was often linked to the demolition of older, blighted properties through the urban renewal program established through Title I of the Housing Act of 1949 (Teaford, 2000). Table 1.2 provides a breakdown of federal multifamily housing production and assistance programs, beginning with the inception of public housing in 1949 and continuing through the next two eras discussed below.

3. The Transition Era: 1960s-1970s

The 1960s saw increasing federal interest in meeting the needs of more moderate income renters who earned too much to qualify for public housing but still could not afford market rents. New production programs, such as Sections 221(d)3 and 236, focused on decreasing tenant rents by reducing mortgage interest rates charged to the developer, although these were quickly terminated in favor of other approaches (Hays, 1995; Schwartz, 2006).

Pointing to abuses and corruption within the administration of existing programs – specifically, the Section 235 homeownership program, the Section 236 multi-family rental housing development program, and public housing construction and management – President Nixon announced a moratorium on new federal housing commitments beginning in January 1973 (Hays, 1995; Orlebeke, 2000; Von Hoffman, 2000). What followed was a dramatic shift in federal housing policy away from postwar project-based production and toward private market solutions and direct income supports for the poor.

Table 1.2: Overview of Major Federal Multifamily Housing Production and Assistance Programs

Program Name	Year Initiated	Year Ended	Total Units/ Vouchers	Program Description	Program Administrator
Public Housing	1949	-	1,407,923*	Project-based production authorized by Housing Act of 1949 with goal of building 810,000 publicly-owned & operated rental housing units within 6 years	HUD; Local Public Housing Authorities
Section 202	1959	-	260,873 (2004)	Project-based capital advances (forgivable after 40 years) and rental assistance for low-income senior rental housing.	HUD; Developers
Section 221(d)3	1961	1968	184,000	Project-based Below Market Interest Rate program for financing moderate-income rental housing	Developers; Private Lenders
Section 515	1962	-	526,000**	Project-based 1% interest loans and 50-year amortization for financing rural rental housing	U.S. Department of Agriculture; Developers
Section 236	1968	1973	544,000	Project-based subsidy to cover difference between market interest rate and 1% interest on mortgages for low- and moderate-income rental housing	Developers; Private Lenders
Section 8 New Construction & Substantial Rehabilitation	1974	1983	850,000	Project-based subsidy provided to low-income tenants covering difference between fair market rent and 25% (later 30%) of tenant income	HUD; Developers
Section 8/ Housing Choice Vouchers	1974	-	1,848,005 (2004)	Tenant-based rental voucher provided to low-income tenants covering difference between fair market rent and 25% (later 30%) of tenant income	Local Public Housing Authorities/ State Agencies
Low-Income Housing Tax Credit	1987	-	1,141,650 (2002)	Project-based tax credit provided to equity investors in low-income rental housing	State Housing Finance Agencies; Developers
HOME Investment Partnership Program	1990	-	454,399*** (2004)	Block grants to localities (60%) and states (40%) for a variety of low-income housing activities, including down payment assistance, owner-occupied rehabilitation, rental housing production and assistance, and nonprofit operating support	Local Agencies State Agencies
Section 811	1990	-	42,000**** (2005)	Project-based capital advances (forgivable after 40 years) and rental assistance for low-income disabled rental housing; up to 25% of budget can be used for tenant-based rental assistance through vouchers.	HUD; Developers

Source: Schwartz (2006). *Program peak in 1993; total units as of 2004 were 200,000 less at 1,234,555 units. **Total produced over the course of the program to date; nearly 475,000 were still in the program as of 2005. ***This number equals the total number of units assisted through rental housing development or tenant-based rental assistance, as found in Table 9.2, and excludes other uses of HOME funds. ****This number includes 30,000 units and 12,000 vouchers. It should be noted that prior to 1990, housing for the disabled was included as part of the Section 202 program.

While the federal government maintained tight control over program guidelines and regulations, states and localities were to take the lead on administration as part of Nixon's "New Federalism" agenda (Hays, 1995; Morris, 1974). Many federal programs were reworked, including the collapsing of multiple categorical grants-in-aid programs into a single Community Development Block Grant to states and localities. The federal government pulled out of direct production, enticing private market developers through new project-based Section 8 multi-family production programs, and encouraging low-income households to seek privately-owned housing with direct cash assistance through the form of Section 8 vouchers and certificates (later consolidated and renamed as Housing Choice Vouchers) (Hays, 1995).

4. The Postfederal Era: 1980s-Present

Through budget cuts and program restructuring, the Reagan administration hastened the federal government's withdrawal from leadership in housing that began in the transition period. Housing vouchers became the modus operandi for enabling low-income households to afford housing in the private market. HUD's budget authority dwindled, while tax expenditures, both homeowner deductions and new LIHTCs for investors in multifamily rental construction, made the Internal Revenue Service the primary conduit for federal housing assistance (Dolbeare & Crowley, 2002).

Along with this financial retrenchment came increased devolution of program operations to lower levels of government. While up until this point "the underlying premise that housing is a federal responsibility [had] remained intact," new programs expanded the role of state and local governments in housing finance and administration

(Goetz, 1993, p.26). LIHTC administration (1987) was awarded to state agencies[10], while federal HOME block grants (1990) were allocated to both states (40%) and municipalities (60%) for encouraging housing production.

With government withdrawal from affordable housing construction and management, these responsibilities have increasingly shifted to the private and nonprofit sectors. Private sector involvement is concentrated in those programs offering benefits to investors, making an otherwise unattractive investment in affordable housing more palatable, such as the LIHTC program (Cummings & DiPasquale, 1999). The nonprofit sector is expected to take more risks, serving those with the most severe housing needs out of a sense of mission while maintaining financially feasibility – referred to as a double-bottom line (Koschinsky, 1998; O'Regan & Quigley, 2000).

Additionally, a reduction in net government funds available to increase housing affordability through lowering capital costs and/or providing income supports has focused attention on other ways of reducing housing costs. The most prominent example is ongoing research on local regulatory barriers that hinder the development of affordable housing, including low-density-only zoning and undue restrictions that increase the cost of development (Advisory Commission on Regulatory Barriers, 1991; Office of Policy Development and Research, 2005a, 2005b). Some would say that this research focus represents a further shift away from the scrutiny of federal leadership and towards an assumption that affordable housing is primarily a state and local problem (Bratt, Stone, & Hartman, 2006).

[10] The exception is the City of Chicago which receives its LIHTC allocation separately from the State of Illinois.

D. A New Era of State Innovation?

1. State Response to Federal Devolution

> "Devolution is not a passing disturbance but a climatic change in the political environment, one likely to be with us for quite a while. There are dangers in this shift of dollars, powers and responsibilities. There are limits in the ability (and will) of cities and state to cope with these changes. Yet there are also opportunities that should not be ignored, offering room to maneuver and reason to hope that some of the innovations being tried by nonfederal units of government may nudge the entire system in a positive direction..." (Davis, 2006, p.365).

An enduring emphasis on devolution has promoted the decentralization of federal decision-making on one hand, and increased state and local autonomy and fiscal responsibility on the other (Donahue, 1997; Musgrave, 1997). In the case of housing and other social policies aimed at redistributing wealth through direct income and service supports, devolution has been implemented in a de facto manner through federal budget cuts – or retrenchment – forcing states and localities not only to develop new policies and programs but to fund them as well (Basolo, 1999; Davis, 2006; Goetz, 1993, 1995).

In general, supporters of decentralization through devolution believe that increased inter-jurisdictional competition over social, economic, and political resources will inspire innovative, differentiated responses to locally situated problems. In this regard, states are "laboratories of democracy" (Osborne, 1990) critical to promoting efficient, flexible responses to local voter concerns (Donahue, 1997). A complementary argument centers around consumer choice theory as presented by Tiebout, which promotes local control over public goods intended for local consumption (Donahue, 1997; Musgrave, 1997). According to this model, local government is held accountable for its (in)actions when consumers (in this case, residents) threaten to use their mobility, or ability to "vote with their feet," by leaving the jurisdiction (Musgrave, 1997, p.66).

Fischel (2001) extends this hypothesis by arguing that homeowners hold ultimate sway over local decision-making, shaping it in their own self-interest, and often to the detriment of renters.

The counterargument states that the federal government is less encumbered by local market and political concerns, and less susceptible to the threat of mobile capital and labor than states and local government. According to this functional theory of federalism, redistributive programs such as those increasing affordable housing supply and demand are most effectively implemented at the national level (Peterson, 1995). This is because concerns for demonstrating efficiency must be combined with those for the equitable and just distribution of resources (Musgrave, 1997). Federal oversight and direction is necessary to avoid a “race to the bottom” among states – where they compete to provide the lowest level of public benefit possible in order to avoid becoming a “magnet” for the poor (Peterson 1995, 108).

These arguments highlight two extremes between which state responses to federal devolution in housing responsibilities may fall. On the one hand, states could increase their responsiveness to local housing market forces, working to sustain successful federal housing programs and/or create new ones molded to fit their particular housing needs. In this case, states would assume responsibility for marrying efficient solutions with equitable goals. On the other hand, states could choose not to intervene, and follow the federal lead by scaling back and phasing out programs as funds constrict, while meeting only minimum program requirements for remaining federal programs left under their administration. Here, states would prefer to let the market push prices up in pursuit of higher tax revenues, and desire low-income households to find affordable housing through other means or in other states.

In the case of housing, it appears that states have taken the former approach (discussed in next section below). This might be due to several unique attributes of housing that differentiate it from other social, or redistributive, policy areas. First, housing is simultaneously an economic asset that builds individual, corporate and state wealth, as well as a social benefit to households and communities. As a state economic development tool, the multiplier effects of housing policy ripple throughout the construction and finance industries. As a personal wealth-building strategy, homeowners build equity through appreciation and gain increased self-sufficiency. Socially, housing stability improves the livelihood of children and families, and contributes to neighborhood vitality (Bratt et al., 2006; Millennial Housing Commission, 2002; Retsinas & Belsky, 2002). These characteristics allow affordable housing policies and programs to be perceived and marketed as an investment with significant potential returns, rather than a recurring drain on state coffers.

A second factor which distinguishes housing from other social programs is that while some interest groups appear to hold more sway at the federal level, other voices are winning greater recognition at the state and local levels. For example, the homebuilding and real estate industries may maintain greater influence over federal programs (Dreier, 2000), but nonprofit housing associations and coalitions have persistently directed strategic advocacy efforts toward state capitols since the 1980s (Goetz, 1993; Holtzman, 2005). At the same time, local governments and businesses, theoretically prone to emphasize development goals over redistributive ones, have also voiced increasing alarm at the lack of affordable workforce housing near jobs and within access of good transportation options (Bell, 2002; Houstoun, 2004; Lipman, 2006).

Taken together, these factors mean that affordable housing policies and programs simultaneously meet both strong efficiency *and* equity criteria, making them important candidates for state government consideration even in the face of devolution.

2. Something Borrowed or Something New?

Devolution in housing has had several specific outcomes for states. First, they have become major administrators of remaining federal housing programs and funds. Second, they have replicated successful federal programs at the state level to expand the number of households and units assisted. Finally, they have created new programs and resources to address specific state needs never before, or no longer, met by waning federal assistance.

As shown in Table 1.3 below, states play a significant role in administering federally-sponsored housing programs. Most states participate in administering the two largest sources of federal housing funds that automatically flow through states annually - the LIHTC and HOME programs – with many states receiving two to three times greater requests for tax credits than they are allocated (National Council of State Housing Agencies, Various years). Most states also receive both formulaic and competitive funds awarded through the McKinney-Vento Homeless Assistance program and the Housing Opportunities for Persons with Aids (HOPWA) program. Overall, in 2004 alone, states benefited from over $14.6 billion in federal pass-through dollars, tax credits, and tax-exempt bonding authority for a total impact of over 250,000 units and people assisted. In

Table 1.3: State-Administered, Federally-Authorized Housing Programs, 2004

Program	Amount	Units/Persons Assisted
Low Income Housing Tax Credit Program*	$623,256,410	76,326
HOME Investment Partnerships Program**	$742,044,000	28,461
Housing Opportunities for Persons With Aids	$43,338,430	N/A
Mortgage Revenue Bonds	$7,469,461,695	84,794
Multifamily Bonds	$5,804,013,450	66,448
TOTAL	**$14,682,113,985**	**256,029**

Source: National Council of State Housing Agencies (2005); U.S. Department of Housing & Urban Development, FY2004 Appropriations and Allocations.
*Includes only tax credit qualified units; excludes 3,597 market-rate units assisted.
**Refers to portion of HOME administered through states only during FY2004.

addition, forty-four states were administering project-based Section 8 contracts on behalf of HUD in 2004; another 21 administered Housing Choice Vouchers (National Council of State Housing Agencies, 2005).

In addition to their role as a conduit of several remaining federal programs, states have increasingly sponsored the development and funding of new housing programs themselves. In 1980, there were only 44 identified state-sponsored housing programs in existence, and those were primarily located in California, Connecticut and Massachusetts. Just nine years later, 177 unique programs were operating throughout a number of states (Thompson & Sidor, 1990). By 2000, there were too many diverse programs to provide more than a targeted snapshot of different strategies being utilized (Stegman, 1999).

Some state programs are replicas of successful federal ones. This includes tenant-based rental assistance programs, operating in at least 13 states, which are similar to the Housing Choice Voucher program (National Council of State Housing Agencies, 2005). A few states also operate a state housing tax credit program in conjunction with the federal LIHTC program, although some are structured quite differently (Elbert, 2005).

Other state-sponsored programs, however, are distinctive from federal ones. At least 37 states operate housing trust funds funded through a variety of revenue sources, both permanent and temporary (National Council of State Housing Agencies, 2005). These flexible funds are utilized for a broad range of housing initiatives, from homeless services, to construction and rehabilitation, to homeownership financing and rental assistance (Brooks, 2002). Many states have also adopted initiatives to preserve the affordability of units with expiring use restrictions through refinancing with a combination of tax credits, trust fund dollars, and bond financing (National Housing Trust, 2006; Nenno, 1991; Stegman, 1999).

States possess regulatory authority over local government actions. Some have used this authority to pass laws requiring local governments to include affordable housing in their land use and zoning maps, and to plan to provide for their "fair share" of present and future state housing needs (Calavita, Grimes, & Mallach, 1997; Meck, Retzlaff, & Schwab, 2003). Others have adopted rent control measures throughout the years in order to regulate rental price increases to varying degrees (Keating, Teitz, & Skaburskis, 1998).[11] Several have adopted statewide building codes for new construction and rehabilitation work, in an effort to streamline the process and reduce construction costs (Galvan, 2006).

Overall, these state efforts represent efforts to fill the gap left by devolution and retrenchment through both the replication of federal programs that work, and the invention and diffusion of new policies and programs necessary for meeting state housing needs.

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[11] Rent control has periodically been used by the federal government, as well, but generally as a temporary emergency measure during times of war. For an historical overview, see Keating, Teitz, and Skaburskis (1998).

E. Structure of Thesis

The rest of this thesis is structured as follows. Chapter 2 constructs a unified theory of policy innovation within state HFAs by drawing upon the theoretical frameworks of both organizational innovation and state policy innovation. The mixed methods approach used to test and expand this theory – event history analysis and a multiple case study – is detailed in Chapter 3. Chapter 4 elaborates the answer to the first research question on the evolution of HFA roles, a necessary precursor to a discussion of HFA innovation. Chapter 5 presents an answer to the second research question on the influences on HFA innovation via a quantitative analysis of pooled time-series cross-sectional data. This is followed by a qualitative answer to the same research question in Chapter 6, drawing upon a multiple case study analysis of the Illinois Housing Development Authority and the New Jersey Housing and Mortgage Finance Agency. The thesis concludes in Chapter 7 with a synthesis of major findings and implications for the future of HFAs and innovation, as well as a discussion of the limitations of this research and suggestions for future explorations.

CHAPTER 2:

A Blended Theory of Policy Innovation within State Housing Finance Agencies

There are two branches of innovation theory that inform this research – the study of *determinants* effecting an organization's likelihood of innovation, and the study of *diffusion*, or the spread of innovation from one organization to another. This chapter explores both branches as they relate to organizational innovation theory and state policy innovation theory. A blended theoretical framework for the exploration of housing policy innovation within state housing finance agencies is developed and presented.

A. Organizational Innovation

Major theoretical advancements in the studies of organizations and innovation were made in the 1960s, sparking a rich dialog between theoretical propositions and empirical testing over the following decades. This has been an interdisciplinary pursuit shared by public administration, business, economics, sociology, political science and others (Kimberly & Evanisko, 1981; Rogers, 1995). Within this literature, organizations are defined as "social entities that are goal-directed, deliberately structured activity systems with an identifiable boundary" (Daft, 1992, p.6). In other words, they are a group of people working together within an identified structure toward a common goal. The types of entities studied most frequently include educational institutions and systems (Baldridge & Burnham, 1975; Daft, 1978), health and medical related entities (Kimberly & Evanisko, 1981; Robertson & Wind, 1983), private service and manufacturing firms

(Dewar & Dutton, 1986; Ettlie, Bridges, & O'Keefe, 1984; Mansfield & Rapoport, 1975), and public agencies (Mohr, 1969).

The definition of "innovation" has been heavily contested and repeatedly examined. However, several critical characteristics of innovation have emerged over time. At its core, the concept of innovation indicates a change in state from one condition to another one which "is generally intended to contribute to the performance or effectiveness of the adopting organization" (Damanpour, 1991, p.556). Innovations seek to fill a "performance gap" between how an organization is currently performing in meeting its goals, and what it could be doing to better to meet demand or beat competition (Zaltman, Duncan, & Holbek, 1973).

Some define innovation as the "first ever use" of a new idea; future adoption by others is merely "imitation" (Mansfield, 1963; Pierce & Delbecq, 1977). Others consider the opposite: that innovation is the staged process of initiation, adoption and implementation that follows, and is separate from, invention or creation (Becker & Whisler, 1967; Pierce & Delbecq, 1977; Zaltman et al., 1973). The majority of the field utilizes the latter understanding that "innovation is meant to exclude creativity *per se* and to include the notion of adopting something nontraditional whether it was invented within or outside of the organization concerned" (Mohr, 1969, p.113, original emphasis).

Organizational innovation studies consider both the determinants influencing an organization's propensity to innovate, and the diffusion, or spread, of innovations from one organization to another. A series of individual, organizational, and environmental determinants have emerged as key factors in the process of innovation, as well as a set of conditions necessary for diffusion to occur. These are discussed in turn below.

1. Determinants of Organizational Innovation

In terms of *individual* characteristics, younger staff members from a more economically privileged background may have a higher propensity toward innovation (Baldridge & Burnham, 1975), as well as those with higher levels of education (Kimberly & Evanisko, 1981). Longer job tenure may be positively associated with innovation, as an innovation gains legitimacy when long-time, trusted staff choose to champion it and can successfully maneuver organizational politics to clear the way for adoption. It could be negatively related if long tenure combines with low turnover to limit the flow of ideas originating from outside of the organization (Damanpour, 1991; Kimberly & Evanisko, 1981; Pierce & Delbecq, 1977). The degree of cosmopolitanism, or the level of staff engagement in professional training and activities outside of the work environment, is hypothesized as an important condition for innovation, although this may be more important for managerial as opposed to line staff (Baldridge & Burnham, 1975; Mohr, 1969; Pierce & Delbecq, 1977; Robertson & Wind, 1983). Finally, staff attitudes toward organizational change affect the likelihood new ideas will be initiated and adopted. Higher levels of job satisfaction, coupled with dissatisfaction with existing organizational performance gaps, can motivate staff to explore innovative solutions for the sake of personal and organizational improvement (Daft, 1978; Pierce & Delbecq, 1977; Zaltman et al., 1973). The relationships between these factors and innovation are illustrated in Figure 2.1 below.

A variety of *organizational* characteristics have been found to either encourage or prohibit innovation, or to do both, depending on the stage of the innovation process under

Figure 2.1: Relationship Between Individual Determinants and Innovation

Determinant	Relationship with Innovation
Age	-
Socio-economic status	+
Educational Attainment	+
Job Tenure	+ or -
Cosmopolitanism	+
Staff Attitudes	+

Key: + means the relationship is positive/direct; - means the relationship is negative/inverse

consideration. These are summarized in Figure 2.2 below. Older, more well-established organizations may pursue innovations more confidently due to their "demonstrated high survival potential" and the desire to maintain their reputation (Kimberly & Evanisko, 1981p. 699). Larger organizations theoretically allow for a greater division of labor, specialization of tasks, and cross-fertilization of ideas (Damanpour, 1991; Pierce & Delbecq, 1977).[12] However, they may also encourage routine solutions rather than cultivate innovation (Zaltman et al., 1973). Those entities high in resources, both financial and human, have a greater propensity to invest in the exploration and trial of new ideas, and to absorb failures (Damanpour, 1996; Nohria & Gulati, 1996; Thompson, 1969). At the same time, an overabundance of slack resources may give rise to a lack of discipline, encouraging high-risk pursuits and resulting in higher rates of failure (Nohria & Gulati, 1996).[13] A greater number of specialists on staff – defined as a higher degree of organizational complexity - is thought to enhance the organizational knowledge base and lead to the germination of new ideas. At the same time, it decreases the likelihood of

[12] There is at least some speculation that measurements of organizational size, such as number of staff and operating budget, capture a variety of other latent variables more difficult to measure, many discussed in the following paragraphs, thus providing an expedient but inaccurate measure of innovation (Rogers, 1995, p.379).

[13] Slack can be defined as "the pool of resources in an organization that is in excess of the minimum necessary to produce a given level of organizational output" (Nohria & Gulati, 1996, p.1246), or more simply stated, "the excess of achievement over aspirations" (Thompson, 1969, p.45).

Figure 2.2: Relationship Between Organizational Determinants and Two Stages of Innovation

Determinant	Initiation	Adoption/Implementation
Age	+	+
Size	+	-
Slack Resources	+	-
Complexity	+	-
Centralization	-	+
Formalization	-	+
Hierarchy	+	-
Networks	+	?

Key: + means the relationship is positive/direct; - means the relationship is negative/inverse; ? means the relationship has not yet been specified

innovation adoption and implementation due to a diversity of opinions which preclude consensus (Kimberly & Evanisko, 1981; Zaltman et al., 1973).

The centralization of power among a few decision-makers, and formalization of organizational rules, limits the autonomy and flexibility of employees to initiate innovation. However, a stable structure of predictable, routine procedures might actually assist in the adoption and implementation stages by "reduc[ing] ambiguity and potential conflict that individuals can experience as they implement an innovation" (Zaltman et al., 1973, p.142) (See also Damanpour, 1991; Kimberly & Evanisko, 1981; Pierce & Delbecq, 1977). Hierarchical and complex organizational structures theoretically create more spaces for internal specialization and diversity to give rise to new ideas (Zaltman et al., 1973). However, large and unwieldy hierarchies can also thwart innovation adoption and implementation via lack of communication and coordination (Baldridge & Burnham, 1975), and bureaucratic inertia (Damanpour, 1996). Finally, exposure to emerging ideas through inter- and intra-organizational networks can stimulate innovation (Dewar & Dutton, 1986; Kimberly & Evanisko, 1981).

Various *environmental*, or contextual, factors that may influence organizational innovation have been less systematically examined. Theorists have suggested that environments which are more "turbulent" (Pierce & Delbecq, 1977), "uncertain" (Damanpour, 1996), or "heterogenous" (Baldridge & Burnham, 1975), create conditions most conducive to innovation. These ideas have not been well-specified, however. Competition with other organizations may produce a more "uncertain" environment encouraging greater risk (Damanpour, 1996). A more heterogenous environment – characterized as higher density, urbanized, and racially diverse – seems to require greater innovation as a result of the large and varied demands placed on organizations serving such populations (Baldridge & Burnham, 1975; Kimberly & Evanisko, 1981). Higher rates of homeownership have been theorized to discourage innovation, as has lower community wealth (Baldridge & Burnham, 1975).[14] This is attributed to a "greater competition for scarce resources [originating] from more fragmented socioeconomic and demographic forces" (Baldridge & Burnham, 1975, p.172).

A "unitary theory of innovation" specifying the anticipated relationships between a given determinant and innovation has eluded scholars primarily due to differences in (1) the types of organizations studied, and (2) the various attributes of innovations (Downs & Mohr, 1976, p. 701). This diversity has produced inconsistent research results over time, leading to emergent hypotheses on the presence of moderating and contingent factors that link organizations and innovations (Damanpour, 1991, 1996). These include the type of organization, and the type, scope and timing of the innovation(s) under consideration (Damanpour, 1991; Downs & Mohr, 1976).

[14] The "community" in question here is the group of consumers/clients served by the organization.

Factors influencing innovation may differ depending on whether the organization is a private firm, nonprofit entity, or public agency, based on underlying differences in organizational structures, motivations, and external pressures facing these organizations (Damanpour, 1991, 1996; Mohr, 1969). For example, organizations operating within a more organic, flexible, non-hierarchical structure may be more likely to initiate innovations in response to uncertainty and instability. A more formalized, centralized, mechanistic structure may be required for successful adoption and implementation (Pierce & Delbecq, 1977; Zaltman et al., 1973).

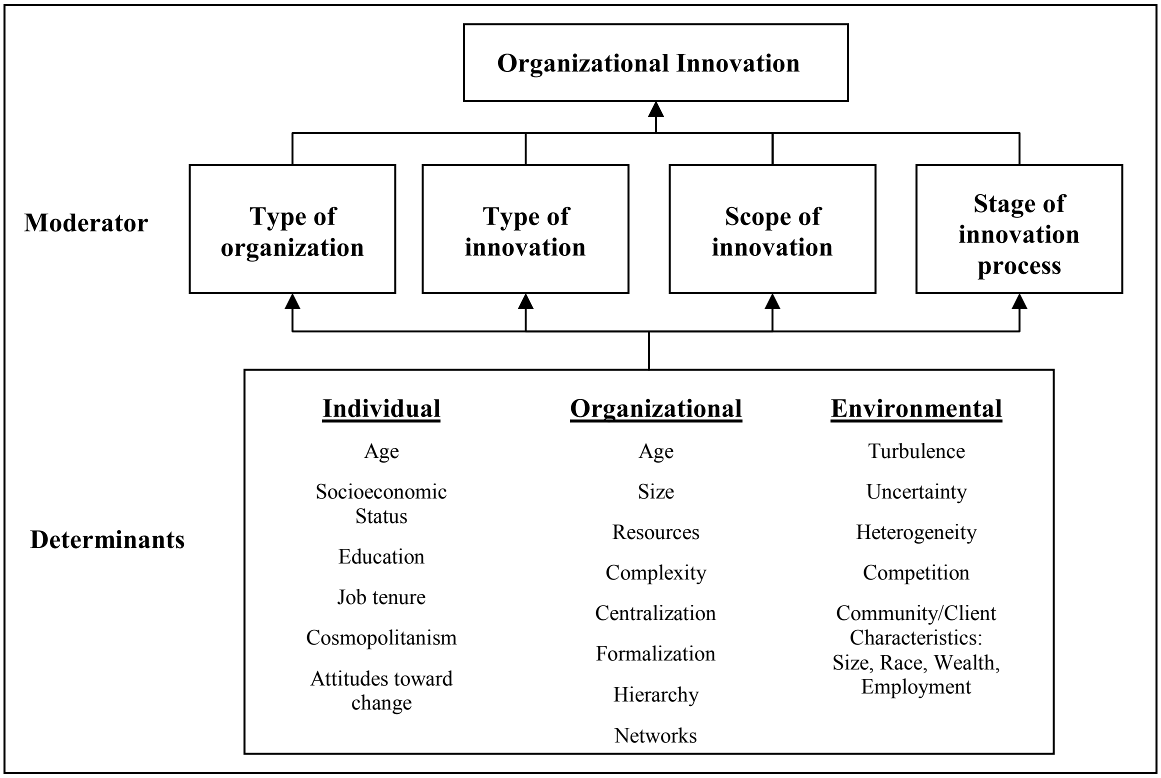
The type of innovation pursued can alter the path linking idea initiation to implementation. According to the dual-core approach, innovation can be either administrative or technical, dealing respectively with either organizational structures and processes, or with specific products, services, and technologies. Administrative innovations may trickle down from upper management, while technical innovations may originate from more specialized, technical line staff members (Daft, 1978).

Innovations can also be viewed as either incremental or radical in scope. Incremental innovations represent only minor deviations from the status quo, and require little new knowledge. As a result, they are easier to implement, and are adopted more frequently (Dewar & Dutton, 1986). Radical innovations "produce fundamental changes in the activities of the organization and represent a large departure from existing practices," and require greater risk-taking (Damanpour, 1996, p.699; see also Zaltman et al., 1973). Finally, an innovation can be instrumental – paving the way for further (perhaps more radical) innovation in the future – or ultimate – an end in and of itself (Zaltman et al., 1973).

Finally, as discussed and illustrated in Figure 2.2 above, different organizational characteristics may be important for different stages in the innovative process. Theorists have thus hypothesized models for "ambidextrous" organizations that possess both the qualities necessary for the invention and initiation of innovations and those needed to effectively adopt and implement them (Daft, 1992; Damanpour, 1991; Pierce & Delbecq, 1977). This can be done by separating these functions within organizational subunits (for example, creating a research and development department for invention and initiation), or shifting staff focus throughout the course of the innovation process, from flexible creation to rulemaking for standardized implementation (Zaltman et al., 1973). In sum, more organic, decentralized organizational characteristics are needed for initiation of new ideas, while more mechanistic, formalized, centralized structures are necessary for adopting and implementing them (Pierce & Delbecq, 1977).

Taken together, a synthesized model linking individual, organizational, and environmental determinants of organizational innovation through several moderating factors is illustrated in Figure 2.3 below.

Figure 2.3: Organizational Innovation

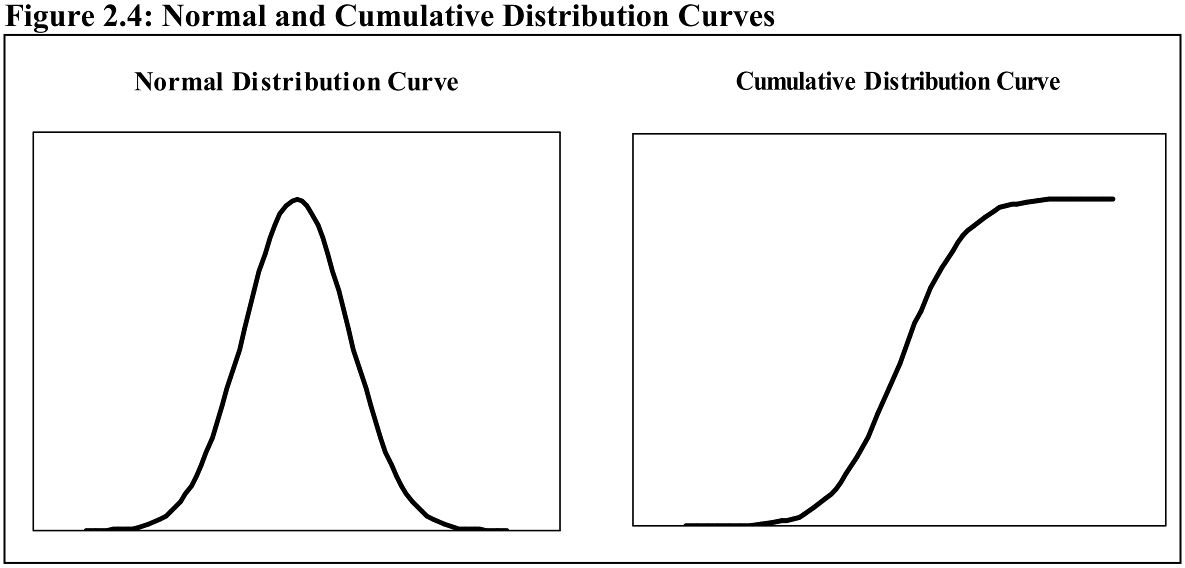


4. Diffusion of Organizational Innovation

Where a focus on determinants highlights characteristics within and surrounding an organization that affect its likelihood of innovation, the study of diffusion is primarily concerned about factors influencing the relative speed at which an innovation spreads among eligible adopters. While the two branches of innovation theory overlap, and indeed, some argue whether they can exist apart from one another (Berry, 1994; Berry & Berry, 1990, 1992), theories of diffusion contribute an understanding of the role of communications, networks, and change agents in spreading innovations.

In his classic review of the literature, now in its fourth edition, Rogers (1995, p. 5) defines diffusion as "the process by which an innovation is communicated through certain channels over time among the members of a social system." He observes certain patterns regarding the rate of adoption of innovations. Significantly, a graph showing 100% diffusion among eligible adopters follows a normal distribution curve, or an S-shaped curve of cumulative adoption over time (see Figure 2.4 below). There also seems to be a threshold at which point an innovation reaches a "take off" point and diffuses more rapidly, generally when between 10-25% of all eligible adopters have adopted it. These qualities indicate that organizations adopt innovations at differing speeds, with some going first (innovators), a few following close behind (early adopters), most falling in the middle (early and late majority), and others bringing up the rear (laggards). A variety of socioeconomic, personality, and communication-oriented determinants separate the early from the late adopters, including education, social status, attitude toward change, risk-taking, interpersonal networks, and cosmopolitanism. This provides evidence that determinants and diffusion factors can and should be examined simultaneously to explain innovation, an argument discussed later in this chapter.

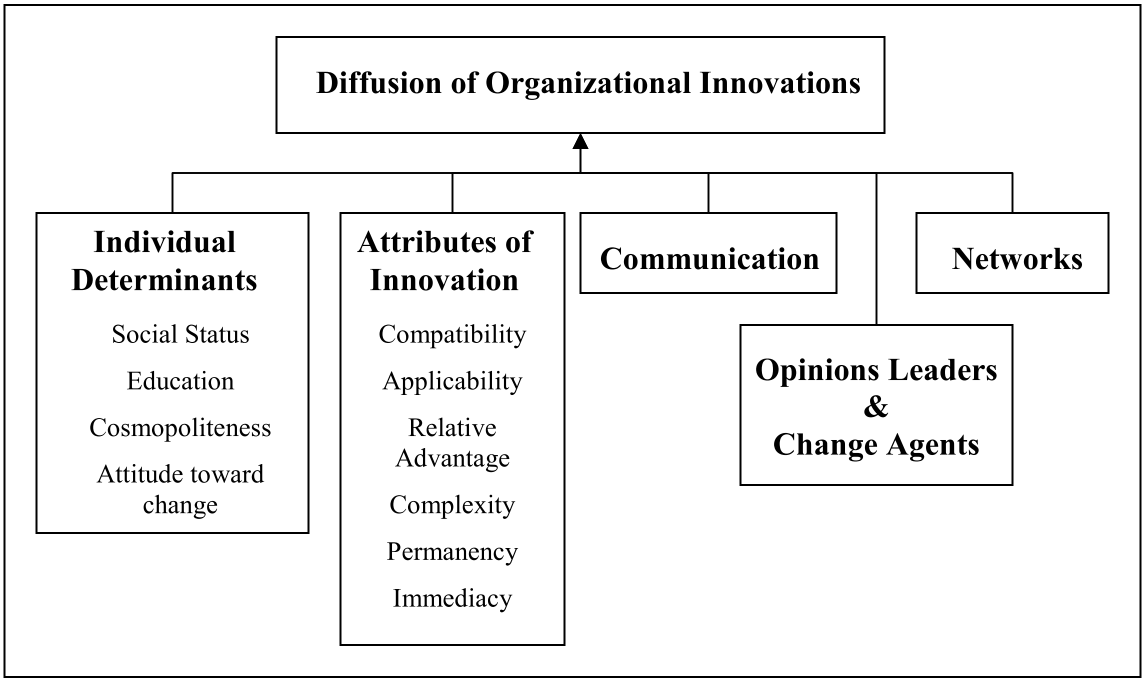
Figure 2.4: Normal and Cumulative Distribution Curves



There are factors beyond organizational determinants that influence the relative speed of adoption of innovations. The compatibility of the innovation with existing organizational values and beliefs is important, as well as its applicability in addressing a determined need (or performance gap). The innovation must offer a relative advantage to the adopting organization over its existing operations and those of its competitors. The more complex an innovation seems, the slower its diffusion rate. If it can be readily implemented on a trial basis, without first becoming permanent, and with results easily and immediately observed and measured, the innovation will diffuse more rapidly.

The fewer individuals involved in the decision-making process, the more quickly an innovation is adopted. Similarly, the more widespread communication about the innovation, and the more heavily promoted it is by individual change agents, the faster it will spread. Opinion leaders can set the stage for diffusion within and between organizations. Communication networks play an important role: “individuals depend mainly on the communicated experience of others much like themselves who have already adopted [an innovation]” (Rogers, 1995, p.304). Once a “critical mass” of similar organizations has adopted a specific innovation, the rate of diffusion “becomes self-sustaining” (Rogers, 1995, p.313). These are combined into a single model of diffusion of organizational innovations in Figure 2.5 below.

Figure 2.5 Diffusion of Organizational Innovations



B. State Policy Innovation

State policy innovation theory emerged around the same time organizational innovation theory was gaining momentum; trendsetting articles in theoretical development were published in 1969 for both fields (Mohr, 1969; Walker, 1969).[15] While there are definite similarities between the two theories, they have followed distinct trajectories. This is in large part due to the fact that the type of organization under study within state policy innovation literature is very narrowly defined as a member or body of the executive, legislative or judicial branch of state government, or an administrative

[15] It is worth noting that they were both published by political scientists in journals of that discipline, although Mohr's (1969) article ended up having a broader disciplinary reach due to its organizational rather than state policy innovation focus. In his article, Walker (1969) does draw from the budding organizational innovation literature.

agency thereof.[16] Therefore, organizational characteristics are assumed to be more static across the population, and less important for analysis; instead, state-specific environmental determinants gain greater importance. Policy innovation within state government has traditionally been defined as: "a program or policy which is new to the states adopting it, no matter how old the program may be or how many other states may have adopted it" (Walker, 1969, p.881). The focus here is on the moment of adoption, rather than that of invention, initiation, or implementation.

Just as within organizational innovation, theories on state policy innovation have been divided into those describing the factors that influence the *diffusion* of innovation from one state to another, and those interested in the *determinants* of innovation which exist within the adopting state and/or state agency itself.

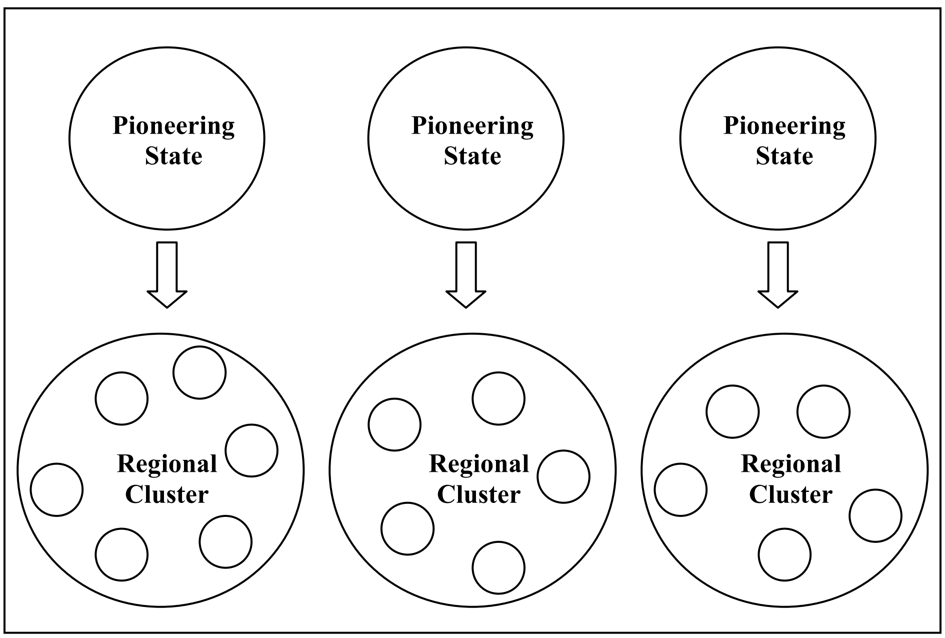
1. Diffusion of State Policy Innovation

Theories around the diffusion of innovation focus on whether or not a policy spreads horizontally from one state to another, how fast it does so, and whether any pattern is present. Several regional diffusion models have been specified and tested over the years. The first, forwarded by Walker (1969), posits a model of policy diffusion through regional clusters led by "pioneering states" (e.g. New York, Massachusetts, California, and Michigan). This occurs through a process of "cuetaking" whereby state desires to compete with and emulate one another encourage the diffusion of innovation

[16] More broadly, studies often discuss "states" as the organization themselves, without differentiating between which type of organizational unit within the state is responsible for the innovation in question.

(Mooney, 2001; Walker, 1969). This model, closely related to Rogers (1995) notion of "opinion leaders" presented above[17], is presented in Figure 2.6. It assumes a static magnitude and direction of state innovativeness, regardless of the type or number of innovations considered, across a broad spectrum of policy issues. This is represented by Walker's (1969) classic study of legislative adoption of eighty-eight different state policies spanning health, environment, education, welfare, housing, infrastructure, planning and land use, and more.

Figure 2.6: State Policy Diffusion – Regional Cluster Model

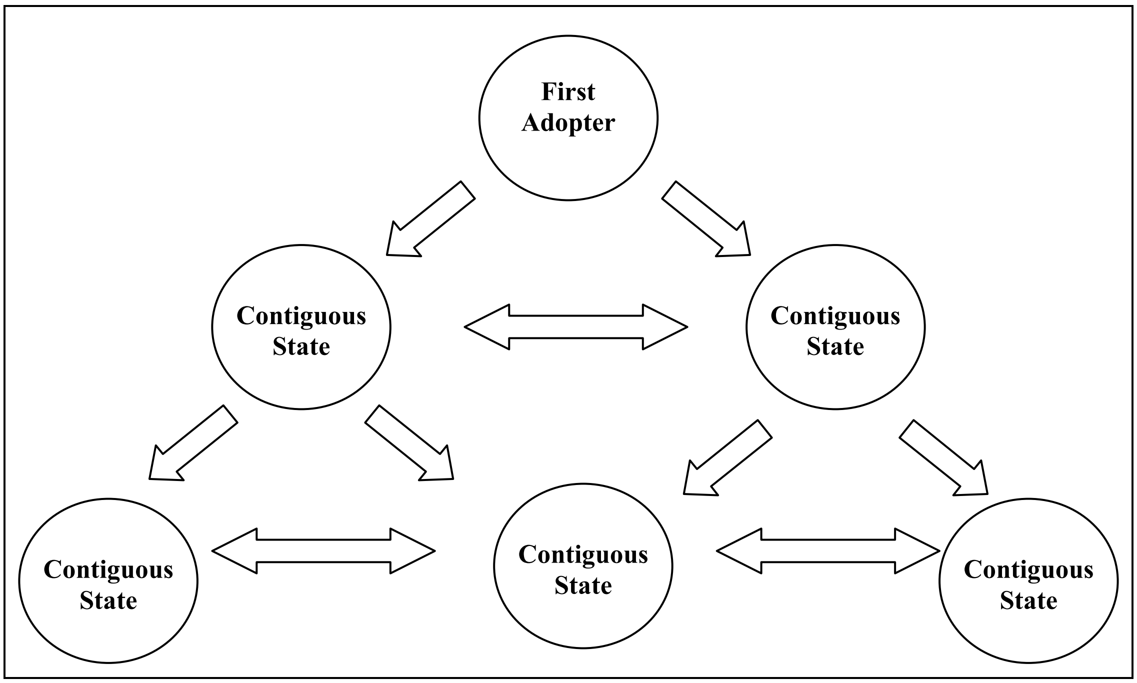


Another approach is to consider diffusion as a process of policy innovations spreading out from first-adopters via contiguous states, as illustrated in Figure 2.7. This allows for state "opinion leaders" to change dynamically dependent on policy type and

[17] Indeed, Rogers (1995) directly equates Walker's "pioneering states" with his concept of "opinion leaders." See pp.297-298.

timing. For example, Savage (1978) discovered that overall state leadership in innovation is time-dependent, with distinctive shifts occurring over the course of history. Gray's (1973) groundbreaking analysis of the rate at which states adopted twelve "have-not" – or redistributive – policies in the areas of education, civil rights, and welfare, further

Figure 2.7: State Policy Diffusion – Contiguous State Model



distinguished how some states may be more receptive to certain types of innovations than others. Therefore, diffusion may not occur among 100% of eligible adopters.

Within this body of research, there is evidence that certain factors seem to contribute to the diffusion of policies among states. Larger, wealthier states tend to adopt innovations more quickly than others (McLendon, Heller, & Young, 2005; Walker, 1969). Economic competition can motivate the adoption and expansion of policy innovations, as can social learning among state administrators through national networks

(Boehmke & Witmer, 2004; Gray, 1973; Menzel & Feller, 1977; Mooney, 2001; Walker, 1969). Proactive policy entrepreneurs that promote policy ideas across state borders encourage diffusion of innovation (Harris & Kinney, 2003; Mintrom, 1997), similar in nature to Rogers' (1995) individual change agents. Federal actions can also inspire or hinder the diffusion of state policy innovation by mandating and/or financing certain innovations and not others (Gray, 1973; Welch & Thompson, 1980).

2. Determinants of State Policy Innovation

Over time, state policy theorists have shifted their attention toward determinants of policy innovation that are independent from the actions of other states. This research tends to focus on one policy innovation at a time, and includes Berry and Berry's (1990, 1992) seminal studies on state lotteries and taxation. Environmental determinants take precedent in theorizing relationships, while organizational characteristics are of secondary importance, and are borrowed from the organizational innovation literature, and qualities of individuals remain almost completely unobserved.

Environmental determinants are the primary focus of state policy research, where theory points heavily toward external forces that shape decision-making within governmental bureaucracies. One important factor that has been found to positively motivate state policy innovation is the severity of a particular problem, or the degree of public perception that a crisis point has been reached (Nice, 1994; Sapat, 2004). According to Chamberlain and Haider-Markel (2005, p. 450), this can be evidenced by the presence of "conditions in society that come to be viewed as problematic, media attention to the issue, or the salience of the issue, and triggering events, or those events that are so large and significant that they bring immediate attention to a given problem."

A state's ability to respond to such issues is tempered by its economic condition, including unemployment rates, adjusted per capita income, number of new housing starts, and savings (Ripley, Franklin, Holmes, & Moreland, 1973).[18] Both positive economic indicators, which result in greater state wealth, or negative ones resulting in a crisis environment, can lead to policy innovation (Harris & Kinney, 2003). Important social factors influencing state innovation include levels of population mobility, urbanization, education, and crime (Harris & Kinney, 2003; Ripley et al., 1973).

A state's future response is predicated by its prior policies. One important consideration is the state's past financial commitment to addressing the problem. States with a higher prior commitment to a given policy area may have an improved likelihood of continuing innovation in that same arena (Sapat, 2004).

Factors characterizing the electorate and those they elect tend seem to be significantly related to state policy innovation. More liberal political cultures may be correlated with broader support for governmental expansion, including efforts to increase regulations or expenditures on social programs (Nice, 1994; Sapat, 2004). Conservative-leaning electorates may have a greater "skepticism of social analysis and experimentation and greater belief in traditional values and practices" that reinforce the status quo and inhibit innovation (Nice, 1994, p.28). They may also favor more market-based innovations. Three common measures of political ideology are Elazar's (1970) classification of states as moralistic, individualistic, or traditionalistic, an index

[18] Ripley et al. (1973) discuss federal agencies in their book. Since there is much overlap with the literature on organizational innovation and state policy innovation in their model, I take the liberty of drawing theoretical support for state government from their arguments as well.

developed by Wright, Erikson, and McIver (1985), and a Citizen Ideology Index periodically calculated by Berry, Ringquist, Fording and Hanson (1998).

Elections and their outcomes also significantly influence state policy innovation. An environment of heavily contested elections may give rise to increased innovation during an election year for the purpose of winning votes. Innovation may also be more likely to occur at the beginning of a term in office, especially when a former minority has gained control (Walker, 1969). The more popular the policy innovation under consideration, the more likely it might be considered during an election year, while more controversial issues may be reserved for non-election years (Hamm & Moncrief, 2004; McLendon et al., 2005). And regardless of which party wins the election, a unified government – where both the executive and legislative branches are controlled by the same party – seems to be a necessary condition for encouraging (or even allowing) policy innovation (Beyle, 2004).

Interest group pressures attempt to sway policy decisions in ways that most benefit them (Brudney & Hebert, 1987; Sapat, 2004). Thomas & Hrebrenar (2004, p.102) broadly define an interest group as "an association of individuals of organizations or a public or private institution that, on the basis of one or more shared concerns, attempt to influence public policy in its favor." Business and labor interests have consistently ranked highly and are considered the most effective in using their political influence over state government; no public interest or citizen group falls within the top twenty most influential interest groups (Thomas & Hrebenar, 2004). Interests that are more visible, in terms of spending, membership numbers, or reputation, may wield more power (Ripley et al., 1973; Thomas & Hrebenar, 2004). Also, those that benefit from existing policies and programs – "agency clientele" – are hostile to changes that would cut these privileges, and may undermine innovations that are perceived to do so (Nice, 1994; Sapat, 2004).

The actions (and inactions) of the federal government have strong repercussions on the policy decisions of states. The federal government may mandate or suggest change at the state level in a variety of ways. It may establish mandatory regulations with which states must comply, sometimes accompanied by strong disincentives for non-compliance. It may also provided incentives for certain changes by offering categorical funding sources for which states can apply (Welch & Thompson, 1980). The federal government can also show tacit disapproval of state innovations by failing to fund them (Menzel & Feller, 1977). Finally, federal adoption of a particular program, even without mandates and funding, may encourage states to do likewise (Gray, 1973).

In terms of *organizational* determinants, state policy innovation theory draws heavily from organizational innovation theory. Older, more experienced agencies and those with larger staff sizes tend to have a greater propensity to adopt policy innovations (Ripley et al., 1973; Sapat, 2004). More centralized, hierarchical institutional structures seem to inhibit innovation. Complex organizations that maintain a division of labor among specialists seem to have the opposite effect (Ripley et al., 1973).

Of specific note are the roles of the governor and the legislature in determining a state agency's policy agenda. As the top executive of the state bureaucracy, governors can cultivate an internal environment that either stimulates or stymies policy innovation (Beyle, 2004; Osborne, 1990). Gubernatorial power to appoint state agency executives and management varies among states, and can interact with a variety of other factors, including electoral mandate, interest groups, and legislative climate to impact innovation

(Beyle, 2004). As Beyle (2004, p.214) suggests, even without official powers to appoint, "a politically shrewd governor...can probably orchestrate many of the selection decisions made by boards, commissions, and department or agency heads." The governor also retains ultimate management of the state's financial resources, and can use this along with other powers to influence "those policy directions a governor wishes to emphasize during his or her tenure in office" (Beyle, 2004, p.219).

States legislatures are the key to getting new policies and programs legally enacted, or making changes to existing ones, and to accessing the funds to pay for them. They can encourage or discourage policy innovation by administrative agencies based on the degree of autonomy they give them to specify vague legislation, or pursue their own agendas (Maynard-Moody, 1989).

The availability of slack resources is theorized to have the same impact on state governmental bodies as it does on organizations: a greater amount of "extra" human and financial capital will result in a higher likelihood of policy innovation. This is motivated by the pressure to utilize all allocated resources each fiscal year, or face potential staff and budget cuts the following year, coupled with the ability to absorb greater uncertainty and financial risk (Nice, 1994).

C. Applying and Expanding Innovation Theory to State Housing Finance Agencies

There are at least two theoretical shortcomings which this research addresses: a lack of attention to housing policy innovation at the state level, and a failure to differentiate between various state organizations with housing jurisdictions. This research fills this gap by examining one particular type of state agency engaged in housing – state housing finance agencies – and their operations, utilizing the combined innovation framework discussed above.

1. State Housing Policy Innovation

Studies of state policy innovation have focused on policies surrounding education (Mintrom, 1997), environmental regulation (Sapat, 2004), taxation (Berry & Berry, 1992), and lotteries (Berry & Berry, 1990), but the theory has not been systematically applied to housing.[19] While researchers have used the word "innovative" to describe new state housing programs (Meck et al., 2003; Stegman, 1999; Stegman & Holden, 1987), it has often been to describe policies and programs that they normatively believe to be the most unique and appropriate in meeting state housing needs. The factors that influence whether or not a particular housing policy gets adopted, and the process of policy creation, adoption and implementation are unexplored, and often assumed but unproven.

2. The Organization of State Government

Existing research fails to differentiate between multiple actors when discussing state-level innovation. Traditional focus has been on adoptions of innovations by state legislators, even though "legislators do not adopt all of the innovations, and, even whey they do, they are often somewhat general, leaving specific policy issues to be sorted out by the administrative agencies" (Sapat, 2004, p.141). The result of such "vague legislation" is that "administrators...become de facto lawmakers" (Maynard-Moody, 1989, p.137). This is often by intentional design of legislators, who are generalists by job

[19] It should be noted that both Walker (1969) and Gray (1973) include at least one fair housing policy in their analyses of a myriad of adopted state policies. However, to my knowledge, a more recent analysis does not exist. Also, these analyses were focused on diffusion only.

description, deferring to the more specialized expertise of administrative staff (Maynard-Moody, 1989, p.138).

Policy decisions forwarded by state agencies may be shaped by fundamentally different organizational and environmental factors (Brudney & Hebert, 1987). For example, an agency may be more responsive to the legislature or the governor to a greater or lesser degrees based on its structure (Brudney & Hebert, 1987). They may be more responsive to a public they view as customers, rather than voting blocs (Maynard-Moody, 1989). These characteristics may be especially pronounced in state housing finance agencies, which are generally structured as independent (also called semi- or quasi-independent, or quasi-government) state agencies, that are "in but not of" state government.[20]

The study of quasi-governmental agencies has primarily been limited to the scale of the nation-state. However, much of the theorizing thus far can easily translate to state governance as well. Skelcher (2005) discusses what he labels "Type II" agencies possessing single-purpose policy domains. These are created by government when "efficiency and effectiveness gains are anticipated as a result of detaching delivery functions from close political supervision and relaxing public sector employment and financing regulations" (Skelcher, 2005, p.99). Their legitimacy comes from the government that created them, and to which they are ultimately accountable, although they are managed by a board appointed by that government on the basis of expertise. According to Moe (2001), these quasi-governmental agencies approach policymaking through an entrepreneurial lens that differentiates them from "Type I" entities, such as

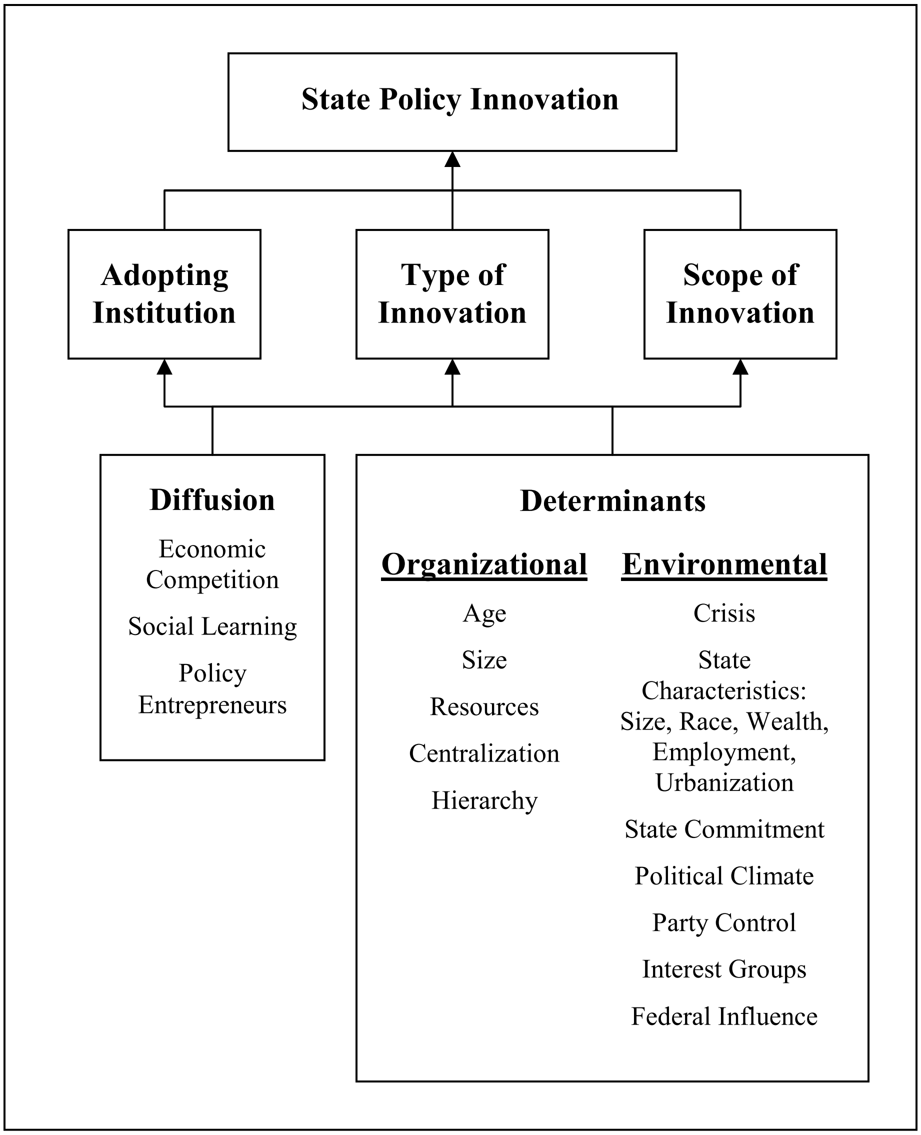
[20] In 2004, 42 out of 54 HFAs were listed as independent authorities (National Council of State Housing Agencies, 2005).

state departments, that operate according to a “constitutionalist paradigm” focused more on political accountability and due process than results. As such, they are less transparent in their decision-making and place a stronger emphasis on disseminating results.

3. Conclusion

This research brings together existing knowledge on organizational and state policy innovation, testing and building upon a unified theory of state policy innovation which includes measures of both policy determinants and diffusion (Berry, 1994; Mohr, 1969). This is illustrated in Figure 2.8 below. As this theory is applied to housing for the first time, as well as to actions taken by independent state agencies, it challenges existing assumptions and expands the reach of state policy innovation theory.

Figure 2.8: A Unified Theory of State Policy Innovation



CHAPTER 3:

Research Methodology

The two most common methods of analysis for state policy innovation are quantitative analysis of time-series data and qualitative case studies. This research utilizes a mixed methodology employing both methods in order to study innovation between states and within them. Longitudinal pooled cross-sectional data are assessed to identify the significant factors influencing HFA innovation, and the direction and magnitude of their impact. A multiple case study of two agencies provides more nuanced evidence as to the factors affecting innovation, to (1) generate alternative explanations for unanticipated quantitative results, (2) examine theorized relationships for which data were not available, and (3) expand and build a more grounded theory specifically based on state housing finance agencies and housing policy innovation.

A. Using a Mixed Methods Approach

According to Creswell and Plano Clark (2007, p.5), the "central premise" of mixed methods research "is that the use of quantitative and qualitative approaches in combination provides a better understanding of research problems than either approach alone." Approaching a single study using both quantitative and qualitative methods of data collection and analysis allows the strengths and weaknesses of one method to offset those of the other. As a result, the findings can provide both "trends and generalizations as well as in-depth knowledge of participants' perspectives" (Creswell & Plano Clark, 2007, p.33).

Studies of organization and state policy innovation have historically been conducted utilizing a variety of data collection methods while relying primarily on quantitative analysis.

(1) Organizational Innovation. Many studies of organizational innovation have utilized mixed methods approaches. Most common has been the combined use of expert rankings, interviews and surveys. Examples include Daft's (1978) research on innovation in school districts, Dewar and Dutton's (1986) analysis of innovation among footwear manufacturers, Kimberly and Evanisko's (1981) study of hospital innovations, and Nohria and Gulati's (1996) study of innovation within multinational corporations. In these cases, data garnered through interviews and ratings generally informed the development of a subsequent survey. Analysis has generally been quantitative in nature, producing correlation coefficients and multivariate regression models.

(2) State Policy Innovation. Most studies of state policy innovation have been conducted through the collection and analysis of cross-sectional or longitudinal quantitative data. Notable examples include Walker's (1969) analysis of state adoption of over 80 different policies, Gray's (1973) subsequent analysis of 12 redistributional policies, Berry and Berry's (1990, 1992) studies on state adoption of lotteries and taxes, Nice's (1994) analysis of eight types of state innovations, and Mintrom's (1997) study on state education policy innovation. For these studies, quantitative data were generated and/or compiled for statistical analysis.

Some research on state policy innovation has used mixed methods for both collecting and analyzing data. For example, Mintrom's (1997) quantitative analysis on state school choice policies is one piece of a larger mixed methodology which included case studies (Mintrom, 2000). Similarly, Glick and Hays (1991) conducted case studies of three states, utilizing interviews and document analysis, to supplement their statistical analysis of living will law adoption and reinvention.

Fewer studies have used a purely qualitative case study approach. These include studies on state innovations in education and intergovernmental policy presented in Harris and Kinney's (2003) edited volume, and a selection of cases on state education, health, environmental, housing, and economic development policy innovation by Wheeler (1993). Data for these cases were drawn primarily from interviews, documents, and archival records.

(3) Current Study. This research has merged these effective methods of studying organizational and state policy innovation together to simultaneously provide broadly generalizable and contextually nuanced findings as regards the two research questions of interest:

1. How have HFA roles in creating, adopting, and implementing state housing policy evolved over time?
2. What factors promote or constrain their ability to innovate, and how?

B. Event History Analysis

1. Overview

The most common and recent statistical method of analysis for state policy innovation is an event history analysis of a dichotomous variable indicating whether or not a specific policy innovation has occurred within a state during a given timeframe. This can be associated with a vector of covariates representing factors influencing state policy innovation.[21] The data utilized are pooled cross-sectional time-series data, equivalent to longitudinal panel data, where the same data were collected over a period of years. The timeframe of interest is the period each state remains “at risk” for a particular event occurrence, usually beginning when either the federal government or the first state adopts the innovation(s) of interest, and ending once the event occurs in that particular state.[22] A typical unit of analysis is the state-year, where the number of observations are equal to the number of states times the number of years in each state’s risk period (Beck & Katz, 1995; Beck, Katz, & Tucker, 1998; Berry & Berry, 1990; Box-Steffenmeier & Jones, 1997; Crowley, 2006).

2. Dependent Variables

This research utilizes event history analysis to model the relationship between HFA policy innovation and a variety of environmental, organizational, and diffusion covariates. The selection of variables is based on the unified theoretical model of state policy innovation presented in Figure 2.8. Data are drawn from annual membership surveys conducted by the National Council of State Housing Agencies from 1985 to 2004, supplemented by other existing governmental, organizational, and academic sources.

Following recent research, the state policy innovation under consideration is measured dichotomously according to whether or not the policy innovation was adopted in a given year (Berry & Berry, 1990, 1992; Chamberlain & Haider-Markel, 2005; Glick

[21] The specific model used – Cox proportional hazards regression – and its outcomes are presented in Chapter 5.
[22] States that do not experience the event within the observed timeframe are considered right-censored. This is discussed further in Chapter 5.

& Hays, 1991; Mintrom, 1997; Sapat, 2004).[23] The general housing policy innovation of interest to this study is that of a state housing trust fund (HTF). However, theory suggests that at least three moderating factors should be taken into account that may affect HTF adoption in addition to the influence of relevant covariates. One of these, the *type of innovation,* can be held constant throughout this analysis, because the adoption of a HTF is assumed in all cases to represent a technical innovation concerning new products and services, rather than an administrative one targeting organizational restructuring and processes. The other two mediating influences – *scope of innovation* and *adopting institution* – can each take two values, resulting in the need to test models of four unique combinations of these values. This is elaborated below.

In terms of *scope of innovation*, HTFs generally embody a *radical* innovation requiring new skills and activities on behalf of state government, rather than incrementally building upon existing program knowledge and operation.[24] However, scholars have often treated certain HTFs as more radical in scope than others: those HTFs which are funded through a dedicated revenue source. The rationale is that a policy that is adopted with funding permanently attached to it is more radical than a policy passed, but inconsistently and temporarily funded, if funded at all (Brooks, 2002; Connerly, 1993).

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[23] A less frequent approach is to utilize a count of innovations adopted in a certain policy area to measure "not just the timing of initial innovation, but also the extent of policy adoption in that year and whether it is expanded in subsequent years" (Boehmke & Witmer, 2004, p.39). Unfortunately, no annual listing of innovations by HFAs exists. None of the standard state resources, such as the Council of State Governments or the National Council of State Legislatures, specifically gather information on state housing policies adopted by state agencies. In their *Book of the States*, the Council of State Governments does list housing-related legislative initiatives considered and either passed or failed. However, no indication is given as to whether or not these policies are administered by HFAs. Furthermore, since HFAs often do not need legislative initiative to start a new program, this undercounts HFA innovation. A final impediment is that the data is gathered only every other year.

[24] An exception occurs in the case of states in which more than one housing trust fund is operating. The initial trust fund would represent a radical innovation, whereas each additional trust fund would most likely embody a more incremental innovation. The models presented in this research only considers adoption of the first trust fund by each state.

Stated differently, a policy on paper may just as well be incremental, with little impact on the status quo, if it is never put into action due to lack of funding. To test this hypothesis, two different scopes of innovation are tested: one considering state adoption of *any* HTF as the dependent variable, and the other considering *only* the adoption of an HTF with a dedicated revenue source.[25] For the purposes of this research, to be designated as funded through dedicated revenues, an HTF must have received at least partial funding in a given year through an automatic fund-generating mechanism not subject to legislative appropriations or approval (National Council of State Housing Agencies, 2005).[26]

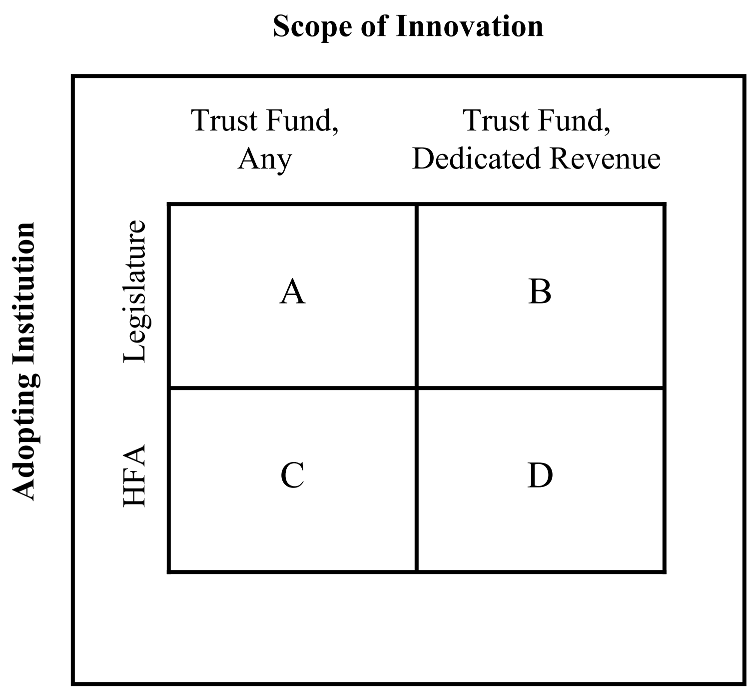
Another moderating factor – *adopting institution* – must also be specified. Theory on policy-making by state administrative agencies is incomplete. It is unclear whether or not legislative adoption of a policy is equivalent to administrative adoption, or whether or not innovation on the part of the state legislature equals innovation by the state agency designated as the administrator of the newly adopted policy. The literature suggests that these processes "are loosely and variably coupled" (Maynard-Moody, 1989, p.137), but it is unclear to what extent. To test whether or not HFA adoption is equivalent to legislative adoption, and whether or not the same policy determinants and diffusion factors influence adoption by both entities, this research examines both whether or not the legislature adopts an HTF, and whether or not an HFA administers an HTF.

Taken together, this study tests four discrete event occurrences regarding HTFs based on the possible combinations of the two moderating factors of *scope of innovation*

[25] This is similar to Berry and Berry's (1992, p.723, original emphasis) distinction between the adoption of *any* state tax innovation with that of a *particular* tax.
[26] These include document stamp fees, real estate recording fees, and interest bearing real estate broker accounts. Fees generated solely through bond financing and/or agency reserves, are not considered dedicated sources of funding for the purpose of this study, as these remain at the discretion of the agency to allocate to the HTF, and there are multiple purposes for which the funds can be expended beyond the HTF.

and *adopting institution*. This takes into account possible interactions between the two. For example, an HTF funded through dedicated revenues may be more likely to be administered by an HFA than any HTF in general. The four resulting models are depicted in Figure 3.1 below as follows*:*

Figure 3.1: Policy Innovation Models by Type of Innovation and Adopting Institution



- **Model A:** Whether or not the state legislature has adopted any HTF.
- **Model B:** Whether or not the state legislature has adopted a HTF funded through a dedicated revenue source.
- **Model C:** Whether or not the HFA administers any HTF.
- **Model D:** Whether or not the HFA administers a HTF funded through a dedicated revenue source.

3. Covariates

The covariates included in the model are found in Tables 3.1-3.3 below, including which theoretical factor they are intended to operationalize, their hypothesized relationship with HFA innovation, the source from which the data is drawn, and existing studies utilizing the same or similar measure. These variables represent the spectrum of organizational and environmental innovation concepts, along with specific measures of diffusion, as illustrated in Figure 3.1. As McLendon, Heller, and Young (2005, p.369) state in their study of state post-secondary education policy innovation, "it is now routine to find social, economic, political, and diffusion-related explanations of state policy innovation integrated into a single study." Many of these variables have been borrowed from the literature; a few unique to this research require further theoretical justification.

(A) Environmental. Table 3.1 details the environmental variables chosen for this analysis. The *socio-economic* variables of interest include several common in the literature. Adjusted per capita income is a popular measure of state wealth used in this study, and usually positively associated with state policy innovation. Higher levels of urbanization and racial diversity indicate a more "heterogeneous" environment which may lead to greater innovation on behalf of organizations serving these populations (Baldridge & Burnham, 1975; Kimberly & Evanisko, 1981). These characteristics are also strongly related to housing needs and policies (Briggs, 2005; Joint Center for Housing Studies, 2006; Massey & Denton, 1993). While the most common measure of urbanization is the percent urban population, the percent metropolitan population was utilized here since it is measured annually while the other variable is only available

Table 3.1: Environmental Covariates, Hypothesized Relationship, Data Sources, and Existing Studies

Innovation Factor	Covariates	Hypothesized Relationship	Data Sources	Existing Studies
State Socio-Economic Characteristics	Per capita personal income, adjusted	Positive	Current Population Survey	(Berry & Berry, 1990; Boehmke & Witmer, 2004; Gray, 1973; Mooney, 2001; Sapat, 2004; Walker, 1969)
	Percent black population	Positive	Decennial Census	(Baldridge & Burnham, 1975)
	Percent metropolitan population	Positive	Decennial Census	(Baldridge & Burnham, 1975; Berry & Berry, 1992; Kimberly & Evanisko, 1981; Walker, 1969)
Severity of Housing Crisis	Housing Price Index	Positive	Office of Federal Housing Enterprise Oversight	(Sapat, 2004)
	Residential Building Permits Authorized per 1000 population	Positive	Current Population Survey	(Sapat, 2004)
	Percent of units with more than 1.0 occupants per room	Positive	Decennial Census	(Sapat, 2004)
State Commitment to Housing	Annual state expenditure on housing & community development	Positive	Census of Governments	(Sapat, 2004)
Political Climate & Culture	Ranney Index of Interparty Competition	Positive	Bibby and Holbrook, 1990, 1996, 1999, 2004	(Brudney & Hebert, 1987; McLendon et al., 2005)
	Citizen Ideology Index	Positive	Berry, Ringquist, Fording, & Hanson, 1998; updated through 2004	(Berry & Berry, 1992; Chamberlain & Haider-Markel, 2005)

decennially. The percent of the population which is black is used to measure racial diversity.

Studies measuring the adoption of particular policies have utilized various proxies for indicating the *severity of crisis* extant in that policy arena. In housing, common indicators of the severity of the problem focus on issues of supply and demand. In terms of supply, the number and type of units built in a given year, the level of overcrowding occurring, the physical condition, and the age of the housing stock are key indicators. In this analysis, these supply indicators are represented by the number of single-family residential building permits authorized annually per 1000 state population. Overcrowding is measured as the proportion of housing units where more than 1.0 occupants per room are residing, measured decennially. Both are hypothesized to have a positive relationship with the adoption of a HTF, as (1) affordability problems typically escalate within strong housing markets, and (2) overcrowding is a standard measure of concern in gauging the presence and extent of a housing crisis (Joint Center for Housing Studies, 2006).

In terms of demand, measures of median sales price of an existing home, and the percentage of cost-burdened households (those paying more than 30% of their income toward housing costs) are most common. Unfortunately, these standard demand-side indicators are either not available disaggregated by state, are only available decennially, or have only recently begun to be collected on an annual basis, and therefore do not cover the entire study period.[27] Instead, this analysis utilizes the Housing Price Index generated quarterly by the Office of Federal Housing Enterprise Oversight. This measure is available by state for each year of the study period, and provides an index of housing prices based on repeated sales of single-family detached homes in which conforming conventional mortgages were purchased by either of two government-sponsored enterprises in the secondary mortgage market: Fannie Mae or Freddie Mac. It is anticipated that a state's risk for HTF adoption increases along with this index, as higher

[27] Standard sources for this information includes the American Housing Survey conducted by the U.S. Census Bureau, which has only been conducted annually since 1995, and the National Association of Realtors, which disaggregates to the level of metropolitan areas, but not states.

housing prices decrease housing affordability to lower income populations for whom HTFs are created to assist.

As Sapat (2004, p.144) points out in her study of state environmental policy innovation, those states with high *prior commitments* to the policy area in question are more likely to continue to adopt new innovations in that area. Sapat uses the percent of all state expenditures on environmental programs as her measure of this concept. The Census of Governments collects data on combined housing and community development expenditures every five years. This is the measure utilized here, adjusted for inflation and computed on an per capita basis. It is expected that states already making a relatively high level of investment in housing and community development will be more willing to adopt a housing trust fund.

The *political climate and culture* within which an HFA operates may also have an important influence on its adoption of policy innovations. These factors are well established in the literature, and include the degree of party competition for elected positions; which party controls the legislature, and whether the governor is of the same party; and whether or not it is an election year. This study specifically tested party competition as measured through the Ranney index of interparty competition, updated by Bibby and others every few years. It is anticipated that states exhibiting higher levels of interparty competition will be more likely to adopt a new policy innovation as parties fight hard to increase their constituencies by slim margins. A measure of public opinion along a conservative-liberal continuum is also employed: Berry and others' Citizen Ideology Index. A more liberal citizenry is expected to improve the likelihood of new policy adoptions.

(B) Organizational. The organizational covariates tested through this research are listed in Table 3.2, and operationalize the theoretical concepts of specialization, slack resources, and centralization presented in Chapter 2. Variables include agency age and agency size (measured by total staff size) as measures of specialization: the older and larger the agency, the more likely it is to adopt a new policy. The concept of slack resources is explored utilizing agency annual operating budget, adjusted for inflation, with wealthier agencies hypothesized to have greater resources to try out new policies. The general notion that centralization of decision-making and power makes innovation more difficult is tested by examining an HFA's status as an independent authority, which is assumed to equal less influence by the legislature, while centralizing power in the hands of the governor. This is hypothesized as a limitation on agency innovation (Brudney & Hebert, 1987).

Table 3.2: Organizational Covariates, Hypothesized Relationship, Data Sources, and Existing Studies

Innovation Factor	Covariates	Hypothesized Relationship	Data Sources	Existing Studies
Specialization	Agency age	Positive	NCSHA	(Kimberly & Evanisko, 1981; Ripley et al., 1973)
	Number of staff	Positive	NCSHA	(Baldridge & Burnham, 1975; Brudney & Hebert, 1987; Pierce & Delbecq, 1977; Ripley et al., 1973; Sapat, 2004)
Slack Resources	Annual operating budget	Positive	NCSHA	(Damanpour, 1996)
Centralization	HFA is Independent Authority	Negative	NCHSA	(Brudney & Hebert, 1987)

(C)Diffusion. To assess the impact of neighboring state adoption of trust funds on policy innovation, two measures of diffusion are included in the analysis (Table 3.3). One

measure is the raw count of neighboring states having adopted the measure, lagged one year. The second is the percentage of neighbors, lagged one year. These are tested separately, and are expected to be positively correlated with state policy innovation.

Table 3.3: Diffusion Covariates, Hypothesized Relationship, Data Sources, and Existing Studies

Covariates	Hypothesized Relationship	Data Sources	Existing Studies
Number of neighboring states with trust fund	Positive	NCSHA; Elbert 2005	(McLendon et al., 2005)
Percent of neighboring states that have adopted a trust fund	Positive	NCSHA; Elbert 2005	(Chamberlain & Haider-Markel, 2005)

C. Multiple Case Study Analysis

Quantitative analysis is helpful in examining areas for which data are available. However, important factors influencing HFA policy innovation over time are most certainly missed by the data collected to date. In addition, while numerical data are useful in assessing policy outcomes (e.g. innovation either occurred, or did not), they are limited by narrowly-defined variables, and gloss over the complexity of the processes leading to policy adoption decisions. In contrast, case study analysis is useful for exploring and explaining multifaceted structures and phenomena within their contemporary contexts. It is especially well-equipped to investigate situations in which there are more variables of interest than there are existing data points, and for which multiple sources of evidence exist (Yin, 2003).

1. Case Selection

This research presents a multiple case study analysis of the Illinois Housing Development Authority (IHDA) and the New Jersey Housing and Mortgage Finance Agency (NJHMFA). Both Illinois and New Jersey have adopted significant housing policy innovations, but differ in the timing, and in some cases, the type of policies adopted. While New Jersey has an established reputation as a housing innovator (Calavita et al., 1997; Meck et al., 2003), Illinois is a more recent newcomer (Komperda, 2005; Local Initiatives Support Coalition, 2004; Snyderman, 2005).

Besides being two of the first HFAs established in the country, and therefore allowing comparisons with Betnun's (1976) study of thirty years ago, the contextual differences between the two states on the policy innovation variables being tested above make them prime candidates for this study.

(A) Socio-economic conditions: Differing demographic, social, economic and geographic contexts can have a significant impact on state housing policy. New Jersey is a dense, urbanized state with both strong municipalities and centralized state planning. Its largest city – Newark – is home to just over a quarter of a million inhabitants, or less than five percent of the state's population. Illinois' residents, on the other hand, are concentrated in and around the city of Chicago, with almost half of the state's population residing in just one of its 102 counties (Cook County). This leads to significant tensions between the Chicago metropolitan region and the rest of predominately rural "downstate" Illinois (Gray, 2004). As shown in Table 3.4 below, New Jersey's population is older, more diverse, and wealthier, while owning fewer homes and experiencing significantly

Table 3.4: Select Socio-Economic Characteristics of Illinois, New Jersey, and the US, 2005

Socioeconomic Characteristics	Illinois	New Jersey	U.S.
AGE			
Population 65 Years Old and Over	11.5%	12.5%	12.1%
RACE/ETHNICITY			
Non-Hispanic White	65.6%	63.0%	66.8%
Black	14.5%	13.3%	12.1%
Asian	4.1%	7.3%	4.3%
Foreign born	13.6%	19.5%	12.4%
INCOME			
People Below Poverty	12.0%	8.7%	13.3%
Median Household Income	$50,260	$61,672	$46,242
HOUSING			
Condition			
Housing Units Built in 1939 or Earlier	23.5%	20.3%	14.7%
Units with 1.01 or More Occupants per Room	2.6%	2.7%	3.1%
Owner-Occupied Units			
Owner-Occupied Units	69.9%	67.3%	66.9%
Median Owner-Occupied Home Value	$183,900	$333,900	$167,500
Median Monthly Owner Housing Costs (for those with a mortgage)	$1,455	$1,938	$1,295
Owners spending 30 % or More of Income on Housing Costs (for those with a mortgage)	37.2%	40.7%	34.5%
Renter-Occupied Units			
Median Monthly Renter Housing Costs	$734	$935	$728
Renters spending 30% or More of Income on Housing Costs	46.1%	47.6%	45.7%

Source: 2005 American Community Survey.

higher housing costs than both Illinois and the rest of the United States. Illinois tends closer to the national average on most of these indicators, but has a much older housing stock, and substantially higher rate of homeownership than the nation as a whole. Both states rank higher than the national average in cost-burdened homeowners and renters, or those paying more than 30 percent of their income towards monthly housing costs.

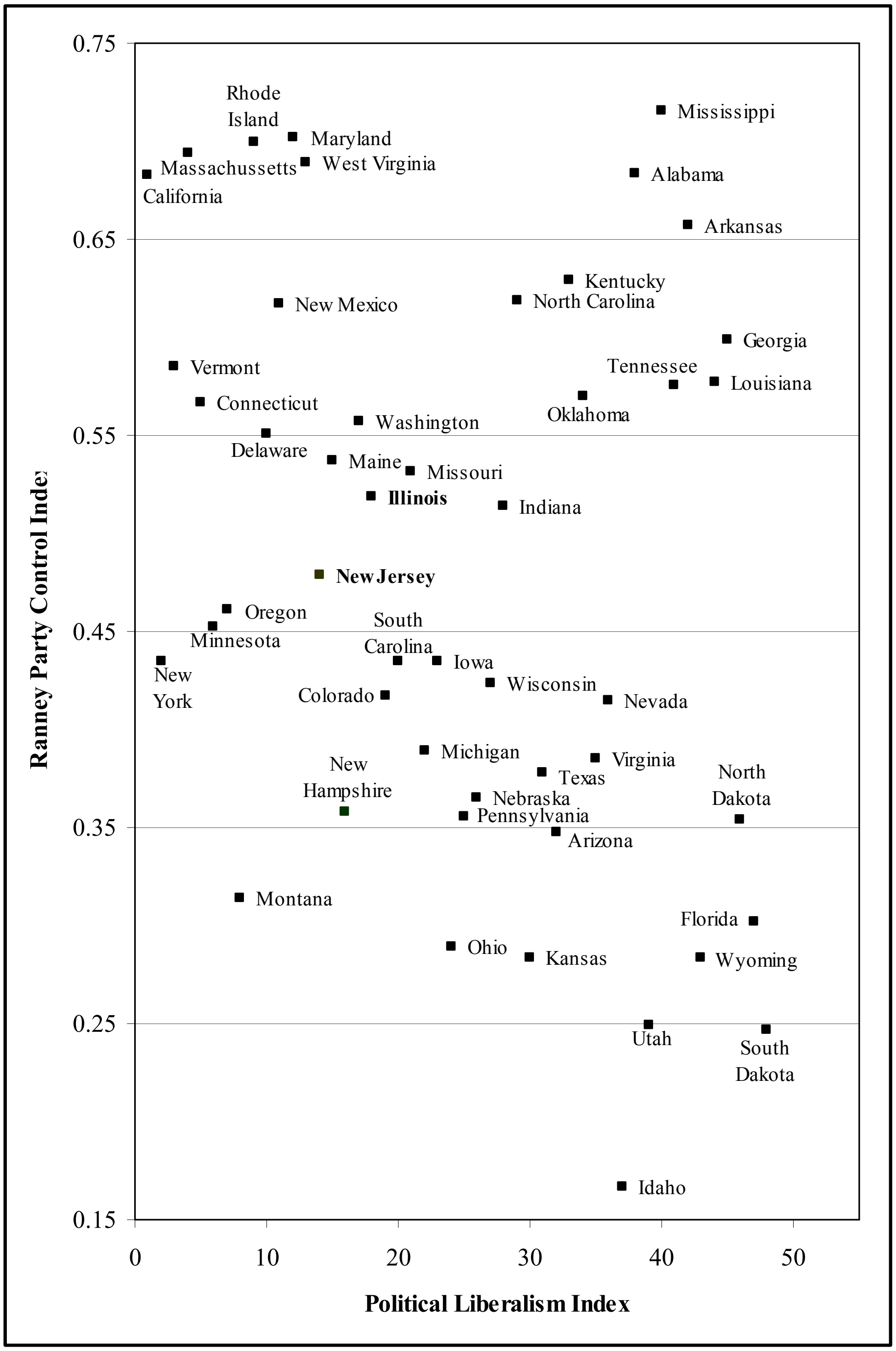
(2) Political culture and party politics: In terms of political culture, New Jersey and Illinois rank similarly. Figure 3.2 shows how all fifty states rank on two separate indices: one measuring liberalism within state policy, and the other measuring party

control over the governorship and legislature. The Political Liberalism Index constructed in 2000 ranks states based on gun, abortion, welfare, and right-to-work laws, and on tax progressivity (Gray, 2004). According to this index, New Jersey and Illinois are both relatively liberal in their policy orientation, ranking 14th and 18th, respectively.[28] The Ranney party control index provides a standardized measure of interparty competition based on (1) party success on winning gubernatorial and legislative races, (2) the duration of party control over these elected positions, and (3) the frequency of control being divided between governors and legislatures of opposite parties. The closer to a value of 1.0, the more Democratic the state; the closer to 0, the more Republican-controlled the state. According to this index, during the 1999-2003 period, Illinois (0.519) and New Jersey (0.479) both exhibited strong two-party competition (Bibby & Holbrook, 2004).

(3) Institutional structure: Both agencies selected for study are independent authorities that are "in but not of" state government, as are the large majority of HFAs (75 percent) (National Council of State Housing Agencies, 2005). Within New Jersey, NJHMFA is one of three state agencies specifically given oversight on affordable housing; it is subsumed under the authority of the State's Department of Community Affairs (DCA), along with the Council on Affordable Housing (COAH). This represents a more typical institutional structure, where an HFA works along with one or more other state governmental entities engaged directly in addressing state housing needs. IHDA, on the other hand, remains the only state-level agency with a specific housing mandate in Illinois.

[28] It should be noted that there is wide variety among the individual state indices for gun laws, etc. from which the composite policy liberalism index is calculated. Therefore, for example, while Florida is one of the most conservative states on the overall index, it is more liberal on gun law than many other states, ranking 18th on that index.

Figure 3.2: State Rankings on Policy Liberalism (2000) and Ranney Party Control Indices (1999-2003)



Source: Bibby and Holbrook (2004)

(4) Agency function: Based in part on differences in institutional structure, these two HFAs cover a broad cross-section of functions as illustrated by Table 3.5 below. Like most HFAs, both IHDA and NJHMFA utilize bond financing and administer federal LIHTCs. However, whereas IHDA also administers a number of other federal and state housing resources, NJHMFA shares these responsibilities with its sister agencies. For example, DCA takes the lead in preparing the State's Consolidated Plan, and administering the related federal funds. It also operates New Jersey's Balanced Housing trust fund, although it has recently shared some of this responsibility with NJHMFA through a joint application procedure. DCA also administers state housing subsidy programs, such as the State Rental Assistance Program, a statewide replica of the federal voucher program; IHDA oversees Illinois' new project-based rental program. In terms of fair share housing, this is exclusively administered by COAH in New Jersey, while IHDA oversees it in Illinois. Of the two HFAs, only IHDA has a legislative mandate to issue, implement, and evaluate a Comprehensive Housing Plan, and administer state housing tax credits. Appendix A depicts the housing institutional infrastructure in both states,

Table 3.5: Major Housing Functions Performed, by State Agency, Illinois and New Jersey

Function	**Illinois**	**New Jersey**		
	IHDA	**NJHMFA**	**DCA**	**COAH**
Bond Financing	X	X		
LIHTC Administration	X	X		
HUD Consolidated Plan	X		X	
HOME Fund Administration	X		X	
State Housing Trust Fund	X		X	
State Rental Assistance Program	X		X	
State Fair Share Housing Plans	X			X
State Comprehensive Housing Plan	X			
State Housing Tax Credit	X			

including the links between and the division of responsibilities among agencies.

2. Data Collection and Analysis

To conduct these case studies, several types of data were gathered: (1) interviews, (2) document analysis, and (3) direct observation. Interviews were used to seek and corroborate facts, and garner opinions, from key informants representing the broad spectrum of public, private, and nonprofit entities involved in affordable housing. An interview guide specifying general questions along with specific probes was utilized for each interview. This was a dynamic instrument which was revised as analysis revealed new directions for theoretical exploration. Twenty-five phone interviews, ranging from 30-65 minutes in length and averaging 45 minutes, were conducted from February through September of 2006.[29] Interviews were recorded and transcribed for accuracy and analysis.[30] Respondents included 9 current and former HFA staff, with the remainder representing advocates, researchers, developers, and financiers of affordable housing. Interviewees were almost evenly split according to gender. The majority of them had worked in the housing arena for more than 10 years, with several individuals engaged in housing for over two decades. Confidentiality was guaranteed to each respondent, so their names and affiliations are withheld.

As noted by Strauss and Corbin (1998, 52), "much can be learned about an organization, its structure and how it functions (which might not be immediately visible in observations and interviews) by studying its reports, correspondence, and internal memos." While this research sought out only publicly available documents, their analysis

[29] One respondent was allowed to respond to the interview questions in writing due to scheduling difficulties. The costs of this – namely, premeditated, formulaic responses – were considered to be offset by the benefits of getting a response at all in this case.
[30] One interviewee declined to be recorded.

helped define HFA roles; track program initiation, adoption, implementation, and evolution over time; reveal key influences on policy; and define program constraints. Documents analyzed included applicable state legislation and regulations, HUD Consolidated Plans (ConPlans), QAPs, state Comprehensive Housing Plans, and statewide housing studies and program evaluations sponsored by, or studying activities of, the HFA in question. Where plans or reports have been published regularly over a period of years, an attempt was made to obtain a copy from at least every fifth year between 1990 and 2005. A list of specific documents reviewed is included in Appendix B.

Direct observation is a useful source of data for understanding "complex interactions in natural social settings" within contemporary society (Marshall & Rossman, 1999, 107). Observing events in which the two HFAs were participating helped validate factual information regarding program implementation, as well as corroborate the nature of HFA relationships with other statewide housing actors, as revealed through interviews and document analysis. It allowed for a more thorough understanding of how HFAs communicate with different housing stakeholders, and their responsiveness. Finally, it provided greater details on the development and implementation of HFA policies and programs. A standardized observation protocol was used to structure field note-taking at each event attended. Three events were observed in each state which attracted national, statewide, and local audiences. While geographic diversity was sought in event location, this proved unfeasible due to an unanticipated risk of poor event turnout in more rural locations and to events with limited public notice and/or popular interest.[31] This shortcoming was addressed by attending sessions at statewide events intended to draw people from across the state to discuss a broad range of housing issues facing various populations and geographies. A list of specific events attended is included in Appendix C.

Data collection and analysis was an ongoing and iterative process where constant analysis led to further data collection activities (Kvale, 1996; Lofland & Lofland, 1995; Marshall & Rossman, 1999; Strauss & Corbin, 1998). All interview transcripts, document notes, and observation field notes, were analyzed utilizing the qualitative analysis software, NVivo7. Using a grounded theory framework, documents were repeatedly coded to identify emergent categories and themes, and their various properties and dimensions. As all relevant categories and their dimensions were uncovered, thereby reaching a theoretical saturation within the existing data, further analysis was done to explore how different dimensions were related to one another. Memos, matrices, diagrams, and other data summarizing techniques were utilized throughout the study to track and test emerging patterns and explanations (Charmaz, 2006; Strauss & Corbin, 1998).

D. Limitations of the Research

As with all research, there are several limitations to this research methodology that should be acknowledged. First, the quantitative analysis is limited by its use of existing, longitudinal data. As a result, some concepts may be more weakly operationalized than others. This is apparent in the necessary use of semi-static data

[31] For example, Illinois' 2004 Consolidated Plan Performance Report revealed that only 2 members of the general public attended the annual hearing held in the State's capital of Springfield. It was judged that attending this type of event/geography would not allow for the type of observation desired.

where annual data would have been preferred for all time-varying covariates. In terms of agency-related data from the National Council of State Housing Agencies, the analysis was constrained by the types of questions asked in the survey instrument utilized in any given year, incompleteness of some data due to missing responses, and errors resulting from misinterpretation of the survey questions by those completing the questionnaire.

Second, the case studies represent only two states in two geographic regions (Northeast and Midwest) of the United States, and cannot possibly capture all of the diversity among the states. While strategically selected to elucidate rich answers to the research questions, these cases are in no way assumed to represent the "average" HFA. This shortcoming could be remedied in the future by conducting additional case studies representative of the various U.S. geographies and their associated social, economic, and political climates.

Third, documents, individuals, and events that do not directly relate to HFAs, their policies and programs, were not directly studied. This was to simplify the analysis by adequately bounding the scope of the research. However, this means that the picture of HFA actions presented by this research is somewhat incomplete. To correct this, future research could seek out the perspectives of those housing actors who either choose not to participate in HFA programs, or are unaware of their existence. It could also examine the relation of HFAs to more local housing actors, such as municipal governments, small-scale developers, and individual homeowners and renters impacted by HFA programs, to provide a more comprehensive view of HFA policies and programs.

A final limitation of the chosen research methods is the public nature of the documents reviewed and events observed. To simplify the research and minimize ethical issues, this study did not access intra- and inter-agency correspondence and meetings. While this affected the ability of this research to compare the information provided for public consumption with that discussed in private, the individual, confidential in-depth interviews with the various actors made up for some of this loss.

CHAPTER 4:

The Evolution of HFA Roles

Before undertaking an analysis of state housing finance agency (HFA) innovation – the primary purpose of this study – it was important to reassess their roles within the affordable housing industry. Indeed, if they have not evolved significantly since their establishment, one could argue (and some do) that their role in policy innovation remains negligible. If this is the case, this research project is moot.

As discussed in Chapter 1, three decades ago HFAs were identified as serving several primary functions. Their most basic role was as a *lender*, primarily through bond financing. They were also establishing themselves as *administrators* of federal programs, represented primarily by the Section 236 program in the late 1960s and early 1970s. Finally, in a few limited circumstances, HFAs were serving as direct *developers* and/or managers of affordable housing themselves. In this chapter, these roles are reassessed and expanded. While a detailed listing of each function of every HFA is beyond the scope of this research[32], two case studies, supplemented by existing literature and data, reveal significant changes over time.

A. Overview

Case studies of the Illinois Housing Development Authority (IHDA) and the New Jersey Housing and Mortgage Finance Agency (NJHMFA) show that historic

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[32] Prior researchers had the benefit of only having a handful of HFAs to study when writing in the 1970s, who were performing a succinct, easily-definable list of duties. In comparison, their are 55 HFAs today performing dozens of different responsibilities. A partial listing can be found in the annual membership survey results published by the National Council of State Agencies (Various years), although this is limited due to its focus on federal as opposed to state-sponsored programs.

assumptions about the role of HFAs within state government seem to be true in at least one respect: their primary function is as a financer of affordable housing development. Beyond this, however, they also fulfill other substantial roles that need to be recognized and evaluated. Figure 4.1 compares and contrasts the roles of HFAs in the 1970s with those they play now, based on the data collected for these two cases.

Figure 4.1: HFA Roles – Then and Now

HFA ROLES	THEN	NOW
Financer	• Bond financing	• Bond financing
Administrator/Monitor	*Federal* • Section 236 • Section 101	*Federal* • LIHTC • HOME • Section 8 *State* • Housing trust funds • Housing tax credits
(Re)developer	• Land acquisition • Developer • Manager	• Land acquisition • Developer • Manager
Researcher & Planner	N/A	*Federal* • LIHTC Qualified Allocation Plan • HUD Consolidated Plan *State* • Comprehensive Plans • Internal Programs
Coordinator	N/A	• Interagency
Educator & Capacity-Builder	N/A	• Consumer Education • Technical Assistance/ Funding to Providers

B. HFA as Financer

As expected, HFAs remain most engaged in *financing* housing production and purchase through a variety of sources. However, there have been at least three notable changes in the nature of HFA financing over time: (1) improvement in HFA creditworthiness and financial reputation, (2) diversification of funding sources, and (3) more creative, complex structuring.

1. Creditworthiness

HFAs now have a respectable track record of financial solvency, providing sound investments for the bond market due to "their prudent and conservative approach and many successful years of bond issuance" (Standard & Poor's, 2005, p.275). Today, more than half of all HFAs receive an issuer rating from one or more of three credit rating agencies – Standard & Poor's, Moody's and Fitch – evaluating the strength of their general obligation (GO) pledge.[33] This pledge can be used to back bond issuances to lower the risk to investors in the event of default, and therefore make investment in the agencies tax-exempt and taxable bond offerings more attractive.[34]

The rating agencies look closely at the HFA's public purpose mandate; relationship with state executive and legislative branches; management's skill, track record, depth, tenure, and succession plans; and a variety of financial indicators including fund balances, income, capital liquidity, and debt characteristics. They also consider the state's economic and political climate (Fitch Ratings, 2005; Moody's Investor Services, 2005; Standard & Poor's, 2005). The ratings services take into consideration all HFA

[33] Moody's rates the most HFAs, with 37 as of 2005, and has been doing so since 1987. (Moody's Investor Services, 2005). Standard & Poor's assigns Issuer Credit Ratings to at least twenty-three HFAs (Previdi, 2006). As of 2005, Fitch had rated five agencies (Fitch Ratings, 2005). Some HFAs may choose not to be rated by all or any of these firms if they do not intend to issue debt backed by their general obligation pledge (Moody's Investor Services, 2005).

[34] Other reasons that HFAs might apply to be rated include easier participation in HUD's Risk-Sharing program (where HFAs jointly insure loans with FHA), to improve the status of ratings on individual bond issuances (discussed below), to increase access to credit enhancers (e.g. bond insurance or letters of credit), and to give their Board of Directors an objective measure of agency performance compared to other HFAs (Moody's Investor Services, 2005).

deals, regardless of source of funds, in determining the level of risk HFAs are undertaking in their daily financing decisions (Illinois Housing Development Authority, 2006; Previdi, 2006). Utilizing these criteria, IHDA has received an A1 Issuer Credit Rating from Moody's, and an A+ from both Standard and Poor's and Fitch, along with a "stable" outlook for future performance (Fitch Ratings, 2007; Moody's Investor Services, 2007; Standard & Poor's, 2007).[35] This indicates that IHDA's GO pledge is strong in general, as evidenced by an A-grade rating, but weaker in comparison to those HFAs rated more highly at the AA or AAA level. NJHMFA has recently been upgraded to a AA rating (from a AA-) by Standard and Poor's and to an Aa1 from Moody's (up from an Aa2) with stable outlooks from both (Moody's Investor Services, 2007; Standard & Poor's, 2007). They boast one of the "highest ratings given to any state housing finance agency in the nation," according to NJHMFA (New Jersey Housing and Mortgage Finance Agency, 2007).

In addition to receiving Issuer Ratings based on their GO pledge, HFAs often have individual bond issues rated for their specific financial risk. As the rating applies only to the structured finance of a single bond issue, as opposed to all HFA deals, these ratings tend to be higher than the Issuer Credit Rating. They can also be increased if the HFA decides to back the issuance with its GO pledge. Both IHDA and NJHMFA have consistently received AA to AAA ratings on their bond issues from the rating agencies since the early 1980s. These are definite improvements from the average A1 rating given to HFA bond issues in the 1970s (Morris, 1974).

[35] Issuer Ratings and long-term issue credit ratings generally range in value from a high of AAA to a low of C. Moody's adds numerical indicators to designate if an HFA falls at the high (1), middle(2), or low(3) end of the category, whereas Standard & Poor's and Fitch utilize pluses and minuses. Therefore, the fact that Moody's 37 HFA Issuer Ratings range in value from A3 (lowest) to Aaa (highest) indicates that HFAs are subject to low to minimal credit risk, and therefore strong financially.

2. Diversification

In the 1970s, especially during the uncertain period surrounding Nixon's housing moratorium, some researchers expressed concern regarding HFA dependence on fickle capital markets and waning federal subsidies to fulfill their mandates in developing affordable housing (Betnun, 1976). While bonds continue to supply the majority of funds HFAs have at their disposal, other sources have emerged over the last several decades at both the state and federal level which offer greater flexibility in project financing, as well as allow HFAs to weather the cyclical nature of financial markets. Programs with permanent funding that emerged in the 1980s, such as the federal Low Income Housing Tax Credit (LIHTC) program and a variety of state housing trust funds and tax credit programs, are a marked improvement over the flavor-of-the-year mindset that permeated U.S. urban and housing policy in the 1930s through 1960s. While these other resources may grant HFAs a steady stream funds, they continue to pale in comparison to bond financing in terms of quantity of dollars available. Thus HFA business is still tightly tied to private investment mechanisms, which may place severe limitations on their overall housing activities.

HFAs have also diversified their funding by expanding the services they offer in-house. This includes originating and/or servicing single-family mortgage loans internally in order to earn the accompanying fees, rather than relying on private lenders. They also have won contract administration for federal project-based Section 8 properties, and oversee the LIHTC program, resulting in additional fee income.

3. Creativity

In their early history, HFAs had a relatively narrow interpretation of their role and utilized their financing mechanisms in conservative, traditional manners. Bonds were used to issues mortgages on single-family and multifamily purchase and/or development, with proceeds from leasing and sales used to repay the obligation. A few states purchased mortgages from originators, and some insured loans to decrease the risk to private lenders. Even fewer negotiated tax abatements with local governments on HFA-funded projects and/or directly acquired sites for development (Morris, 1974).

Today, HFAs exhibit increasing creativity in harnessing market forces for the development of affordable housing. Even within their funding constraints, they can still work aggressively to maximize their impact by stretching resources to their limits to reach as many needs as possible. As one agency staff person noted:

> "we do have the ability to be creative in the way that we finance things, and I think that creativity is one of the things that helps us to meet our goals. The fact that we are able to come up with new programs that respond to the current housing market, the current needs of the affordable housing population, in conjunction with the other agencies, we are able to put in place programs that meet the needs of the people we serve."

NJHMFA's C.H.O.I.C.E. (Choices in Home Ownership Incentives Created for Everyone) program is the third iteration of a program first begun in 1996 to encourage mixed income homeownership in low-income urban neighborhoods.[36] A broad cross-section of interviewees – advocates, developers, and agency staff – noted it as a particularly unique and successful program because, in the words of one developer, "it is a recognition that there are a lot of different types of housing markets in the State, and

[36] The first program, U.H.O.R.P. (Urban Home Ownership Recovery Program) began in 1996, and was rolled into the M.O.N.I. (Market Oriented Neighborhood Investment) program in 2002. C.H.O.I.C.E. was established in 2006.

that [in] addressing those different markets, there will be a need to be very flexible in how the funding works."

As state housing needs change, HFAs are exhibiting flexibility in redirecting funds to key areas. For example, both IHDA and NJHMFA have assisted in financing public housing redevelopment and rehabilitation. NJHMFA acted as the construction lender for the demolition and new construction of public housing in Newark. IHDA has created a Capital Fund program to finance public housing capital improvements through the use of bond proceeds secured by future HUD allocations to a local public housing authority. Both agencies have also engaged in financing the preservation of units due to lose their subsidies through expiring federal contracts and prepayments.

C. HFA as Administrator & Monitor

HFAs have grown to play a significant role in the administration of federal and state programs and funds, and engage in accompanying program monitoring. According to the National Council of State Housing Agencies (2005), all but two state HFAs administer the federal LIHTC program, including annual allocations, distributions, and compliance monitoring (see Table 4.1 below).[37] A large majority (81%) have also opted to manage federal Project-based Section 8 contracts, while 38% run statewide Housing Choice Voucher programs. Seventy-four percent administer federal HOME block grant funds either as a Participating Jurisdiction or sub-recipient. In terms of programs serving special needs populations, 43% administer HOPWA programs and 30% access McKinney-Vento Homeless Assistance funds. At the state level, 70% run housing trust

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[37] The following data focus on the fifty states, and exclude the District of Columbia, Puerto Rico and the Virgin Islands.

Table 4.1: HFA Administration and Monitoring of Federal and State Programs

Program	%(#) of HFAs Administering	IHDA Administers?	NJHMFA Administers?
FEDERAL			
LIHTC	96% (51)	Y*	Y
Project-Based Section 8	81% (43)	Y	Y
Housing Choice Vouchers	38% (20)	N	N
HOME	74% (39)	Y	N
HOPWA	43% (23)	Y	N
McKinney-Vento	30% (16)	N	Y
STATE			
Housing Trust Fund	70% (37)	Y	Y**
Housing Tax Credit	26% (14)	Y	N
Tenant-based Rental Assistance	23% (12)	Y	N

Source: Elbert 2005; NCSHA 2005; author's research.
* The City of Chicago Department of Housing receives a separate allocation of LIHTC to be distributed to projects located within the city limits.
**NJHMFA administers the state's Special Needs Housing Trust Fund. It does not directly administer the state's Balanced Housing Trust Fund, but is authorized to expend some of its resources when applied for in junction with the LIHTC program.

funds, 26% administer state housing tax credits, and 23% run state tenant-based rental assistance programs.

IHDA has served as a conduit for federal programs, beginning with Section 235 and 236 in the 1970s, and extending through its current administration of Illinois' annual allocations of federal LIHTC and HOME funds, since their inception in 1987 and 1990, respectively. IHDA is also responsible for administering the Illinois Affordable Housing Trust Fund, established in 1989 to provide flexible, gap financing to projects reaching very-low-income households.[38] It is funded through 50 percent of the state's real estate transfer tax, and generates about $30 million per year. Since 2001, the Authority also runs the Illinois Donation Tax Credit program, crediting donors with fifty cents of every dollar off state income taxes for donations given to a not-for-profit entity for the purposes of affordable housing development. The latest state resource to come under IHDA's

[38] At least 50% of the funds must be used to benefit households at or below 30% of area median income.

jurisdiction is the new Rental Housing Support Program, with allocations set to begin in the spring of 2007. This project-based rental subsidy is expected to generate $25 million per year through a $10 document recording fee on real estate transactions.

NJHMFA also administers the LIHTC program. Recently, it has been given oversight of the new Special Needs Housing Trust Fund for financing the development of housing for persons requiring supportive services to live independently. Established in 2005, this revolving loan/grant fund is capitalized through up to $200 million bonds issued by the New Jersey Economic Development Authority, and can only be used toward capital costs. NJHMFA's Housing Affordability Services (HAS) monitors compliance with the state's Uniform Housing Affordability Controls, including approximately 5,000 units financed through a variety of state programs.[39] Specifically, any units developed to meet a municipality's fair share housing obligation as determined by the Council on Affordable Housing must use an administering agent such as HAS to monitor track the units. The Agency also maintains the Homeless Management Information System required by HUD for tracking, reporting and analyzing homelessness and associated federal programs.

D. HFA as (Re)Developer

Morris' (1974) vision for HFAs to perform widespread land banking at the minimum and act as an outright developer at the maximum to help increase the supply of affordable housing has never materialized. Only a handful of states were given and ever took advantage of these powers. While authorizations for these activities still remain on

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[39] HAS was recently transferred to NJHMFA from the Department of Community Affair's Division of Housing.

the books in some cases, they seem rarely utilized. This could be for several reasons. First, arguments that a public purpose entity is necessary for filling a market gap in affordable housing finance are more easily accepted than arguments for the public development and management of housing. Second, this role has traditionally been fulfilled by local public housing authorities in such an inefficient and ineffective way that any other public agency would choose to distance themselves from such an operation. Those HFAs that do still regularly develop housing are indeed those that have been historically combined with state public housing authorities. Finally, the developer lobby may be stronger than the finance lobby at the state level, effectively blocking state entrance into more direct competition with them.

The Illinois Housing Development Act, first enacted in 1967, gave IHDA the power to "acquire real property...; [and] own, manage, operate, hold, clear, improve and rehabilitate such real property..." (20 ILCS 3805/7.12). It was also given authority to act as the "State land development agency" (7.22) and to develop land or structures for housing, community facilities or housing-related commercial facilities (7.22a). Included in this is the power to acquire, construct, rehabilitate, and equip housing developments and facilities. Betnun (1976, p.24) noted that IHDA received an early appropriation of $1.8 million to acquire land, but that it only used $300,000 and returned the rest to the state "rather than encounter political opposition." It does not appear that IHDA exercises this authority today.

In its authorizing legislation, NJHMFA was given power to create subsidiary corporations to perform a variety of functions, including acting as a receiver for troubled rental properties; to purchase, construct, or rehabilitate, and operate housing "on a demonstration or experimental basis," and to participate as a co-owner of a NJHMFA-financed project (NJS 55:14K-18). It was also authorized (but could vote not to) to establish the New Jersey Housing Development Corporation to purchase and rehabilitate properties for sale (NJS 55:14K-19). It was not given the authority to own and/or permanently manage rental property.

Today, NJHMFA has two subsidiary corporations. The STAR Corporation was formed in 1996 to assist in the development of several specific programs/projects that appear to have been either completed or phased out. The ABC (A Better Camden) Corporation was established in 1997 to help implement the Camden Initiative to "stimulate housing and economic development in the City of Camden" (New Jersey Housing and Mortgage Finance Agency, 2007). This subsidiary has acquired property, overseen the demolition of at least 400 units (the majority vacant), and aided in resident relocation in several Camden communities. Apparently, it was given property by the city that was then sold to nonprofit developers for redevelopment "in exchange for the state's plugging Camden's budget gap," according to one observer. The corporation does not appear to have rehabilitated or constructed new units (New Jersey Department of Community Affairs, 2002, 2003; New Jersey Environmental Justice Task Force, 2006).

E. HFA as Researcher and Planner

As early as 1972, HFAs were exhorted to better focus their statewide affordable housing production through strategic planning and targeting. Alexander (1972, p.16) suggested defining policy goals "such as stimulating private investment or reinforcing a desirable migration trend" and setting them into action through the used of a "production plan...based in part on an examination of population characteristics, such as income and family size, housing quantity and quality, and housing costs" in the context of the state's economy and land use patterns. Resulting priorities could include targeting certain populations, geographies, and housing types and designs, and offering priority consideration and access to projects serving such priorities. Failure to implement such as process, he concluded, would result in a haphazard development of "the most available, though perhaps not the most important, sites...undermin[ing] the agency's ability to provide decent housing, achieve economic and racial integration, and create job opportunities"(Alexander, 1972, p.17). Gradually, both federal and state governments have adopted these planning strategies, and required HFAs to engage in them, but qualitative evidence suggests that there is still room for improvement.

1. Federal Requirements

Over the years, the federal government has added research and planning requirements to several significant programs commonly administered by HFAs. Most significantly, in order to access their state's annual allocation of Low Income Housing Tax Credits, HFAs must develop a Qualified Allocation Plan (QAP) setting priorities for awarding available credits to qualified projects. These usually include preferences and set-asides based on specified targets: geographic (e.g. urban, rural, qualified census tracts), population (e.g. special needs, elderly, families, low-income) and housing needs (e.g. vacancy rates, poverty rates) (Gustafson & Walker, 2002).[40]

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[40] Preferences are stated criteria used to award a competitive score to every application received. Set-asides are specific amounts of money earmarked for a particular use, and are sometimes doled out in separate award cycles.

Both IHDA and NJHMFA have been responsible for developing their state's QAP since the program's inception in 1987. These plans have grown in complexity over time. From 1990 to 2001, both states increased their focus on "people-based" criteria with a moderate (Illinois) to high (New Jersey) emphasis on "place-based" criteria, according to one analysis (Gustafson & Walker, 2002). NJHMFA has focused on scoring plans based primarily on the location and types of units available, whereas IHDA has focused on issues such as serving the lowest income tenants, creating mixed income housing, the sources of financing, the capacities of the development team, and community impact and support. Both have prioritized the preservation of existing subsidized units and the redevelopment and rehabilitation of public housing units to varying degrees. These plans are developed in-house, with drafts released for public comments. In the past, NJHMFA utilized an advisory committee of developers to gage demand and shape the plan, although currently it seems to be more staff-directed.

A Consolidated Plan (ConPlan)[41] has been required every three to five years from states desiring to be a Participating Jurisdiction in the administration of a variety of federal grants from HOME to McKinney-Vento to HOPWA. As discussed earlier, many HFAs participate in or are wholly responsible for the development of this plan. IHDA is the state-designated entity responsible for coordinating, authoring, and evaluating the State's ConPlan for the distribution of a variety of federal funds. These plans, however, are recognized by staff as programmatic rather than "policy-driven." NJHMFA does not contribute to New Jersey's ConPlan, which is developed through the Department of Community Affairs.

[41] The ConPlan was originally called the Comprehensive Housing Affordability Strategy (CHAS).

2. State Requirements

While the federal planning requirements discussed above pertain to specific funding sources, states have an opportunity to plan more comprehensively for the needs of their residents and prioritize new and existing resources to meet these needs in a coordinated manner. There is a long tradition in some states of statewide comprehensive planning covering a variety of areas important to a state's vitality and progress, including land use, transportation, education, environmental preservation, and housing.[42] New Jersey is among these few with its State Development and Redevelopment Plan (State Plan) first mandated by the legislature in 1985. Last updated in 2001, this plan includes a State Planning Goal (#6) to "provide adequate housing at a reasonable cost." Specifically, the State Plan's Policy Goal (#7) on Housing seeks to

> "preserve and expand the supply of safe, decent and reasonably priced housing by balancing land uses, housing types and housing costs and by improving access between jobs and housing. [And to] [p]romote low- and moderate-income housing through code enforcement, housing subsidies, community-wide housing approaches and coordinated efforts with the New Jersey Council on Affordable Housing" (State Planning Commission, 2001, p.136).

Not everyone is convinced that the State Plan guides housing policy in New Jersey. One observer was even under the impression that "if you look at it [the State Plan], we do not have any statewide goals for housing." A closer look at the Plan reveals that after sixteen years of statewide comprehensive planning, the state is still trying to "coordinate *for the first time* the three state agencies with a housing mission (Department of Community Affairs, HMFA, and COAH)" (p.85, emphasis added). Similarly, while great emphasis is placed on coordination with COAH through a Memorandum of

[42] For example, Oregon adopted State Planning Goals beginning in 1973; Florida passed in Growth Management Act in 1985, mandating adoption of a State Comprehensive Plan; and Washington State adopted its Growth Management Act and associated state goals in 1990. All of these mandate the adoption and implementation of local comprehensive plans in compliance with state plans or goals.

Understanding, NJHMFA is mentioned only once. Unlike other state's statutes requiring local comprehensive plans to comply with statewide goals, New Jersey's State Plan mandates nothing at the county and municipal level, allowing lower levels of government to implement plans contrary to statewide policies.

Perhaps to compensate for aforementioned deficits in the State Plan, a new initiative was launched in 2006 to develop a statewide housing policy and associated implementation strategies in New Jersey. Spearheaded by the Department of Community Affairs at the behest of Governor Corzine (and after agitation by a variety of statewide housing interests), a new housing mission statement has been developed at the state level, pertaining to all housing-related agencies: they are

> "dedicated to providing New Jersey residents with a choice of housing that is affordable, sound, environmentally responsive, well-maintained and located in communities that are attractive, safe, economically mixed and easily accessible to employment and services. DCA and its affiliate agencies will work to ensure that community integrated housing options exist for residents with moderate, low and very low incomes, senior citizens and residents with special needs" (New Jersey Department of Community Affairs, 2006, p.2).

At least 14 state departments, agencies, and authorities are expected to cooperate in achieving these goals, in addition to public housing authorities, counties and municipalities, and HUD. Specific housing policies include increasing supply, increasing access for very low-income households, preserving both existing subsidized and unsubsidized affordable units, monitoring long-term affordability, and addressing homeless and special needs populations. And unlike the State Plan, HMFA initiatives play a much more prominent role in shaping and implementing these goals.

Illinois does not have a statewide comprehensive plan, but it does have a new State Comprehensive Housing Plan. Governor Blagojevich's Executive Order 2003-18, recently codified in 2006 as the Comprehensive Housing Planning Act, created a Housing Task Force, chaired by IHDA's Executive Director, to target and prioritize state housing initiatives through a comprehensive planning process. This Executive Order was Illinois' first attempt to specify underserved populations who it considered a priority for its housing assistance and capital development programs: low-income families, seniors, the disabled, the homeless, those seeking to live near work, and those living in existing subsidized units at risk of being lost as affordable housing. It also listed at least 14 revenue streams to be coordinated by the plan, and required 15 different state agencies to participate in the planning and implementation process, as well as be held accountable for their funding decisions through annual evaluations. Two annual State Comprehensive Housing Plans have been developed to date, and one evaluation conducted.

3. Internal Assessments

Both cases indicated that research is often conducted to better target or otherwise improve existing programs, as well as to assist in creating new ones. Due to HFA financial interest in the projects they undertake, there is great incentive to ensure the success of individual projects and the marketability of their programs. Due to political pressures, they also need to prove they are indeed meeting state affordable housing needs.

NJHMFA conducts ongoing research and planning, primarily through their Policy and Community Development Division. This Division recently funded a research initiative on the preservation of unsubsidized, privately-owned affordable housing units, although it is not apparent that research findings have been acted upon to date. A great deal of research also goes into project-based decision-making, from formal market studies to informal windshield surveys on project desirability and feasibility.

F. HFA as Coordinator

HFAs are also increasingly responsible for and active in coordinating with other state agencies in a manner that better targets state resources. Fulfilling this role can cause substantial growing pains, as well as expose HFAs to increased risk and liability (Moody's Investor Services, 2005), but can lead to improved government efficiency, greater effectiveness in accomplishing agency mission, and better service to low- and moderate-income households experiencing housing problems.

1. Growing Successes

Even though IHDA's Office of Housing Coordination Services has been coordinating the housing activities of around 12 different state agencies behind the scenes since 1991, it was not until the Governor's Executive Order in 2003, and now the Comprehensive Housing Planning Act, that IHDA publicly became the primary coordinator for all housing initiatives run by the State. While it played this role minimally through the federal ConPlan process, which required a certain level of cooperation between different state administrating entities of various federal funds, IHDA was "not trying to dictate to other agencies what they had to do" through that process. According to one staff person, now that they have "an organizational responsibility to make sure that the [Comprehensive] Plan covers [every need] as well as it could," they are "gradually [making sure]...that the affordable housing is somewhere in the equation for almost all the other agencies we are working with, especially the social service agencies" not typically covered by the ConPlan.

This new role is resulting in both new programs and the improvement of existing ones. For example, progress has been made in matching state capital finance dollars, managed by IHDA, with service dollars managed by the Departments of Veterans' Affairs, and Healthcare and Family Services to fund housing for their clienteles. A new collaboration between IHDA, the Department of Aging, and the Department of Human Services has resulted in a statewide Home Modification program for seniors and disabled residents requiring structural changes to their homes so they can continue to live independently. As one staff person noted, "it's not that home modification program funds are not available [without such coordination], but it is scattered." Of course, these projects require extensive time, political will, and staff motivation to accomplish. There is considerable optimism, however, that such coordination is within reach, and that progress will continue to be made in directing valuable state resources towards its most critical housing needs.

In New Jersey, overall coordination between agencies dealing with low- and moderate-income populations experiencing housing problems is weakly mandated, and on the surface appears to be poorly functioning. The formal responsibility seems to have recently fallen to NJHMFA's Policy and Community Development Division (New Jersey Department of Community Affairs, 2007). However, behind the scenes there is evidence of a network of both formal and informal connections between agencies, some more viable than others. In terms of its sister housing agencies, NJHMFA coordinates best with DCA and its various departments on implementing special housing programs and securing project subsidies. The Agency's Executive Director also has a seat on COAH's Board of Directors, and NJHMFA works with COAH on fair share housing developments, when necessary. The modus operandi of coordination between NJHMFA and other state agencies is usually confined to representation on one another's Boards, advisory groups, and joint task forces. There is evidence that this might be changing in word, if not in deed, as a result of the anticipated Housing Plan on how to meet Governor Corzine's 100,000 units in 10 years, expected for release in early 2007.

On a case-by-case basis, NJHMFA has taken the lead on partnering with other agencies. For example, management of the HMIS system pairs them up with the Department of Human Services. NJHMFA also collaborates with the Department of Youth and Family Services to offer housing programs for adopting families and families caring for the children of relatives. NJHMFA has also initiated coordination with other state planning efforts, including the development of a web-based Smart Growth Locator to better coordinate their projects with the State Development and Redevelopment Plan.

2. Growing Pains

Interagency collaboration is complex in both states, as agencies wade through conflicting purposes, plans and processes to achieve more unified housing goals. By their very nature, HFAs are focused on production, and are therefore developer-driven to a large extent. This can conflict with other state agencies goals around particular populations or interest groups.

In Illinois, coordination between state agencies is "coming slowly, sometimes painfully," according to one IHDA staff person. It requires a shift away from business as usual, toward “creating change in multiple organizations” that have “done and operated programs the way they have operated them for a long time.” It also necessitates “a whole lot of translating” between different regulatory languages. While Governor Blagojevich’s Housing Task Force responsible for developing and evaluating the Comprehensive Plan includes an Interagency Subcommittee, it has been a difficult process to engage state agencies that have not normally viewed themselves as responsible for housing needs, or for coordinating their programs with others. The 2006 Comprehensive Housing Plan acknowledges how agency diversity in “contractual obligations and established requirements can impede change. [And] differences in funding sources...and program type...as well as eligibility criteria for beneficiaries, can pose challenges to State agencies in their effort to align programs” (Illinois Housing Development Authority, 2006, p.10).

Regarding NJHMFA’s recent exploits in interagency coordination, one interviewee observed that

> “discussions and attempts at coordination have started, but they are very nascent. I have been at meetings with NJHMFA and Human Services, where the Human Services people leave and NJHMFA…say[s] ‘Oh, they are impossible to work with,’ talking about the people at Human Services. Of course, I am sure the people from Human Services leave the meeting saying, ‘Oh, the HMFA is impossible to work with. They do not understand all those rules that govern us, and why we cannot just give them all the money they want for services.’”

Ultimately, such coordination exposes an HFA to greater financial risk on at least three fronts: (1) reliance on other state agencies and their budgets, (2) more complex financial structuring, and (3) servicing populations at higher risk of default. For example, Moody’s (2005) points out the risk associated with increased HFA financing of uninsured, unsubsidized multi-family loans. As of the end of 2005, at least 16 HFAs had financed assisted living facilities through bond financing, a risky proposition due to the social services needed, higher operating expenses and unit turnover.

G. HFA as Educator & Capacity-Builder

Some HFAs serve as housing information clearinghouses, and either fund or participate in educating both users and consumers of their products. This includes running websites on available housing, and funding technical assistance providers to build the capacity of nonprofit developers and service providers to help meet state goals. This is not viewed as a significant role for the agencies by those who were interviewed, as it was mentioned infrequently and only minimally marketed. However, customers of these resources – those who buy or rent housing through the aid of such information, and nonprofits who receive the training and assistance offered – were not interviewed as to their use and opinion of this HFA function, and may have provided additional information.

In 2005, NJHMFA launched the New Jersey Housing Resource Center providing a free online listing service for apartments for rent and homes for sale in New Jersey. In addition to listing prices, owners can specify any accessibility features for persons with disabilities. The site is also available in both English and Spanish. NJHMFA advertises positive feedback from a range of users, and boasts 1.5 million searches performed between August 2005 and fall of 2006 (New Jersey Housing and Mortgage Finance Agency, 2006). IHDA offers a searchable online map of properties they have financed, including accessible units.

Acquiring the experience needed to embark on larger-scale affordable housing development can be a daunting task that requires complex layers of capital financing. Yet HFAs prefer to work with seasoned developers as one way of minimizing risk and improving a project's chance of success. To help bridge this gap, IHDA has begun to fund capacity-building and technical assistance efforts for nonprofits, especially those interested in tapping into the state's employer-assisted housing (EAH) tax credit program, and those pursuing rural and special needs housing development and management. For EAH, this includes funding two intermediaries (one serving the Chicago region, the other covering downstate Illinois) to offer assistance to community groups and employers interesting in providing local workforce housing. In New Jersey, this kind of assistance is usually funded through DCA rather than NJHMFA. However, NJHMFA's New Jersey Predevelopment Loan and Acquisition for Nonprofits (NJPLAN) program provides predevelopment loans to nonprofits in need of money to gain site control, develop architectural drawings, conduct environmental assessments, and the like, which are needed before they can apply for other sources of development funding. The fund, capitalized by DCA and private lenders, and insured by NJHMFA, is run through a Community Development Financial Intermediary.

H. HFA as Policy Innovator

HFAs are not frequently given explicit responsibility for developing state housing policy. When they are, they may accept it reluctantly, and usually at the behest of the governor and/or legislature. As a result, these agencies are generally perceived by other housing interests as followers rather than leaders. This sentiment was summarized by one New Jersey housing advocate:

> "I do not see them [NJHMFA] as path breakers. I have never seen them that way,...where they are going, 'You know, here is a really great idea. I think we should be doing blahbetty blah.' I think they are very reactionary in the sense that they are always reacting to ideas, what the Governor's doing or advocates are asking for, and trying to keep the bond rating up."

A closer look at IHDA and NJHMFA, however, reveal at least three different roles HFAs can play in state housing policy innovation: the reluctant radicalist, the covert radicalist, and/or the expert incrementalist.

1. Reluctant Radicalist

In the area of policymaking, IHDA's role has shifted dramatically. As one respondent summarized: "before 2003...there really was no role, in terms of state policymaking, for IHDA;… they just function[ed] as the finance agency for the state, and they evaluated the proposals and cut the checks and helped create units." Agency staff agreed: "...IHDA certainly has had priorities over the years, but we have tried, to the extent practical, [to] let the private market sort of dictate where housing is needed." However, since 2003, IHDA has been given "a policy hat" to wear, one they "reluctantly wore in the past," according to one agency staff person. This is seen as a significant change in responsibilities by most people interviewed in Illinois, and a more "proactive" policy role for IHDA than it has performed in the past.

There is evidence that IHDA has been reluctant in taking on its increased responsibilities, or at least hesitant to appear publicly as advocating for their expanded role. In public forums, they make clear that they are required by law to do certain things, rather than acting on their own initiative, and they are "very careful not to say whether they thought [this change] was a good thing or a bad thing," according to at least one observer. Some critics say IHDA remains proficient at "ward[ing] off unwelcome initiatives," or "when a major initiative comes by, then they'll react and sort of negotiate things with them to modify it to the way that it works for them."

While many view IHDA as a reluctant participant in Illinois' new statewide housing policy, and emphasize the organization's lack of initiative in these efforts, "in fact, IHDA oversees it today," as many observers pointed out. Regarding the Affordable Housing Planning and Appeal Act (discussed in Chapter 6), for example, IHDA has been "put into this new position of having to administer a law, write rules for the law and become policy people for the first time," according to one advocate. This points to the increased importance of rule-making authority given to HFAs by state legislatures to formulate policy based on oftentimes broad and intentionally vague gubernatorial and legislative mandates, and to structure implementation of programs to support those policies.

2. Covert Radicalist

NJHMFA's role in policymaking seems to be more implicit. While the Agency has had little opportunity in the past to participate in constructing statewide housing policies, it has initiated and adapted a variety of its own policy innovations over time. It is not commonly viewed as "a policy-driven or strategy organization…, [but rather] program-operations-driven." However, program guidelines are crafted around it policies, whether explicitly stated or not. This is excellently illustrated through the words of one agency staff person (emphasis added):

> "I think NJHMFA's role...is financing...and construction of affordable housing. And fortunately, that often means the ability *to create or mold programs into a way that we want to see housing created*.... For instance, the [C.H.O.I.C.E.] program. Having a home ownership production program that was meant for more urban markets, to push the market, so the idea is, you want more market [rate] housing in urban areas. So you do not build as many low-income units; you build more moderate and subsidized market-rate units. *We are able to use policies that are good, sound housing policies and...create our programs in order to make that happen*."

Another example where NJHMFA has taken a policy initiative is in crafting "green building" programs independent of other state plans. Spearheaded by the agency's Executive Director and Director of the Policy and Community Development Division, this includes the SUNLIT program ("the first of its kind in the country"), offering energy efficient retrofitting for multifamily buildings through the use of LIHTC equity, other NJHMFA programs, and a rebate program on energy savings from the New Jersey Board of Public Utilities. The policy is also reflected in increasing preferences for energy efficiency measures within the state's QAP, including a threshold Energy Star requirement for all applications since 2003, and additional points for projects participating in SUNLIT or DCA's Affordable Green program. A new staff person was recently hired to coordinate all of these initiatives (New Jersey Housing and Mortgage Finance Agency, 2006).

A recent policy emphasis noted by several respondents includes growth within NJHMFA's Supported Housing and Special Needs Division, which "work[s] to improve the housing situation for some of New Jersey's most vulnerable residents, including people with developmental disabilities, mental health consumers, the homeless, elderly, people with HIV/AIDS and other under-served communities" (New Jersey Department of Community Affairs, 2007, p.48). New programs fulfilling these policy goals include the state's Special Needs Housing Trust Fund for capital financing for permanent supportive housing, special mortgage products for adopting families and extended family members caring for children of relatives, and the HMIS required by HUD for monitoring statewide homeless populations and services.

There is evidence that NJHMFA's role may become more overt in shaping and implementing statewide housing policies. Buried among a lengthy list of other specific tasks, a 2007 DCA Programs Book (p.50, emphasis added) describes NJHMFA's Policy and Community Development Division as "*responsible for...setting and implementing statewide housing policy*." This is a rather significant statement that has yet to be developed. This follows increased emphasis on NJHMFA throughout DCA's 2006 status report on housing policy and programs (New Jersey Department of Community Affairs, 2006), and in other venues, largely attributed to the agenda of the current DCA Commissioner.

3. Expert Incrementalist

More often than not, HFAs command a more informal influence over statewide housing directions, implicitly shaping policy through the adoption and coordination of more *incremental* internal policies and/or programs. As one developer in New Jersey noted, "they [NJHMFA] have been reasonably proactive in creating and modifying programs to try and adjust to the changing marketplace." HFAs are always looking for a way to satisfy their public purpose and meet their program objectives more efficiently and effectively. This makes them experts at altering existing programs or introducing new programs that are just different enough to be considered “new and improved” but not enough of a change to require expansive new infrastructures or processes to implement.

For example, adding on another first-time homebuyer mortgage product targeting a different population represents an incremental policy relatively simple to implement. Examples of this include NJHMFA’s Welcome Home and Kinship Care Home Loan Programs, the former offered to borrowers in the process of adoption, and the latter focused on extended family members caring for children of relatives (New Jersey Department of Community Affairs, 2007). Both programs include first mortgages, loans for accessibility improvements, and some type of down payment and closing cost assistance, even while they represent different policy foci. Similarly, IHDA’s new G-I Loans for Heroes mortgage targets its existing I-Loan mortgage product to veterans and active duty service members (Office of the Governor, 2007, May 15). Both state QAPs have also changed incrementally over time to reflect policy shifts, including the previously discussed new emphasis on preservation of subsidized units.

I. Conclusion

HFA roles have indeed evolved over time. Their financial role remains the primary focus, and has matured significantly. They have also greatly expanded their functions as administrators and monitors of a number of federal- and state-sponsored programs. Meanwhile, HFA participation in land acquisition, and housing development and management remains minimal. Some programs require formal research and planning on the part of the HFA, such as the federal ConPlan or state comprehensive plans, but

HFAs also engage in internal efforts to strengthen program offerings and success. Within state government, IHDA and NJHMFA are being asked to play more formal functions as coordinators of other state agencies active in housing-related activities or serving populations facing housing problems. They both acknowledge the importance of such coordination, as well as the difficulty. Through resource centers, HFAs continue to educate future tenants and homebuyers about their options. And they are providing technical assistance and funding to build the capacity of nonprofits to develop more affordable housing. Finally, HFAs are playing both reluctant and covert roles in undertaking radical policy innovation, as well as employing their decades of experience in more incremental policy changes and adoptions.

CHAPTER 5:

An Event History Analysis of Housing Trust Fund Adoption by States and HFAs

To test the various relationships hypothesized in Chapter 3 between HFA innovation and a group of environmental, organizational, and diffusion covariates, an event history analysis was conducted to predict four models of housing trust fund (HTF) policy innovation that differ by *scope of innovation* and the *adopting institution*. This chapter presents the results of these models utilizing Cox proportional hazards regression to test the alternative theoretical explanations offered. It provides a detailed analysis of the findings, including suggested reasons for any results contrary to those hypothesized.

A. Understanding the Method: Cox Proportional Hazard Regression

Cox proportional hazards regression analysis predicts the *hazard rate*, or the probability, of an event occurrence given that the subject is at risk for the event occurring. A subject is considered at risk if it is within the *risk period*. In models of state policy adoption, the risk period either begins upon some action from the federal government (i.e. a new federal mandate or incentive), or adoption by the first state (Berry & Berry, 1990; Boehmke & Witmer, 2004; Glick & Hays, 1991; Mintrom, 1997; Welch & Thompson, 1980). The Cox method incorporates time dependency through the specification of a duration variable counting the number of periods before an event occurs, in this case, the adoption of a new policy by a state. Once the event has occurred, the subject (here, the state) is no longer considered at risk, and is therefore excluded from the remainder of the analysis. If the event does not occur during the observation period, the subject is considered right-censored, and continues to contribute observations until the end of this period.

Cox proportional hazards models assume that the hazard rate of an event occurring for a particular subject – obtained through exponentiating the variable coefficients – changes in proportion to the hazard rate of other subjects over the course of time (Blossfeld, Hamerle, & Mayer, 1989). A hazard rate greater than 1 indicates a subject is more likely to experience an event for each unit increase in the value of the covariate, while a rate less than 1 indicates a decreased risk of event occurrence. The proportionality assumption is tested through a global test, developed by Grambsch and Therneau, of the hypothesis that all covariates have coefficients equal to zero, and thus no relationship with an event occurring. A finding of no statistical significance indicates that at least one coefficient must have a non-zero value, and therefore some relationship with the occurrence of an event. In addition, each covariate can be tested individually for the hypothesis that it has no effect on the dependent variable, or a coefficient equal to zero, through the use of Harrell's rho calculations. A non-statistically-significant test result indicates that the covariate does indeed have some effect on whether or not the event in question occurs (Box-Steffenmeier & Jones, 2004).

The Cox method possesses a number of strengths in comparison to traditional logit or probit models, and other parametric methods of estimating duration data.[43] First, there is no need to specify a baseline hazard function and risk misspecification, as might occur using parametric models. This means that the predicted models do not have

[43] Other parametric models include exponential (which assumes a flat baseline hazard), Weibull (which assumes a constant baseline hazard that is either flat, increasing, or decreasing), log-logistic and log-normal (which use a linear log of time) and Gompertz models (which use an exponential function of time). For a thorough treatment of these, and comparison to the Cox proportional hazards method, see Box-Steffensmeier and Jones (1997, 2004).

intercepts. Second, it allows for inclusion of right-censored cases in the dataset, or those states which never experience the event, since hazard rates are calculated based on the ordered sequence of actual event occurrences, rather than the duration of time until event occurs. A final benefit is that Cox proportional hazards models easily accommodate multiple events measured via continuous count data, rather than just discrete measurement, as well as repeatable events, although this study does not utilize these capacities (Box-Steffenmeier & Jones, 2004; Jones & Branton, 2005).

B. Structuring the Dataset

The risk periods for the four models are based on the first year of adoption by a state. Delaware was the first state to adopt a trust fund in 1968, as well as the first to have such a fund administered through an HFA, which it established during the same year. Maine was the first state to fund an HTF through a dedicated revenue source in 1982, as well as have this HTF administered through their HFA. Unfortunately, agency-level data is only available beginning in 1985, therefore the risk period for all tested models covers the twenty-year timeframe from 1985 to 2004, the year of the most recent data available.[44] The two trust funds which were adopted prior to 1985 contribute one state-year observation to the analysis only. Trust funds that may have been adopted after 2004 are not considered in this analysis. In addition, this analysis is only concerned with the risk of adoption of a state's *first* trust fund, and does not consider the risk of adoption of a

[44] This circumstance of data unavailability is not unusual. See, for example, Berry and Berry (1992).

second trust fund – or repeatable events – although this has occurred in at least seven states to date.[45]

The complete dataset compiled for this research consists of annual observations for 49 states over a twenty-year period, for a total of 980 state-year observations.[46] The minimum number of observations per state is one; the maximum is 20. States were considered at risk of experiencing the event of interest until either the event occurred or the state reached the end of the observation period in 2004 with no event occurrence (at which point it is right-censored). This dataset was reconfigured for each of the four models tested to include a unique temporal variable counting each state-year until the specific event of interest occurred in each state.

1. State Housing Trust Fund Adoption Data

Thirty-nine states adopted their first housing trust fund before or during the risk period of 1985 to 2004. Of the 38 included in this study[47], 28 were administered by the state HFA and 17 were funded at least partially through dedicated revenues. Thirteen HTFs were both administered by an HFA and funded through dedicated revenues, as illustrated in Figure 5.1 and listed in Table 5.1 below.

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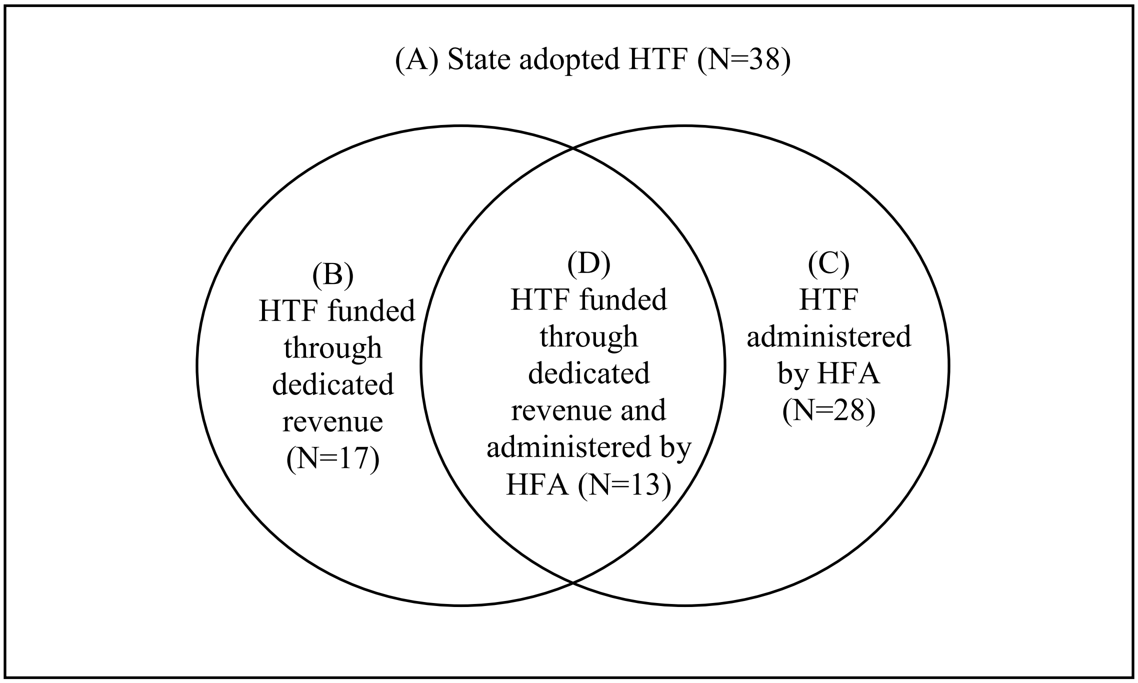
[45] Those states are Oregon (1991) , Nevada (1992), Nebraska (1996), Washington (2004), Connecticut (2005), New Jersey (2006), and Tennessee (2006).
[46] New York is excluded from this analysis due to the existence of multiple state HFAs, rendering agency-level analysis meaningless.
[47] New York is excluded, per note 4 above.

Figure 5.1: Number of Event Occurrences in Models A through D, 1985-2004



Several details in Table 5.1 require further elaboration. First, there were two states that did not establish HFAs until after the study period began: Arizona, which established its HFA in 2002, and Kansas, which did so in 2003. As a result, these two states have dates for HTF adoption that precede the creation and subsequent HTF administration by their HFAs. Second, two states created dedicated revenue streams for their first HTF a year or more after adopting it. Consequently, Missouri and Vermont have earlier dates for the adoption of their first HTF than for establishing a dedicated revenue source for it. Finally, it should be noted that Tennessee is the only state who adopted its first HTF, established a dedicated revenue source, and then had these funds permanently diverted,

Table 5.1: Year of Housing Trust Fund Adoption, HFA Administration, and Dedicated Revenue Establishment, 1985-2004

State	Year First Trust Fund Adopted	HFA Administers Fund	Dedicated Revenues	State	Year First Trust Fund Adopted	HFA Administers Fund	Dedicated Revenues
Alabama				**Montana**	1999	1999	
Alaska				**Nebraska**	1992		1992
Arizona	1988	2002	1988	**Nevada**	1989	1989	1989
Arkansas				**New Hampshire**	1988	1988	
California	1985	1985		**New Jersey**	1985		1985
Colorado				**New Mexico**			
Connecticut	1992	1992	1992	**New York**	1985		
Delaware	1968	1968		**North Carolina**	1987	1987	
Florida	1992	1992	1992	**North Dakota**			
Georgia	1988	1988		**Ohio**	1991	1991	
Hawaii	1992	1992	1992	**Oklahoma**	1998	1998	
Idaho	1992			**Oregon**	1991	1991	
Illinois	1989	1989	1989	**Pennsylvania**			
Indiana	1989	1989		**Rhode Island**	1990		
Iowa	2004	2004		**South Carolina**	1992	1992	1992
Kansas	1991	2003		**South Dakota**			
Kentucky	1992	1992		**Tennessee**	1988	1988	1988
Louisiana	2003	2003	2003	**Texas**	1992		
Maine	1982	1982	1982	**Utah**	1987		
Maryland	1992	1992	1992	**Vermont**	1987		1999
Massachusetts	2000	2000		**Virginia**			
Michigan	2004			**Washington**	1986		
Minnesota	1988	1988	1988	**West Virginia**	2001	2001	
Mississippi				**Wisconsin**	1993		1993
Missouri	1994	1994	1995	**Wyoming**			

Sources: Brooks (2002); NCSHA (Various years); verified by author with assistance from Dr. Kristen Larsen, University of Florida.

thereby eliminating the dedicated revenue (Tennessee Housing Development Agency, 2007).[48] Since this study does not cover repeat events, this had no affect on the following analysis.

2. Assessing Descriptive Statistics and Correlations

Table 5.2 restates the covariates introduced in Chapter 3 and presents the mean, standard deviation, and range for each continuous variable in the full dataset covering all 20 years of the observation period. It should be noted that these values are based on the full dataset, where n=980 (20 years times 49 states). Each subsequent iteration of the dataset based on the occurrence of each of the four events of interest will produce somewhat different descriptive statistics based on the observations omitted in each model. Of particular note for the full dataset is that two monetary variables exhibit larger standard deviations than their means, indicating wide dispersion in their values, even while adjusted for inflation: the percentage of the state budget spent on housing and community development (HCD_EXP) and HFA annual operating budget (BUDGET).

Pearson's correlations were obtained for each pair of covariates in the full dataset to highlight issues of multicollinearity, where two variables are highly correlated and thus measure the same or similar phenomenon. While the reduced datasets utilized for each the full models all produced slightly different correlation coefficients, the magnitudes and directions remained relatively stable. Any exceptions are discussed

[48] It should be noted that other HFAs reported having portions of their funds diverted to state general funds or other programs, but not all of them, as in the case of Tennessee. This phenomenon is discussed in more detail in following chapters.

Table 5.2: Descriptive Statistics of Covariates

Innovation Factor	Covariates	Mean	Std. Dev.	Minimum	Maximum
	ENVIRONMENTAL VARIABLES				
State Socio-Economic Characteristics	Per capita personal income, adjusted (INCOME)	\$27,999	\$4,645	\$17,366	\$45,790
	Percent black population (BLACK)	9.4%	9.2%	0.2%	36.3%
	Percent metropolitan population (METRO)	66.0%	21.0%	19.0%	100.0%
Severity of Housing Crisis	Housing Price Index (HPI)	194	71	82	675
	Residential Building Permits Authorized per 1000 population (PERMITS)	5.8	3.4	0.8	28.7
	Percent of units with more than 1.0 occupants per room (OVERCROWD)	4.1%	2.8%	1.3%	15.9%
State Commitment to Housing	Annual state expenditure on housing and community development, per capita, adjusted (HCD_EXP)	\$14	\$26	\$0	\$150
Political Climate & Culture	Ranney Index of Interparty Competition (RANNEY)	86	9	64	100
	Citizen Ideology Index (CITIDEO)	48	14	8	96
	ORGANIZATIONAL VARIABLES				
Specialization	Agency age (AGE)	19 years	9 years	-18 years	38 years
	Number of staff (STAFF)	108	95	0	529
Slack Resources	Annual operating budget, adjusted (BUDGET)	\$10,600,000	\$11,900,000	\$0	\$114,000,000
Centralization	HFA is Independent Authority (IND_AUTH)	N/A	N/A	N/A	N/A
	DIFFUSION VARIABLES				
Model A	Number of neighboring states with HTF ($NEIGHBOR_A$)	2.0	1.5	0	6
	Percent of neighboring states with HTF ($PCT\_NEIGHBOR_A$)	46.1%	32.9%	0	100
Model B	Number of neighboring states with Dedicated Revenues ($NEIGHBOR_B$)	.9	1.0	0	5
	Percent of neighboring states with Dedicated Revenues ($PCT\_NEIGHBOR_B$)	18.7%	20.4%	0	83
Model C	Number of neighboring states with HFA Administration ($NEIGHBOR_C$)	1.4	1.3	0	6
	Percent of neighboring states with HFA Administration ($PCT\_NEIGHBOR_C$)	31.3%	27.5%	0	100
Model D	Number of neighboring states with HFA Administration & Dedicated Revenues ($NEIGHBOR_D$)	0.8	0.9	0	83
	Percent of neighboring states with HFA Administration & Dedicated Revenues ($PCT\_NEIGHBOR_D$)	16.2%	19.3%	0	5

n=980. All diffusion variables are lagged one year to avoid simultaneity.

below. High correlations were indeed present, resulting in the omission of several variables from the final models.

Out of three socioeconomic variables considered, percent metropolitan population (METRO) was dropped due to correlations at a .5 threshold or greater with other variables in the dataset. It was determined that per capita income (INCOME) and percent black population (BLACK) adequately operationalized the concepts.

Originally, three indicators were offered to measure the severity of the housing crisis. The Housing Price Index (HPI) was dropped due to its consistent correlation with per capita income above a .7 threshold, and on occasion with agency age and diffusion variables. In this case, it was determined that per capita income was the more theoretically relevant variable to include in the analysis, while measures of the percent of the population living in overcrowded conditions (OVERCROWD) and the number of residential permits issued annually per 1000 population (PERMITS) provided sufficient indicators of housing markets and need.

In terms of organizational covariates, many of those chosen based on theory were highly correlated with one another, as well as with other state socio-economic indicators. To both avoid multicollinearity and allow for one basic model to be consistently tested, adjusted annual operating budget (BUDGET) was utilized as a measure of both specialization and resources, while agency age (AGE) and staff size (STAFF) were dropped. Whether of not an HFA was an independent authority (IND_AUTH) remained in the models as a measure of centralization. The organizational covariates apply to HFAs only, and are therefore only included in Models C and D testing HFA innovation.

In terms of diffusion covariates, measures of both the percent (PCT_NEIGHBOR) and the raw count of neighboring states experiencing the event of interest (NEIGHBOR) were tested separately. As results were similar for both variables throughout all models tested, NEIGHBOR was chosen to represent diffusion for the sake of simplicity and consistency.

With these adjustments, the final four models tested are displayed in Figure 5.2 below.

Figure 5.2: Final Four Models Tested

Model A

$ADOPT_A$ = INCOME(B1)+BLACK(B2)+OVERCROWD(B3)+PERMITS(B4)+HCD_EXP(B5) +RANNEY(B6)+ CITIDEO(B7)+$NEIGHBOR_A$(B8)

Model B

$ADOPT_B$ = INCOME(B1)+BLACK(B2)+OVERCROWD(B3)+PERMITS(B4)+HCD_EXP(B5) +RANNEY(B6)+ CITIDEO(B7)+$NEIGHBOR_B$(B8)

Model C

$ADOPT_C$ = INCOME(B1)+BLACK(B2)+OVERCROWD(B3)+PERMITS(B4)+HCD_EXP(B5) +RANNEY(B6)+ CITIDEO(B7)+$NEIGHBOR_C$(B8)+BUDGET(B9)+IND_AUTH(B10)

Model D

$ADOPT_D$ = INCOME(B1)+BLACK(B2)+OVERCROWD(B3)+PERMITS(B4)+HCD_EXP(B5) +RANNEY(B6)+ CITIDEO(B7)+$NEIGHBOR_D$(B8)+BUDGET(B9)+IND_AUTH(B10)

C. Results

The results of the four models are presented below in Table 5.3. All four models are statistically significant as a whole at the 95% level of confidence or higher, according to their Wald chi2 statistics. In addition, each of the models meet both the global and individual tests of the proportional hazards assumption, producing non-statistically significant p-values at the 95% level of confidence.

In terms of statistically significant individual covariates, according to all four models, states in which there is a higher level of new single-family residential construction (PERMITS) are at a greater "risk" for adopting a housing trust fund of some kind. On average, for an increase of one residential building permit issued per 1000 population, states experience an increase of 6-11% in the hazard rate of adopting a trust fund. The effect is smallest in terms of HFA administration (Model C) at 6%, and largest when HFA administration is combined with a dedicated revenue source at 11% (Model D). Both models of legislative adoption (Models A and B) indicate a 10% increase in the hazard rate.

The adoption of a HTF that is at least in part funded through dedicated revenues (Models B and D) seems to be influenced by a more liberal citizen ideology (CITIDEO), compared to the adoption of any HTF (Models A and C). Specifically, an increase of 1 point in the citizen ideology index, where higher values indicate a greater degree of liberalism, raises the risk of state adoption of an HTF with a dedicated revenue by 3-4%.

Table 5.3: Cox Proportional Hazards Results

Covariates	Model A: State has HTF			Model B: State has HTF with Dedicated Revenues			Model C: HFA Administers HTF			Model D: HFA Administers HTF with Dedicated Revenues		
	Beta	Hazard Ratio	% Change	Beta	Hazard Ratio	% Change	Beta	Hazard Ratio	% Change	Beta	Hazard Ratio	% Change
INCOME	-.00 (.00)	1.00 (.00)	0%	.00 (.00)	1.00 (.00)	0%	.00 (.00)	1.00 (.00)	0%	.00 (.00)	1.00 (.00)	0%
BLACK	-.00 (.02)	1.00 (.02)	0%	.05 (.03)	1.05 (.03)	5%	.03 (.02)	1.03* (.02)	3%	.06 (.03)	1.06** (.03)	6%
OVERCROWD	-.00 (.06)	1.00 (.06)	0%	.07 (.07)	1.07 (.07)	5%	-.01 (.07)	.99 (.07)	-1%	.10 (.07)	1.10 (.07)	10%
PERMITS	.10*** (.03)	1.10**** (.03)	10%	.10*** (.03)	1.10*** (.04)	10%	.06** (.03)	1.06** (.03)	6%	.11*** (.03)	1.11*** (.04)	11%
HCD_EXP	-.01 (.01)	.99 (.06)	-1%	-.01 (.01)	.99 (.01)	-1%	.00 (.01)	1.00 (.01)	0%	-.01 (.01)	.99 (.01)	-1%
RANNEY	.02 (.02)	1.02 (.02)	2%	.04 (.03)	1.04 (.03)	4%	.02 (.02)	1.02 (.02)	2%	.02 (.02)	1.02 (.02)	2%
CITIDEO	.02 (.01)	1.02 (.01)	2%	.04* (.02)	1.04* (.02)	4%	.00 (.01)	1.00 (.02)	0%	.03* (.02)	1.03* (.02)	3%
NEIGHBOR	-.10 (.17)	.90 (.15)	-10%	-.38 (.39)	.68 (.27)	-32%	.22 (.25)	1.25 (.31)	25%	-.66 (.68)	.51 (.35)	-49%
IND_AUTH							-.52 (.43)	.60 (.25)	-40%	-.61 (.58)	.54 (.31)	-46%
BUDGET							-.00 (.00)	1.00* (.00)	0%	-.00 (.00)	1.00 (.00)	0%
Observations	521			766			679			827		
Number of event occurrences[a]	37			17			27			13		
Wald Chi2	20.90*** (df=8)			18.55** (df=8)			38.41**** (df=10)			20.79** (df=10)		
Log Pseudo-likelihood	-122.21			-57.91			-91.22			-41.88		

Robust standard errors in parentheses. a Nebraska is dropped from the analysis due to missing values for RANNEY due to its nonpartisan legislative structure.
* statistically significant at p<.10; **statistically significant at p<.05; ***statistically significant at p<.01; **** statistically significant at p<.001.

In terms of HFA administration, building permits remain a significant factor, but a smaller one for Model C than the other three models. Also for Model C, the HFA's annual operating budget becomes statistically significant, but the effect on the hazard rate is zero. Finally, states with higher percentages of blacks (BLACK) seem to have a higher risk of HFA administration of an HTF. A one percentage point increase in the state's black population leads to an increase of 3-6% in the hazard rate of HFA administration of a HTF.

For organizational variables utilized in Models C and D, only the HFAs annual operating budget was significant in Model C. However the coefficient and hazard ratio indicated zero real impact on an agency's risk of administering an HTF.

The remaining covariates tested failed to achieve statistical significance. Potential explanations for both expected and unanticipated outcomes follow.

D. Findings

The fact that single-family residential building permits were a solid contributor to increased risk of all four event occurrences suggests several insights. First, this finding confirms that robust markets can fuel affordability crises. While new residential construction can mean older, more substandard units filter down to lower-income households at more affordable prices, this effect requires an excess of supply (Galster & Rothenberg, 1991). Yet there is significant evidence that housing construction is lagging behind demand, contributing to increasingly unaffordable housing costs for very-low-income households (Joint Center for Housing Studies, 2006; U.S. Department of Housing and Urban Development, 2007). Even as construction levels increase, the level of demand continues to exceed it, contributing to a growing affordability crisis.

Second, jurisdictions experiencing strong housing markets may choose to recapture some of the speculative gains made on these housing transactions for purposes of redistribution (Davis, 2006). In fact, vigorous market conditions may be a necessary precondition to generate significant revenues through real-estate-based sources of dedicated revenues, such as document stamp taxes, recording feeds, and interest-bearing real estate escrow accounts. This also means the inverse is true: states with weaker housing markets may lack the mechanism for producing dedicated revenues for HTFs, making them a less attractive policy to adopt. These same states may, of course, also find themselves with fewer affordability issues than those with vibrant markets. Since a large number of states have adopted HTFs without dedicated revenues, it is likely that the supply shortage is a more convincing explanation as to why an HTF would be adopted at all in any state.

In terms of residential new construction, there is the final fact that the measure utilized accounts for single-family development only, which often dramatically outpaces the development of multifamily units that are typically more affordable. Often single-family development occurs at the expense of multifamily units in cases where multifamily properties are kept out by communities through exclusionary zoning practices (Calavita et al., 1997; Meck et al., 2003; Pendall, 2000). Thus, a strong single-family market may indicate intensifying difficulties for low-income households seeking affordable rental units or homeownership opportunities.

Larger percentages of black residents also proved to have a significant positive influence on housing trust fund innovation, but only in Models C and D specifically testing HFA administration. Recall in Chapter 2 it was theorized that a more “heterogenous” population, or diverse clientele, would motivate innovation. In the case of HTFs, it may be that HFAs have a more diverse constituency than state legislatures in general. This would be supported by the fact that legislatures serve the entire state population while HFAs generally have a mandate to serve low- and moderate-income populations more specifically. As race is often highly correlated with income (although INCOME and BLACK were not highly correlated within this dataset), and housing affordability issues have a disproportionate impact on minorities, it would not be surprising if HFA innovation is influenced more by the presence and/or needs of minorities more so than the legislature (Joint Center for Housing Studies, 2006). It also follows that HFAs would be given HTF administration in those states with a more diverse population if legislatures see them as serving this niche more specifically and effectively than a state department, or some other more broadly-focused agency under stronger legislative control.

A more liberal citizen ideology was expected to have a positive influence on all models, but ended up only being significant in those models dealing with dedicated revenues. This is consistent with the theoretical distinction of an HTF with a dedicated revenue being a more *radical* innovation in scope than the adoption of any HTF, including those that have never received funding.[49] While a broad cross-section of society may acknowledge affordable housing as an important necessity and may endorse

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[49] The author’s best determination was that during the study period, California, Idaho, New York, and Rhode Island did not fund their HTFs.

incremental policy changes to support that end, radical changes that require more funds to be found or raised through increased taxation are usually supported by a more liberal constituency (Berry & Berry, 1992).

The standard measure of state wealth – per capita income – was not statistically significant in any of the models and affected a change in the hazard rate effectively equal to zero. One likely explanation for this unanticipated result is that all states are faced with similar affordability issues for their lower income residents regardless of the general wealth of their populations, and/or feel pressure to address them at least in word, via new legislation, if not by deed through providing dedicated revenues. In this case, other factors seem more important in influencing trust fund adoption.

The percent of the population living in overcrowded conditions was also expected to have a positive impact on HTF innovation, but did not have a significant influence on any of the four outcomes. Furthermore, coefficients were negative for those models concerning any HTF, and positive for those predicting HTFs funded through dedicated revenues. This could be due to the fact that the data was only available decennially and therefore did not change continuously over the course of the observations. It could also indicate that this issue remains off the radar of most state governments and agencies, and is not a general cause for concern. There is perhaps greater concern felt in those states that choose to dedicate revenues to their HTFs, but again, this finding was not statistically significant.

It was expected that higher levels of prior state expenditures on housing would be indicative of a greater risk for HTF innovation. However, this factor remained insignificant in all four models tested, and had negative or zero coefficients and hazard ratios. There are several possible reasons why this variable did not produce the anticipated effect. First, the data are only available every fifth year. Taken together with the fact that the measure includes expenditures on community development in addition to housing, the data may not be an adequate measure of a state's prior financial commitment specifically to affordable housing, if they were indeed spending a greater proportion of this total amount on general community development activities. Second, it could be the case that states that are already spending more on housing feel less inclined to create new policies and funds in this area. This may be due to a belief that they are already doing enough to address the identified problem, or the result of pressure to keep taxes low in general, or specifically keep real estate transaction taxes low.

The chosen measure of political competition – the Ranney index – showed expected positive but slight influence on HTF adoption, but not at a level that reached statistical significance. There are several potential explanations for this unanticipated result. First, trust fund adoption, HFA administration, and dedicated revenues occur throughout the various regions of the U.S., including both traditionally Democratic and Republican states, and early adopters were also geopolitically diverse (see Table 5.1 above). In fact, trust funds with dedicated revenues occur almost as frequently in the heart of the Republic south and southwest as they do in the Democratic northeast and upper-midwest. This may indicate that party politics may not play as large of a role in policy innovations of this type, or stated differently, that the issue of housing affordability cuts across party lines. In this case, housing would be less likely to be a campaign issue if both parties have a similar philosophy and policy response.

Another premise of this research was that diffusion of HTF innovation from neighboring states would have a positive influence on event occurrence. Yet this measure did not achieve statistical significance in any of the models, and even produced negative coefficients in all models tested except Model C, predicting HFA administration. This suggests that not only was diffusion not significant in spreading HTF policy innovations, but it might actually have inhibited it. However, this finding is not strongly supported by the data. It does seem as if environmental issues unique to each state were more important in determining HTF adoption. It may also be the case that other diffusion factors not measured by this model were at play which reached beyond neighboring states, such as the presence of policy entrepreneurs and social learning networks through professional associations.

Finally, neither of the two organizational covariates achieved statistical significance. Whether or not the HFA was an independent authority did have an expected negative coefficient with a large hazard rate, indicating that HFAs characterized as independent authorities were much less likely to be administering an HTF than those which were not. This seems to suggest that HFAs operate within a centralized system that is not as conducive to innovation. It might also indicate a disconnect between state legislatures who adopt HTFs and their state HFAs that would encourage legislatures to give HTF administration to another entity. However, these speculations cannot be supported by the data.

The HFA's annual operating budget had no influence on HFA administration of any HTF, as indicated by statistical insignificance in Model D, and a significant but zero change in the hazard ratio in Model C. This is contrary to expectations that wealthier agencies would have a higher propensity to innovate due to slack resources. However, it is in line with the finding that general state wealth had no impact on HTF innovation. This offers further support to the idea that the policy problem HTFs were intended to solve necessitated action by state legislatures – and state agencies – with varying fiscal capacities and were not just limited to those with the most resources on hand.

E. Conclusion

In sum, whether or not an HFA administers a trust fund does not seem to reflect influences from within the organization or through diffusion from neighboring states, as much as it is a function of environmental determinants. In general, states with higher rates of new, single-family development, larger black populations, and a more liberal citizenry have a higher risk of adopting a HTF policy innovation. While these results are theoretically significant, they may also indicate the need for improvements in the collection of longitudinal data at the state level on a variety of measures impacting housing policy innovation by states and their agencies. This would both allow future innovation studies to cover a broader range of housing policies utilizing data better designed and gathered for such purposes.

CHAPTER 6:

A Cross-Case Analysis of HFA Innovation

The cross-case analysis of the Illinois Housing Development Authority (IHDA) and the New Jersey Housing and Mortgage Finance Agency (NJHMFA) provides unique insight into HFA innovation that complements and builds upon the statistical results presented in the previous chapter. Some findings confirm existing policy innovation research; others seem to be either unique to the housing arena, or previously unexplored. These are loosely organized and discussed according to the theoretical framework presented in Chapter 2. Unlike the event history analysis, the multiple case study is not constrained by these boundaries, but rather reshapes and expands them to best fit the context of housing policy innovation by HFAs.

A. Environmental Factors

1. *Public perception of crisis*

In both states, there is evidence of growing public concern about state housing needs. Respondents from the public, private, and nonprofit sectors were all well-versed in statewide statistics on demand and supply gaps for ownership and rental opportunities, cost-burdened households, homeless and other special needs populations, subsidized units with expiring contracts, and mismatches between the location of jobs and housing. Regional disparities – urban, suburban, and rural – in housing quality or access were also well-noted. Specifically, in Illinois demand issues such as income and affordability are of most concern to urban areas, whereas the shortage of quality, safe housing is the larger issue in rural areas. In New Jersey, most interviewees pointed to lack of supply as the overriding problem. As one former NJHMFA staff summarized: "there's just a massive shortage of the supply of housing, relative to the demand.... So, it is not a question of whether incomes are strong enough. Because they are."[50]

An important characteristic of these perceptions was their uniformity across states and sectors. Not only was a general crisis perceived strongly in both states, but agency staff, developers, advocates, and financiers were united in the details of the crisis. While this could be in part a function of those who were contacted and subsequently agreed to participate in this research, similar viewpoints were noted through field observations and document analysis. It could also indicate a process of diffusion at work whereby such information is widely disseminated through networks or policy entrepreneurs to multiple stakeholders (discussed below).

2. State housing policy context

Measuring a state's prior financial commitment to housing is one way to gage its future propensity to innovate, but its commitment to *comprehensive* housing policy and planning may be a more important indicator in the context of constricting federal and state budgets. Such a comprehensive approach to housing governs existing resources as well as suggesting new ones, and focuses them strategically on a state's most prominent housing problems. States engaged in regular, systematic analysis and prioritization of housing needs could be expected to adopt more innovations in response to dynamic

[50] New Jersey boasted the highest median household income of all 50 states in 2005 – $61,672 – a distinction held since at least 2002, according to the U.S. Census Bureau's American Community Survey. Some will point out that it is still impossible for a household of two minimum wage earners to afford a two-bedroom apartment anywhere in the state at HUD-determined Fair Market Rents (National Low Income Housing Coalition, 2006).

needs, as opposed to those who lack a long-term vision and strategy. This appears to be a critical distinction in practice, as illustrated by these two case studies.

As highlighted previously Chapter 4, New Jersey has over twenty years of statewide comprehensive planning experience, coupled with a regionally-based fair share housing mandate. Despite this, many interviewees echoed the sentiment expressed by one representative of the development community: “I know of no objective observer who would claim or assert that New Jersey has a housing policy. Housing in New Jersey is a policy afterthought.” Beyond COAH and its fair share process, there are no legislative mandates for New Jersey agencies to individually or collaboratively pursue statewide housing goals, and no additional strategies outlined for how they might do so. Innovation in this context is more difficult, as NJHMFA and other agencies lack direction and motivation to pursue it. While innovation can and does still happen in this environment, the impetus comes from other factors, and it may be implemented in a more piecemeal and haphazard fashion.

In Illinois, most observers view the state’s new Comprehensive Housing Plan as a significant “sea change” in the State’s housing policy context – at least on paper, if not yet in practice. As one advocate stated, before 2003 “there was not a proactive policy that said we want to get these products out in this way to meet these demands.” Now, however, there is an “actionable plan...with accountability mechanisms.” The Plan includes a “list of tasks that need to happen, and...who is responsible to carry out those tasks, and...the timeline within which we think it should be done.” It links together multiple state agencies and funding resources to target specific populations with housing problems in Illinois, and provides an annual mechanism for evaluating their success against concrete benchmarks. Within this policy context, IHDA is not just empowered, but mandated, to cooperate with other agencies for the purpose of innovation, and adjust and adopt products and programs to meet new policy goals. According to staff and other observers, the plan has already spurred significant innovations, including the Rental Housing Support Program, and the Home Modification program with the Department of Human Services and Department on Aging. Some remain skeptical that affordable housing will ultimately become easier to develop as a result of these innovations, but perhaps it will result in an increased number of residents and units assisted overall, especially those populations facing some of the most severe housing problems.

The degree of *permanency*, and therefore predictability, of a state's housing policy context also influences its innovation outlook. In Illinois, what began as a Governor's Executive Order has become a legislative Act because advocates wanting a lasting state action as opposed to simply "the will of the current Governor." In New Jersey, a relatively new state initiative has been initiated to develop 100,000 units over 10 years.[51] The Governor's office has provided the impetus, and the Department of Community Affairs has been charged with leading the effort. Many of those interviewed expressed greater faith in legislation than a gubernatorial mandate, which may be weakened or dissolved by a change in either priorities or administration, something to which New Jersey is especially prone. In fact, while Illinois has already produced two plans and one evaluation, New Jersey has already stalled in its new initiative after failing to publish an action plan by its initial January 2007 deadline.[52]

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[51] In actuality, Illinois' Comprehensive Housing Planning Act is scheduled to sunset, unless renewed, during the same year Governor Corzine's 100,000 unit goal is to be met: 2016.

[52] DCA produced a "status report" in August 2006. A person familiar with the process recently confided that the initiative had been quietly put on hold by April 2007.

Finally, whether or not a state housing policy *targets* units or people may also have an impact on HFA innovation and program implementation. In Illinois, the state has a history of focusing resources on very-low-income households, especially through its Affordable Housing Trust Fund, and is improving its efforts at targeting special needs populations, such as persons with disabilities, veterans, and ex-offenders. These goals have been cemented in legislation and shape the State Comprehensive Housing Plan. In New Jersey, a focus on units may result in a shift to spread scarce resources to a larger, easier-to-serve population. If that is the case, there is a danger that those populations facing multiple housing problems, and requiring the deepest subsidies, may go underserved by such a strategy. In fact, an increasing NJHMFA program focus on "middle income" homebuyers may be evidence of a new trend. However, in light of the lack of an action plan, it is too early in the process to predict such an outcome.

3. Politics

A state's political climate has a significant impact on housing innovation. In both states, having both a receptive Governor and legislature was key to achieving advancements in housing policy, programming and funding. Also, having the same party controlling the executive and legislative branches seemed helpful in recent years. An unstable environment within which party control shifts frequently, as in New Jersey, can slow or fragment innovation. At the same time, it can also create space for advocates to make housing an issue on the campaign trail.

Governor Rod Blagojevich, a Democrat, won the 2002 gubernatorial race in Illinois, ending 25 years of Republican state leadership, along with a new Democratic majority in both the Illinois House and Senate. Housing advocates, located primarily in the Chicago area, a city controlled by Democratic mayors since the 1930s, finally found common political ground with the state executive and legislative branches. At their prompting, Governor Blagojevich established a Housing Task Force, which included representatives from key public, private, and nonprofit housing interests throughout the state, and was directed to draft the first Comprehensive Housing Plan.

Despite these supportive actions, the Governor is still criticized by some for establishing these new priorities, plans, and legislative mandates on one hand, and depleting the state's Housing Trust Fund on the other to fund tangentially-related housing programs and to replenish general state revenues. He also has shown periodic reticence to support new programs requiring new funds, such as the Rental Housing Support Program. As one advocate summarized: "we have a very reluctant governor...[for whom]housing is about the 28th issue on his agenda. He is interested in other things. He kind of goes along with things, but there is really no great interest there." Staff affirm that advocates need to "understand the priorities of this administration and how housing fits those priorities, because it is not a number one issue and it probably will not be a number one issue for us."

Another factor encouraging innovation in Illinois has been "the fact that both the House and Senate of the Illinois General Assembly are of the same party as the Governor. So, it's a little easier to negotiate legislation through the process than it was before, when that was not the case," according to one IHDA staff person. One Assemblywoman in particular is credited with championing housing issues in the legislature. And new standing committees on housing have also been created in both the Illinois House

(Housing and Urban Development) and Senate (Housing and Community Affairs) within the past four years.

New Jersey's political climate has contributed to muddled direction in state housing policy. With numerous shifts in political party control over both the governor's seat and the Legislature over the last couple of decades, some politicians have taken a greater interest in housing than others, including a recent string of Democratic governors. Governor James McGreevey (2002-2004) set a goal of financing or preserving 20,000 affordable units in 4 years, that was met and exceeded. Governor Richard Codey's (2004-2006) personal interests supported the creation of the Special Needs Housing Trust Fund, a new source of funding for special needs housing production, enacted in 2005.

Most recently, Governor Jon Corzine (2006-) charged DCA with a goal of building or preserving a total of 100,000 affordable housing units in 10 years. Unlike Governor Blagojevich in Illinois, Governor Corzine has consistently highlighted New Jersey's housing problems in public forums since his campaign, including a plenary speech at his 2006 Annual Housing Conference in Atlantic City.[53] An inventory of the state's current major housing initiatives, released the summer of 2006, seems to be a positive first step in coordinating state housing efforts (New Jersey Department of Community Affairs, 2006). However, some remain skeptical that this governor-led (and advocate-supported) initiative will result in a permanent, comprehensive housing policy for New Jersey.[54]

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[53] Governor Blagojevich did not attend his 1st Annual Housing Conference in Chicago in 2006. However, a June 2007 conference in Springfield was advertised to include a reception at the Governor's mansion.

[54] In addition to the delay in implementing this plan discussed previously, it is also unclear how the Governor's goal will coordinate with the municipal fare share numbers produced by COAH.

The New Jersey legislature has intervened infrequently in state housing policy in the past two decades since the Fair Housing Act. As one developer relayed: “the Senate does not even have a housing committee and the Assembly’s housing committee is a relatively moribund entity, has been for years and years and years.” Furthermore, the issues that are raised before the Assembly Housing Committee “are not sexy issues” and are usually in “the context of trying to stop housing from being built.” In terms of NJHMFA, according to one long-time advocate, “I don’t think they have much of a relationship with the legislature. I think that in the current environment, the DCA Commissioner is the one that relates to everybody.” Legislative interventions in New Jersey are viewed as both burdensome and misguided by current and former NJHMFA staff.

4. Interest groups

There seem to be two primary interest groups engaged in promoting (or limiting) housing policy innovation at the state level: advocates and developers. Other groups historically associated with lobbying at the federal level – real estate agents, unions, and private lenders – have a much lesser influence. This could be due to the smaller impact of state versus federal actions on these industries as a whole, or a stronger spirit of collaboration among diverse interests at this lower level of government.

Illinois advocates have a long history of influencing statewide housing innovations. They are credited with winning state anti-redlining legislation in the 1970s (a precursor to the federal Community Reinvestment Act), the Illinois Affordable Housing Trust Fund in the late-1980s, and state legislation against predatory lending in the 1990s (Housing Action Illinois, 2007; Mariano, 2003). Many individuals mentioned the significant role that advocates continue to play, who have been “plug[ging] at it year after year after year..[so that] gradually, a little bit more and a little bit more gets done.” Advocates have conducted research on significant housing issues, proposed solutions, spearheaded media outreach and education initiatives, and won legislative support for their ideas. A key element has been a recent multi-year initiative to establish a consensus around those issues critical to all of them, despite their diverse interests, and pursue a unified legislative agenda. In large part, it was this strategy which resulted in the Illinois Affordable Housing Donation Tax Credit (2002), the State Comprehensive Housing Plan (2003), the Illinois Affordable Housing Planning and Appeal Act (2004) requiring municipalities to have at least 10% affordable housing (discussed below), and the Rental Housing Support Program (2006). These represent the first significant pieces of housing legislation Illinois has passed, and new housing resources it has created, since it established its Affordable Housing Trust Fund in 1989. And all of these policies and their corresponding programs are administered by IHDA.

Advocates in New Jersey have also persisted over the years, winning new programs and funds for housing. Quite a few NJHMFA initiatives have resulted from such efforts, including a predevelopment fund for nonprofit developers, NJPLAN. The biggest win achieved most recently is Governor Corzine’s 100,000 unit commitment. In public settings and reports, government staff give credit to several nonprofit advocacy groups and coalitions for suggesting many of the ideas that the state’s new initiative is supposed to encompass (New Jersey Department of Community Affairs, 2006). Major advocacy efforts began during the 2006 gubernatorial campaign when a variety of private and nonprofit sector representatives decided to form a coalition to make housing an election issue. One prominent coalition, including a former New Jersey governor and led by a former director of NJHMFA, promoted the goal of producing and preserving 100,000 units in 10 years in an action plan presented to Governor-elect Corzine. Extensive research on state housing needs was presented, along with specific strategies for addressing the identified problems (Anti-Poverty Network of New Jersey, 2005; Homes for New Jersey, 2005), and a call was issued 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, p.5).

The affordable housing development community also has considerable impact on how HFAs innovate, and how successfully they implement and achieve their policy goals. Before the State Comprehensive Housing Plan, IHDA was “doing market-driven developments...let[ting] the private markets sort of dictate where housing is needed...,” according to one staff. This certainly influences the type of innovations adopted and implemented, including which populations and geographies are served. While relying on market forces might have left certain needs unmet, it did lead to successful programs and projects in areas where the development community was already skilled at production, finance, and management.

Developers with significant capacity and development history appear to hold more sway over innovation than those that are new to affordable housing development or are insufficiently capitalized. In fact, to be influential in HFA innovation, a developer needs “a good project, ...credib[ility], ...a track record, ...some of your own capital, and expertise.” For example, in New Jersey, one long-time developer was able to successfully work with NJHMFA on several occasions to create or alter financing products based on specific project needs. Experience, track record, and financial strength is such a critical issue to IHDA that it ranks its LIHTC applications based on development team experience and evidence of other committed project funding.

While for-profit developers can usually meet these criteria fairly easily, they can work against nonprofit developers or social service providers who desire to provide affordable housing due to their mission, but lack the project scale, equity, and/or development expertise to persuade an HFA to fund them. HFA past experiences with small-scale, inexperienced developers, both for-profit and nonprofits, make them wary of working with similar groups. According to one IHDA staff person, "we try to encourage [projects sponsored by smaller, newer groups], but also, as we start looking at our troubled portfolio, we see, well, many of those that we tried are not doing very well." This results in a reduced impact of nonprofit developers on HFA innovation, as those without capacity fail to gain needed experience, and those with capacity choose to seek project financing elsewhere and not participate with the HFA at all.

There is evidence that HFAs are paying greater attention to groups with lesser capacity, however, when they are mandated to serve certain state priorities, such as demographic or geographic targets. Oftentimes these may include populations (e.g. special needs or very-low-income) and places (e.g. rural) beyond the market or expertise of for-profit developers. In these cases, HFAs are turning to social service providers and/or fledgling nonprofit developers to help build their capacity to develop and manage specific types of housing. This is especially evident in Illinois, where, due to targets specified in the State Comprehensive Housing Plan, IHDA has had to turn to special needs service providers with little to no development capacity to increase their ability to produce and manage housing for these populations.

In general, developers have less influence over HFA innovation than they would desire. This is in part a function of their dependence on HFA resources in order to develop affordable housing, especially bond financing and LIHTC. As demand for such resources outstrips supply, the agency has the upper hand in setting and maintaining its rules and preferences (e.g. within the QAP) without needing to respond to requests for specific accommodations. For example, one developer criticized IHDA for having unnecessarily overbearing requirements attached to certain products, even when compared to other states, that can cost the agency and developer extra time and money, and can ultimately make deals unfeasible. While this has been brought to the agency's attention repeatedly, they have not felt compelled to change their requirements. One developer summarized the development community's relationship with NJHMFA this way: "they don't reach out and ask us 'How could we be more effective in influencing the way in which the for profit development community is looking at and approaching the provision of affordable housing?',...nor do we reach out to them and say, 'Hey, we've got some ideas here. Would you be amenable to taking them forward?'"

Other interests known to have a strong influence on federal housing policy innovation do not wield the same power at the state level. These include real estate agents, unions, and private lending institutions (Dreier, 2000; Orlebeke, 2000). It does not seem that these groups are as organized or involved in influencing housing policy innovations at the state level, at least as they pertain to HFAs. According to one housing advocate in Illinois "...the realtor organizations would probably come out and oppose it [a restructuring of the real estate transfer tax]. And so they're always monitoring this kind of stuff. But I would say, for the most part, they're not advocating around affordable housing; it is either not on their agenda or they are opposing it." Beyond general state requirements to pay prevailing union wages on state-financed projects, including housing development, unions do not seem to be heavily engaged in the housing arena.[55] Finally, private lenders often partner with HFAs to originate their homebuyer mortgages, and do not seem to feel threatened by HFA innovations, even as they do not seem to actively demand them. In fact, institutions engaged in community lending view their partnerships with HFAs as beneficial.

B. Organizational Factors

In the case of the two HFAs studied, it appears that these hierarchical, complex organizations can foster innovation despite centralized decision-making and formalized rules and standards. This can be partially attributed to a cadre of professional staff committed to filling organizational "performance gaps" through creative policy solutions.

1. Resources

Resources can be both a blessing and a curse to innovation, as highlighted by the debate in the policy literature over whether it is resource-scarcity, or its exact opposite, resource-availability, that motivates innovation (Nice, 1994). These case studies point to four related characteristics of resources necessary to sustain housing policy innovation by HFAs: *targeted* to meeting specific policy goals, *flexible* in how they can be used to meet

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[55] IHDA does have a decade-long partnership with the AFL-CIO Housing Investment Trust, including a recent $250 million investment for the creation and preservation of 2,500 rental units on the basis of creating jobs for union workers. (Office of the Governor, 2005, May 22).

those goals, *dedicated* to housing alone and secure from being funneled into other programs, and easily *accessible* by those most likely to utilize the resource.

These case studies indicate that scarcity can motivate innovation in the form of increased targeting to maximize impact. The two states examined both engaged in substantial efforts to create and target state resources to identified housing priorities, despite substantial budgetary constraints. Each is focusing more resources on low-income renters through vouchers (New Jersey) or project-based (Illinois) rental assistance. QAPs for competitive LIHTCs are being used to promote special needs housing, energy-efficient development, and the preservation of affordable units. Illinois' State Comprehensive Housing Plan goes even further, coordinating a variety of state resources for the benefit of six targeted populations. There does seem a point, however, where targets become so numerous and/or restrictive as to make a resource inaccessible, such as has happened with Balanced Housing funds in New Jersey.

The availability of flexible resources can also encourage innovation. For example, the flexibility of the Illinois Affordable Housing Trust Fund has allowed IHDA to implement new programs brought to them from the outside and identified internally as being worthy of pursuit.[56] For example, its Employer-Assisted Housing program, now being considered as a model for a national program, was piloted with Trust Fund monies. Ultimately, states face the challenge of achieving a delicate balance between targeting funds toward specific needs, and maintaining enough flexibility to address emergent concerns and special circumstances.

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[56] It should be noted that while the Trust Fund operates according to strict income targets, there is otherwise great flexibility in its use.

Resources that are dedicated solely to fund housing, as opposed to a variety of policy areas, and that are secured against being taken to fund other programs, seem to be a key condition for innovation. Significantly, the Illinois' Affordable Housing Trust Fund – the state's primary source of flexible gap financing for very-low-income projects – has recently been "raided" to help make up for the state's overall budget deficit, starting with $5 million transferred to general revenues in 2003 (Wills, 2003), and at least another $4 million in 2004 (National Council of State Housing Agencies, 2005). This takes a toll on scarce Trust Fund resources, funded through half of the state's real estate transfer tax at about $20-22 million per year.[57] However, it is indicative of the struggle many states are facing to balance their budgets at the same time when federal resources for housing are shrinking. Also, for the first time, Illinois' Fiscal Year 2007 budget called for the use of Trust Fund dollars to fund other agency programs outside of IHDA, instead of using general state revenues to do so. It has also been tapped extensively to fund new programs generated through the comprehensive planning process in a manner some predict to be unsustainable. An interesting side effect may be to reduce innovation by thwarting housing interests from promoting new ideas out of fear that they will further threaten the future of the Trust Fund.

Finally, funds need to be accessible to the parties most likely to utilize them for their intended purposes and policy outcomes. Unfortunately, New Jersey's current institutional structure (discussed below) requires developers to go to different agencies for different needs, quite often for the same project, making accessibility to resources

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[57] According to credit and bond rating agencies, an increasing trend in fund transfers from HFA to general state coffers can lead to the downgrading of the issuer ratings HFAs receive due to the uncertainty this creates in their ability to repay their obligations. In fact, Hawaii's HFA has been downgraded by Moody's on at least one occasion due to a transfer of more than $150 million to the state's general fund over a five-year period (Moody's Investor Services, 2005).

difficult and complicated. For-profit developers seem to have an easier time maneuvering the system because they are well-capitalized and often seek just one or two sources of funding to make their projects viable – federal LIHTC and state Balanced Housing Trust Fund resources. This process has recently been made easier through a joint application for both funds. Nonprofit developers often do deals requiring multiple layers of “lasagna” financing, and find assistance from varying state agencies uneven. Differing agency goals and program regulations can conflict to the point of forcing such developers to choose between resources, when both are in fact needed for project feasibility and affordability. At least one New Jersey coalition of broad-ranging housing interests has called for the creation of a separate state 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).

2. Complexity vs. Centralization

Both IHDA and NJHMFA are old, mature agencies with an equivalently large number of staff. Over time, the staff of these complex organizations have become more specialized, and today receive generally high marks for their level of expertise. “The quality of the staff at both NJHMFA and DCA, they are really quite good, and they are experienced, and they understand how this stuff works,” one New Jersey developer commented. Executive Directors at NJHMFA over the past few years were described as “qualified, good people...that are genuinely interested in housing and interested in thinking in creative and thoughtful ways about how to get it built,” although some believed their level of competence was low.

A centralized structure for decision-making in theorized to discourage the initiation of policy innovations, at the same time it aids in their consistent implementation. This seems to affect IHDA more so than NJHMFA. Even when proficient executive and line staff are employed, several respondents expressed frustration at the inability of HFA staff to make critical decisions, "take risks, and to get transactions moving." At IHDA, one observer noted the "need [for] a structure that frees up the staff to be much more aggressive about developing programs and getting stuff out there." Now that IHDA is managing the comprehensive planning process, line staff have been going through internal training to develop an understanding of IHDA's new organizational goals, ultimately leading to greater consistency in their implementation of policy innovations. Overall, NJHMFA appears more flexible in initiating and implementing policy innovations, operating within a more decentralized structure and utilizing specialized staff capable of implementing specific programs effectively.

3. Hierarchy

As self-financed, quasi-public agencies governed by a Board of Directors usually appointed by the Governor, HFAs differ significantly from other state agencies who are part of the executive branch and reliant on taxpayer dollars. As cabinet-level entities, the latter agencies are beholden to the Governor for their direction and program approval, and the Legislature for funding. They may have less flexibility to respond to state problems creatively when forced to wait for legislative responses and allocations before proceeding. As one IHDA staff person reflected:

> "it is not uncommon for other agencies, for their budgets, to have to go through various committee hearings. They get very specific inquiries and demands for

> information on certain programs or line items. And we normally do not have that.... So, we are held very accountable by our Board and by the Governor's office. But I think that has really been an advantage that has really allowed us to have some level of independence and still have the accountability of a state agency."

At the same time, state departments may be able to take greater risks than HFAs when state needs justify them, as they have the financial backing of the State in the case of project difficulties or failure, and they are not beholden to providing bondholders with a return on their investment.

Who stands on the top rung of the HFA hierarchy is debatable. As one observer commented:

> "IHDA gets pulled between its Board...and the Governor himself and his staff. And the Board is very conservative, and they are very business oriented.... [The Executive Director] is really beholden to them in a lot of ways, and at the same time, she has got to make the Governor happy. So, she's in a pretty difficult situation."

In states like New Jersey, where an HFA is subsumed under or joined with a state department, there can be tension between state agencies as they vie for the second-rung position in policy-setting and decision-making in housing. For example, in New Jersey, there is an historic "tension between the Department of Community Affairs and the Housing and Mortgage Finance Agency about which agency is in charge of housing in New Jersey." One respondent remarked: "If I had a little chart of who was the [DCA] Commissioner and who was the [NJHMFA] Director, I could tell you who was in charge during those years. It really has varied. And it depends who made the appointment and who has the knowledge." The current DCA Commissioner is characterized as "very much in charge," and credited with increasing coordination between the two departments and eliminating tensions temporarily by hiring a long-time colleague as NJHMFA Director.

Some say this has concentrated power in NJHMFA, with DCA acting as a “support agency,” while others view it as a more hostile takeover of the Agency by DCA, marginalizing it and stifling its ability to respond to state housing needs more creatively and flexibly.

Various housing interests find it sometimes useful to have multiple agencies to approach with their needs; if one agency cannot (or will not) help them, perhaps another one can (or will). In this regard, having an uncertain hierarchy can be a benefit to innovation. At the same time, there may be less incentive for any one agency to work hard and to take on new financial and political risks in developing creative policy solutions, if they believe it should be done by another agency instead. In this instance, a well-defined hierarchy is helpful in defining responsibilities and providing a structure for implementing innovations efficiently.

C. Individual Factors

Often absent from analyses of state policy innovation, at least two factors related to HFA staff seem to contribute to housing policy innovation: job tenure and staff attitudes.

1. Job tenure

Staff turnover can be both positive and negative. New staff can bring creative ideas and professional experience with them, and be more receptive to suggestions previously ignored. At IHDA, for example, the change in administration in 2002 brought more receptive and responsive staff on board, including a new Housing Policy

Development Advisor within the Governor's Office who came directly from the nonprofit development community, in addition to changes in top level staff at IHDA.

When staff are shifted to other positions, or leave altogether, programs they initiated can die without a champion. In addition, for an HFA's private and nonprofit partners, changes in key positions means continually rebuilding relationships in a constantly changing environment, making it hard to fight for, and win, long-term change. At NJHMFA, where the average tenure of Executive Directors since 1990 has been just over two-and-a-half years, opinions on the benefits and costs of this turnover are mixed. Some say the constant turnover in leadership has had minimal impact on the agency, while others point to this "revolving door" of political appointees as reinforcing the status quo. According to the critics, "the kinds of ingrained problems that are there [in NJHMFA], or bureaucratic issues, or cultural ways of thinking, they do not change because everybody knows that the Director is just going to be there for a few years, and then there will be somebody else."

2. Staff Attitudes

Many innovations can be linked to the influence and ideas of specific individual HFA staff. Assisted by a combination of prior work experience, personal preferences, and professional research, HFA staff often identify organizational "performance gaps" they desire to fill. For example, one IHDA staff person noted that "some of our employees have had a lot of private sector experience,...[so] some of them [their ideas] are sort of borrowed from the private market." In addition, staff "will be looking at areas where we see gaps, where we are not getting proposals, and then try to put together a program," in response to the identified need. Similarly, "when a new program is being thought of or created [at NJHMFA], it's often...[the staff] who are sitting there, who are using their knowledge of current research and current trends to inform the creation of the program." Agency staff "beat the drum" like "broken records" to draw attention to issues and policy solutions that they identify and judge to be pertinent to the state. They can also choose to overlook or block new innovations that they do not value or agree with. For example, one advocate commented that a lack of staff "respect [at IHDA] for the added value that nonprofit developers bring...skews how they set up new programs" in ways that work against nonprofits.

In addition to forwarding their own ideas, staff can be accessible to external housing interests, and receptive and/or responsive to the ideas they present. *Accessible* staff are those who make themselves physically available to and approachable by other housing interests, whether they agree or disagree with the perspectives that they represent. They are perceived as "interested" and "focused." A *receptive* staff person, at minimum, listens to suggestions made to them. As one staff person commented regarding nonprofit developers, "we listen to their ideas, to what they have to say, I hope, for the most part. Whether or not we can or will do what it is they want us to do remains to be seen." *Responsive* staff pay attention "to what's working or what's not working, or where they should be shifting their program," and take action based on observations and feedback. They "return your phone calls" and, ideally, "if you talk to three different people...you will pretty much get the same answer [to your question]" as opposed to "get[ting] a different answer, [even when] they have all talked to each other and still reached different conclusions."

C. Diffusion Factors

According to the evidence from these two cases, policy diffusion among HFAs tends to occur through at least four mechanisms: (1) state pioneers; (2) national networks, (3) professional associations, and (4) policy entrepreneurs. Interviewees in Illinois reported conducting national research and copying key legislation and policies from other state leaders. For example, the Illinois Planning and Appeals Act was loosely based on a combination of fair share housing legislation from Massachusetts (Chapter 40B) and New Jersey (Fair Housing Act). In at least one instance, an HFA director was invited to tour areas in other states where advocates saw policies they favored in action.

National organizations seem to play a more prominent role in at least two ways. First, membership organizations representing state housing agencies appear to be a key link in disseminating new ideas through conferences, award competitions, and electronic listservs. As one IHDA staff noted:

> "We also are fairly active members of the National Council of State Housing Agencies, NCSHA. And we participate in their conferences and workshops, but they also have a fairly comprehensive listserv system that really allows us to do inquiries on different types of programs and ideas. And some of them aren't even ones that we thought of, but you look down the listserv, you sometimes get ideas just from other questions other state HFAs are asking."

This resource has grown in importance in today's climate of federal devolution, as states can no longer rely on the federal government to take the lead in housing, but instead have to look to one another for inspiration.

Second, national networks assist advocates in learning about and diffusing new state policy ideas. Advocates interviewed in both New Jersey and Illinois often referred to their counterparts in other states as sources of ideas. The National Congress of Community Economic Development, a national organizational serving a diverse group of community development corporations and networks, assisted state networks in connecting with one another until it was disbanded in the summer of 2006. Another network, the National Association of Community Economic Development Associations, is forming to fill this gap. Its membership is solely statewide associations.

Professional associations among people engaged in housing development and finance also provide good sounding boards for new ideas. NJHMFA's current Executive Director credits a statewide professional association, New Jersey Women in Housing and Finance (NJWHF) with hosting an event on the 'green building' concept which led her to adopt a new policy emphasis for the agency incorporating energy efficiency.

Finally, key individuals may play an active role in diffusing innovations as policy entrepreneurs (Mintrom, 1997). The names of two former NJHMFA Executive Directors who had later become Directors of other state HFAs were mentioned on multiple occasions as sources of innovation in New Jersey and their new state homes. Other strategic individuals who interact with multiple HFAs, such as bond issuers, help spread ideas among their clients as well, "encouraging [them] to reach out to some of the other entities throughout the country to see what is working with them and why."

D. Where Environment and Organization Collide

These two qualitative case studies uncovered at least two critical interactions between environmental factors and organizational factors influencing HFA innovation. The first is a set of conflicts between HFA priorities and those of the various housing interest groups with which they interact. The second concerns intergovernmental relations.

1. Priorities

There are at least four defining characteristics of HFAs that emerge from this analysis that result in both compatibilities and conflicts with a variety of interest groups. First, as lending institutions responsible to their Board of Directors, bondholders, and the agencies that rate their creditworthiness, they are financially *risk adverse*. Second, as *production-oriented* financers of affordable housing, they are beholden to the developers and financial institutions with whom they partner to build and finance housing projects. Third, as quasi-governmental agencies, they are *politically-engaged*, guided by the actions of the Governor and Legislature. Finally, as agencies with a public mandate to address state low- and moderate-income housing development, HFAs are socially *mission-driven*, and therefore accountable to housing consumers and the advocates who represent them. These qualities lead to internal tensions within HFAs, and serve as a source of conflict with a majority of the parties with which they must cooperate in order to develop affordable housing (see Table 6.1 below). IHDA's most recent Annual Report summarizes this daily tension that state housing finance agencies face, and is worth quoting in full:

> "The Illinois Housing Development Authority functions in two different worlds. IHDA is a social purpose government entity responsible for executing the Governor's leadership on affordable issues and responsive to the housing needs of Illinois. IHDA is also a self-supporting financial institution that must remain fiscally sound and under the scrutiny of private investors so that we can leverage private capital to invest in our social purpose work" (Illinois Housing Development Authority, 2006, p.13).

HFAs wrestle with a similar double-bottom-line that nonprofit developers have been shown to face: remaining fiscally solvent while maximizing social goals (Koschinsky, 1998). However, in the case of HFAs, the stakes are numerically much higher.

As detailed in Table 6.1 below, HFAs are characteristically more adverse to taking risks than all of their other partners, other than lenders that share a relatively similar level of aversion. For example, developers may judge risks differently than HFAs, and speculate based on their more intimate knowledge of local housing market conditions and trends. Advocates and development consultants believe an overemphasis on risk makes HFAs too conservative in their approach, causing them to miss strategic opportunities to address state housing needs. According to one representative of Illinois' development community: "their [IHDA's staff] inclinations are towards risk avoidance at all cost, even if it means transactions are more expensive for them to do, take longer for them to do, maybe even result in some deals not getting done." On the other hand, as one government official noted, "there is a tension between them being a housing finance agency and needing to respond to the bond rating agencies who will look at the...entire book of business when they are rating the Authority. I think that does shape their decision-making on policies about investing in projects and the amount of risk they are willing to take."

Table 6.1: Relative Interest Group Compatibilities with HFA Priorities

	HFA PRIORITIES			
INTEREST GROUPS	**Risk Adverse**	**Production-Oriented**	**Politically-Engaged**	**Mission-Driven**
Advocates	-	-	-	+
For-Profit Developers	-	+	-	-
Non-profit Developers	-	+	-	+
Lenders	O	-	-	-

Legend: - means priority is lower for interest group; + means it is higher, and o means that it is relatively the same.

Another source of conflict is an HFA's production-oriented nature. While developers are obviously more singly focused on production than HFAs, advocates may be more concerned about the types of units or the types of people being served by a given project. Advocates may also have a greater interest in preserving the affordability of existing units through refinancing, which does not result in a net increase in units. Lenders are traditionally more interested in money matters than whether units are built or preserved.

Politically, HFAs are uniquely situated, along with other state finance authorities. While they are "in, but not of" state government - governed by an independent board, rather than the legislature – this Board is often composed of ex-officio members and those appointed by the Governor. Similarly, while the Executive Director is hired by the Board, the position is often filled by the Governor's suggested candidate. Lenders, developers, and advocates are obviously free from such direct political control, even while they often engage in lobbying or advocacy efforts to sway the political process in their favor.

HFAs were established by their state legislatures to fulfill a social purpose of supporting housing development throughout the state, especially for low- and moderate-income citizens. Lenders and for-profit developers tend to have weaker missions or mandates for such affordable housing, with the exception of those chartered for that particular purpose (e.g. Community Development Financial Institutions, nonprofit lenders). Instead, they are primarily motivated by the financial returns on their investments. Non-profit developers and housing advocates, on the other hand, have a much stronger sense of mission, coupled with the purposeful lack of a profit motive. Advocacy groups are usually formed based entirely on mission.

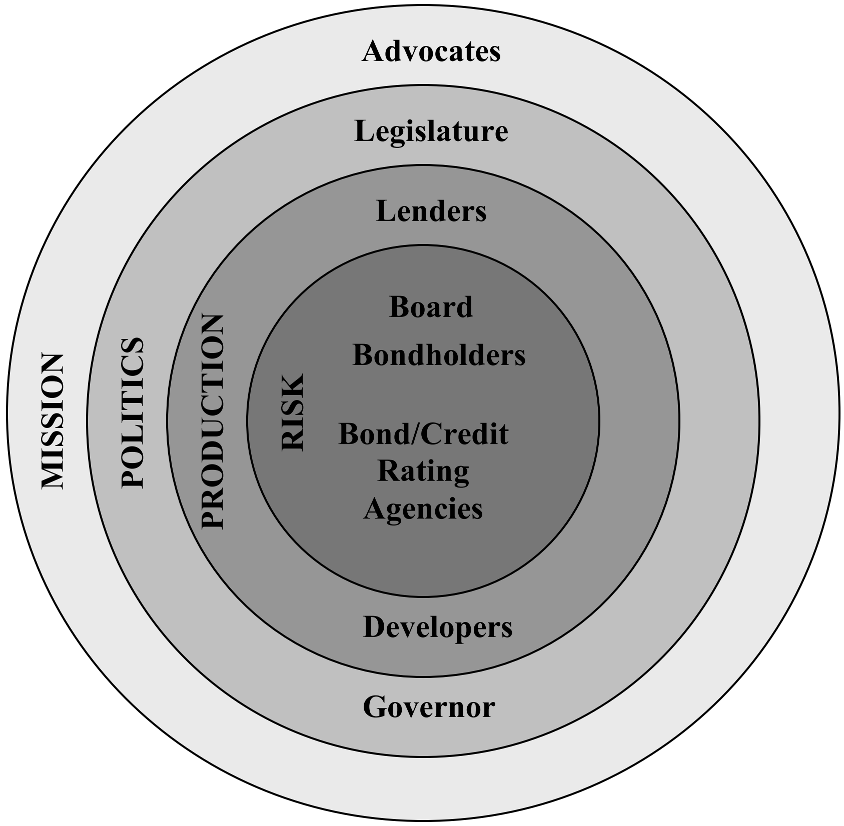
These four unique HFA characteristics discussed above highlight four different circles of influence on HFAs. These are illustrated by Figure 6.1, and are ranked from the inside out according to what drives HFA decision-making on a daily basis. HFAs are first and foremost accountable to their Board of Directors, bondholders, and bond and credit rating agencies for their day-to-day financing decisions based on their risk-averse nature. Whereas the Board directly approves project financing, concerns of how bondholders and rating agencies will perceive project risk influence HFA decisions more indirectly. A key motivation in HFA innovation (or lack thereof) is preserving its reputation and ratings among these central interests.[58]

The second circle of influence are the HFAs *production* partners, namely the developers and lenders who partner with HFAs on a project basis to construct and finance affordable housing. HFAs are wholly reliant on these parties to meet their mission, once the funds are available.

In the third circle of influence are the *political* interests, or the Governor and the Legislature, who intervene on a less frequent basis to issue new mandates to the agencies and chart progress. They do not have much say over the day-to-day operations and decisions of an HFA, since it is usually structured as a self-sufficient quasi-governmental entity, as opposed to a state dept subject to state budget authority. Out of these two, the Governor seems to have greater sway over HFA activities. In fact, there is a history of

[58] It should be noted that no Board Members, bondholders, or rating agency representatives were interviewed for this research. However, these opinions were uniformly expressed by both agency staff and broad cross-section of housing interests interviewed.

Figure 6.1: HFA Circles of Influence



legislative distrust of the HFAs in both states. In New Jersey, for example, an Assembly Task Force was formed to examine NJHMFA operations, and issued general recommendations in 1993 on improving the Agency's effectiveness.[59] Those aware of this initiative could not identify specific efforts made to implement its findings. Similarly, in Illinois, some legislators seem to "feel like they don't really know what they [IHDA] do with their money" and "don't want more money going to IHDA if we don't know what they're doing with it."[60] Although explicitly stated or implicitly implied by multiple

[59] Unfortunately, the author was unable to locate a copy of this report during this research period.
[60] While this may seem to contradict the increased legislative activity around housing in Illinois over the past several years, respondents discussed how most of the housing initiative has come from primarily just one State Representative, Julie Hamos(D). Additionally, while there are housing committees in both the Illinois House and Senate, they are very new. As one respondent noted, just several years ago "there wasn't even a place to go to have a relationship with [the Legislature], because there wasn't any committee [to report to]." The relationship between IHDA and the Illinois Legislature has therefore been described as "evolving."

respondents, these sentiments require further verification, as no legislative representatives or staff were consulted during this research period.

Finally, HFAs can be influenced by demands of the low-income housing advocacy community.[61] Advocates have historically felt the most ignored by HFAs; staff responses validated these claims. When asked about IHDA's relationships with advocacy groups, one staff responded: "I'd be less than honest to say that probably has improved pretty dramatically" over the last few years. He clarified "I don't want to paint a picture that IHDA had a negative type of relationship with advocacy groups. I just think that they feel more empowered under the current situation that they every have before." One representative of the nonprofit developer and advocacy communities agreed: "the former vision was really...financially motivated, and advocates are rarely in that same camp. They're usually programmatic, population motivated. So, that's where the friction kind of came up. Whereas, now, the people there are more neutral, you know, concerned about both fiscal issues and programmatic issues."

Beyond the innermost Circle of Influence, no one group holds a lot of sway over HFA innovation. However, through the forging of new alliances, more mission-driven advocates have linked together with more influential production-oriented (e.g. developers, real estate professionals, financial institutions) and politically-motivated (e.g. state legislators, current and former governors, former HFA directors) interests to forward a unified agenda on housing. These combinations of influences seem to improve interest group success in pressuring HFAs to innovate, including new legislation in both

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[61] While it is assumed that advocates represent the interests of those consumers of affordable housing who ultimately benefit (or not) from the housing that is financed through HFAs, this may not always be the case. It should be noted, however, that other than the advocacy community, there is no built-in mechanism for consumer feedback to ensure their satisfaction with the process and the housing obtained in these two states.

states that clarify state housing priorities affecting HFA activities and establish new resources to achieve state goals.

2. Intergovernmental Relations

The U.S. is a federalist system where state government can do anything which its constitution does not explicitly (or implicitly) prohibit, and local governments are creatures of the state (Hanson, 2004). It seems quite ironic, therefore, that state inability to effectively confront local exclusionary practices leaves HFAs powerless to work in municipalities where affordable housing is not wanted. This is especially significant when local government project approval is needed before financing will be granted, as in the case of New Jersey. There is a fundamental disconnect between those managing where, what type, and how affordable housing can be built, and the primary state financing mechanisms available through HFAs to build affordable housing. This may be more surprising in New Jersey, where a fair share housing law has been on the books for over 20 years, as opposed to Illinois, which only adopted one in 2003.

While increased development costs – land, labor, and materials – have certainly slowed down development in New Jersey considerably, they are not the most common reason given for the severe shortage of affordable housing in the State's suburban communities. These municipalities have had an historically, well-documented negative view of affordable housing, utilizing a variety of regulatory barriers to impede its development, such as low-density-only zoning (Calavita et al., 1997; Haar, 1997; Kirp, Dwyer, & Rosenthal, 1995; Pendall, 2000). In response to ten years of litigation[62], New Jersey's Fair Housing Act (1985) was supposed to ensure that each municipality provides "a realistic opportunity for a fair share of its region's present and prospective needs for housing for low and moderate income families."[63] Local governments are asked to voluntarily submit housing plans for certification by COAH; the incentive is immunity from builder's remedy lawsuits, which can result in mandatory density bonuses or other concessions to developers. As of January 2006, 287 out of 566 municipalities had petitioned COAH for plan certification under the third round of administrative rules issued to date (Council On Affordable Housing, 2006).[64]

Despite these attempts, and the 53,000 units built or rehabilitated as of September 2004 as a result of this legislation (Council On Affordable Housing, 2006), many respondents and reports discussed continuing suburban prejudices against affordable housing throughout New Jersey. As one stated, and others repeated, "the towns are all looking to grow with senior citizens who have no kids, and houses that are over $500,000…." According to one developer, "Probably the easiest way to get tarred and feathered in New Jersey in the 21st century is to show up in front of a planning board and say 'Hi, I'd like to build housing for low income families.'" 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 including affordable units. As a result, very few people "are willing to spend the time and

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[62] 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*.

[63] N.J.S.A. 52:27 D-301.

[64] As the result of a recent lawsuit and court decision challenging parts of COAH's Third Round fair share methodology calculations, these numbers are subject to change. For a summary of the decision by New Jersey's Appellate Division, see Kinsey (2007).

energy to fight to get a site approved." New Jersey remains a classic example that local government attitudes toward affordable housing can be pernicious, even in the face of both adjudication and legislation.

Most of the barriers developers encountered in building suburban affordable housing remain outside of the jurisdiction of NJHMFA. To their credit, in fact, one respondent noted: "the hardest thing to do is to get a site that is zoned, that you can get approval, for affordable housing.... That is the biggest problem. It is less hard to fund the project [through NJHMFA and DCA] than it is to get the approval that you need for it on the local level." At the same time, there does not seem to be coordination with COAH in targeting municipalities with fair share housing needs for NJHMFA funding. In fact, NJHMFA project funding is contingent upon first receiving local approval of the project's desirability. Also, certain NJHMFA and other state funds explicitly cannot be used for fair share units, since it is reasoned that other incentives being offered to the developer from the municipality should lower project costs enough to adequately cross-subsidize affordable units with market rate ones. These factors indicate a critical misalignment of state and municipal housing goals and policies that leave state affordable housing dollars unspent and potential affordable units unassisted. For example, multiple respondents claimed that the State's "Balanced Housing Program, right now, has more money than they know what to do with, because they are not getting enough applications to use up all the money." This is just one piece of evidence of the disconnect between state goals and actions in the face of local opposition.

IHDA recently entered the fray of intergovernmental relations in 2004 with the passage of the Illinois Affordable Housing Planning and Appeal Act[65], which joined existing statewide fair share and inclusionary zoning legislation in New Jersey, California and Massachusetts (Calavita et al., 1997; Meck et al., 2003).[66] Enacted to "encourage" municipalities to plan for more affordable housing, and give developers "relief" from local regulatory barriers, this legislation authorized IHDA to determine non-exempt communities, or those that fail to meet a 10% threshold of affordable units within their jurisdictions. Based on calculations for the first year of implementation (which are to be updated annually), this legislation impacted forty-nine communities that were to submit plans to IHDA by April 2005 outlining land and incentives available to meet their state-mandated requirements. Those submitting satisfactory plans receive immunity from developer challenges presented before the new State Housing Appeals Board, an entity created to hear and rule on developers' complaints, and vested with the power to make legally binding decisions.

Some non-exempt communities view the Act as an unwelcome, coercive measure by the State to control their land use decisions, manipulate their housing markets, and force social and economic integration (Komperda, 2005; Toomey, 2004). According to one respondent, the Act "has gotten a lot of people in the Northern suburbs pretty angry…." Other localities are experiencing such high land and housing costs that meeting such an obligation seems absurd to them (Associated Press, 2004). Still others are complying without offering too much resistance (Peterson, 2005; Zalusky, 2005). IHDA

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[65] 310 ILCS 67.

[66] Before 2004, there historically was not much interaction between state and local governments in Illinois around housing, except between the State and the City of Chicago – a relationship that has ranged from complimentary to antagonistic.

is downplaying negative municipal responses, focusing on the voluntary nature of municipal participation and the positive incentive it provides for communities to contemplate their housing needs and exercise creativity in addressing them. There also is no direct penalty for nonexempt local governments that fail to submit a plan (Associated Press, 2004; Komperda, 2005). Given the uneven successes and failures of fair share housing initiatives throughout the country, the outcomes of this new affordable housing process remain to be seen (Meck et al., 2003). The Appeals Board does not convene until 2009, too late to help some projects already in local pipelines (Komperda, 2005).

E. Conclusion

In sum, these environmental, organizational, individual, and diffusion factors have manifested themselves differently in the cases of IHDA and NJHMFA, producing mixed results in HFA innovation. Table 6.2 summarizes whether each factor had a positive, negative, or mixed influence on innovation within these two agencies. Growing public perception of a worsening housing crisis has helped in pressuring both states to adopting new policies, and create and modify programs to better target state housing needs. In terms of state housing policy context, Illinois has created a positive environment within which IHDA has expanded its housing concerns and capacities over the last several years, although before 2003 the state climate was portrayed as quite negative for housing innovation. In New Jersey, the overall state housing policy context has changed little since the mid-1980s, providing little incentive for NJHMFA to engage and evolve beyond its daily programmatic activities, although it has in fact done so. Recent initiatives hint that change may be on the horizon, but it is still too early to tell. In both Illinois and New Jersey, popular pressure has recently resulted in new state political leadership within the Governor's Office and State Legislature that is publicly committed to housing as a critical concern for both family well-being and state economic prosperity. However, the Legislature has been more positively engaged in Illinois than New Jersey. Interest groups present similar challenge to both agencies, as they often pull in opposite directions. It does seem in both states as if groups appealing to HFA mission have gained ground recently against the agency's inherent risk-adverse nature, and that multi-interest housing coalitions are increasingly effective in promoting innovations.

Table 6.2: Direction of Factor Influences on IHDA and NJHMFA

Factor	**IHDA**	**NJHMFA**
Environmental		
Public perception of housing crisis	+	+
State housing policy context	+	O
Politics	+	O
Interest groups	+	+
Organizational		
Resources	O	O
Complexity	+	+
Centralization	O	O
Hierarchy	O	O
Individual		
Job Tenure	O	-
Staff Attitudes	+	O
Diffusion	+	+

Legend: + means factor has positive influence on agency innovation, O means the factor has mixed influence, and – means the factor has negative influence.

Burdensome resource restrictions and limited availability of funds have slowed innovation at both IHDA and NJHMFA, yet both have gained significant new sources of funds in the recent past. To the extent these new resources are flexible and target real state housing needs, they represent positive steps in housing policy and program innovation. The complexity of the organizational structure has allowed staff to specialize in ways that promote innovation at both agencies. However, centralization of decision-making slows initiation and adoption of policy innovations while supporting implementation. HFA hierarchy is somewhat nebulous, giving interest groups some leverage in promoting their ideas to different decision-making agents.

In terms of individual-level factors, frequent turnover of top leadership positions at NJHMFA served as an obstacle to gaining agency momentum for positive change, whereas changes in IHDA staff seem to be positive although it is too soon to predict. Staff at IHDA were given high marks for being accessible and responsive to stakeholder concerns, while NJHMFA staff were judged as lukewarm.

Finally, both agencies are linked into national networks, and connected to professional associations and individuals who disseminate policy innovations for their consideration. They also gain policy ideas from pioneering states and nationally-networked advocates.

CHAPTER 7:

Findings and Policy Implications

This research has made significant strides in updating the current understanding of the role of state housing finance agencies in housing policy, finance, and administration at the state level. With the decline of federal leadership and funding in the housing arena over the past two decades, and the emergence of new state leadership, HFAs are positioned to be a key player in the future of state housing efforts. HFAs provide critical sources of funds and administrative oversight to a variety programs. However, these two cases suggest they are more likely to engage in incremental policy-making, while reluctantly or covertly adopting more radical policies.

HFA decision-making and, ultimately, achievements, are shaped by a variety of factors both external to and internal to the agency. Taken together, the event history analysis and multiple case study provide evidence that these factors combine in unique ways to enhance or limit housing policy innovation by states in general, and HFAs specifically. The following discussion elaborates key findings from the quantitative and qualitative analyses, focusing on the issues with the greatest potential to help or hinder state housing policy innovations in the near future.

A. Assessing and Communicating the Housing Crisis

By the number of publications, studies, and media reports regularly released on the "affordable housing crisis," some may believe the term is overused, and the crisis is overstated. However, this study suggests that the notable presence of significant housing supply and demand issues seems to precipitate housing policy innovation, as supported by both the event history and multiple case study analyses. States today appear to be affected to some degree by strong markets and/or lagging incomes to an extent that they are mobilizing to adopt housing trust funds and other policy innovations.

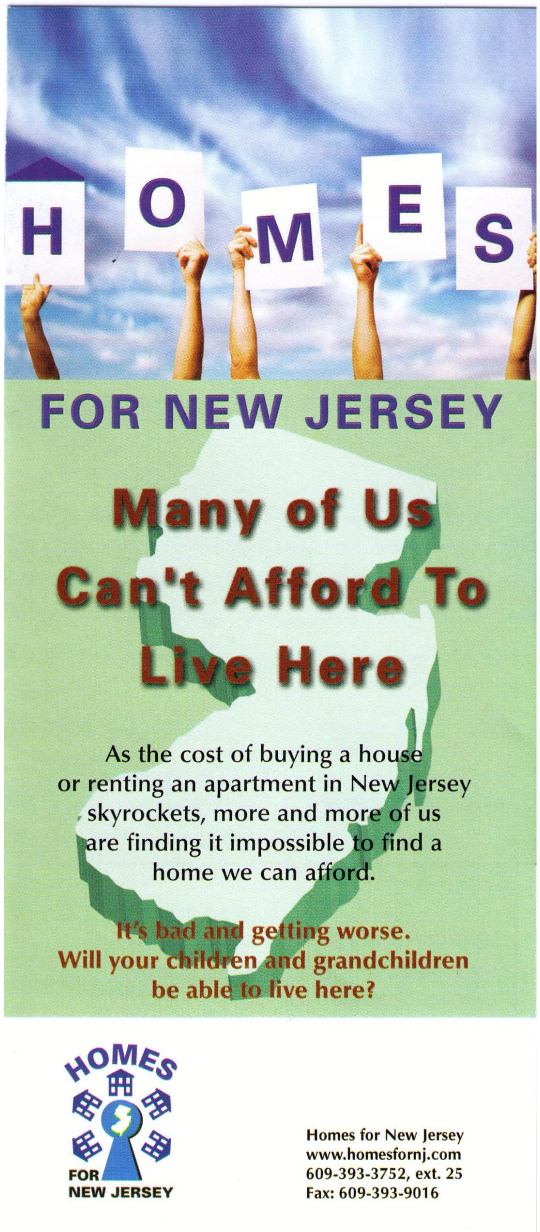
An important first step to housing policy innovation is an accurate assessment of the details of the crisis in a given state, followed by persuasive communication of the findings to generate interest and action by policy-makers. Solid research on statewide housing problems is necessary before appropriate policy solutions can be identified. This task has been made easier over the last several decades due to the increased collection and dissemination of a broad range of housing data by public, private and nonprofit entities. While many advances have been made, this research found longitudinal housing data available at the state level to be scarce, while some key annual data is still not available for states. For example, the National Association of Realtors does not produce median sales prices of existing single-family residences disaggregated to the state level, but only to the Metropolitan Statistical Area. Having this and other data available to states could aid in tracking housing problems.

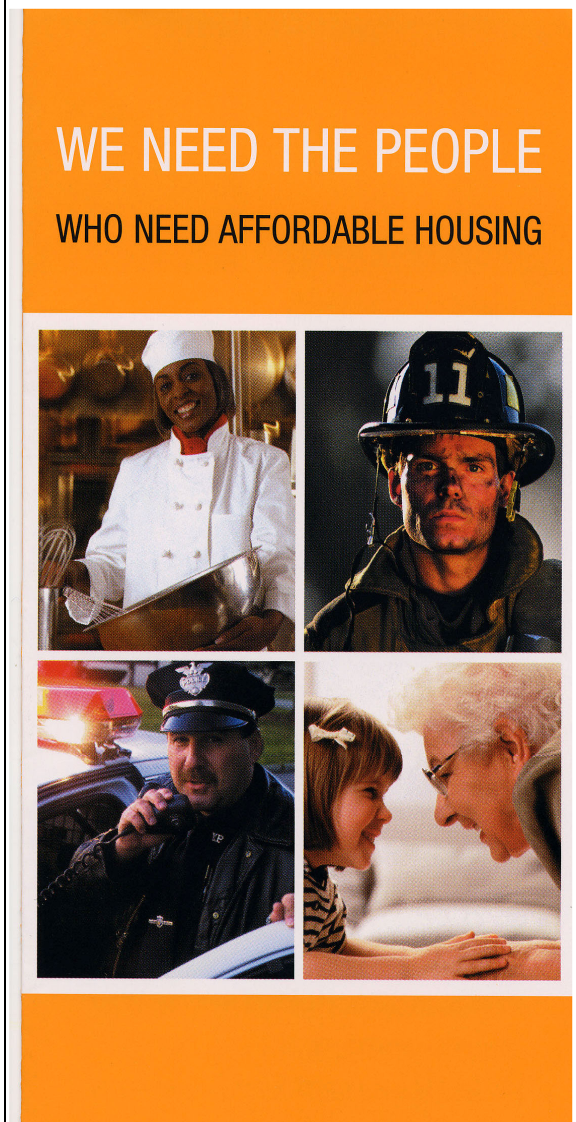
Once data has been assembled and analyzed, strategic communication strategies can be employed to redefine perceptions of affordable housing by casting the issue in a broader light, and raising the profile of housing in the public (and political) eye. One coalition in Illinois utilized a memorable tag line – “We need the people who need affordable housing” – in a multimedia campaign to raise awareness of the impact of the state’s affordability crisis on the workforce. Visual images have also been successful in combating stereotypes of dilapidated properties, public mismanagement, and concentrated poverty (See Figure 7.1). In Illinois, one advocate described how “you can't go anywhere and talk about affordable housing without someone saying ‘I do not want Cabrini Green in my backyard.’” As a result,

> “there has been a real effort to reframe the dialogue to be more about viable communities and...demonstrating that this affects all of us: if our parents cannot age in place, if our college kids do not have a place to come back to that they can afford, if employees cannot afford to live near their jobs, et cetera.”

This is a similar message being broadcast by a New Jersey coalition, which asks “will your children and grandchildren be able to live here?”

The activities of evaluating and publicizing state housing problems need not be left to advocates. Many HFA staff are very knowledgeable of the most pressing housing problems facing their states, due to a variety of research activities they are required to perform for federal and/or state planning and monitoring purposes. However, they do not seem to regularly utilize this information to actively campaign for new resources and programs to address the exposed problems. HFAs could play a bigger role in increasing public awareness of state housing issues, and garnering support for a greater state role in addressing them. They are also strategically positioned to suggest solutions based on their intimate knowledge of local housing markets and financing options, and their extensive partnerships with private and nonprofit developers and lenders statewide.





Informational brochure distributed by Homes for New Jersey – a group of over 285 organizations and individuals – to support their call for 100,000 new housing units to be developed in New Jersey over 10 years.	Brochure produced by Housing Illinois, a coalition of several dozen public, nonprofit, and private housing interests, as part of a media campaign to raise awareness about the lack of affordable housing in the Chicago region.

Figure 7.1: Marketing Brochures Used by Multi-Interest Housing Coalitions

B. An Argument For and Against State Planning

The histories and practice in New Jersey and Illinois emphasize the fact that many states have bypassed intentional, comprehensive housing policymaking, focusing instead on fragmented federal planning and programming requirements administered through a variety of state agencies. HFAs have been responsible for developing QAPs for the allocation of LIHTCs for almost two decades. As a developer-driven instrument governing the distribution of only one, albeit the most significant, source of multi-family financing, such a plan does not constitute a comprehensive housing strategy. Nor do Consolidated Plans represent a coordinated, comprehensive approach to bringing state agencies together in true collaboration to address state housing needs.[67] These plans ultimately have little impact on other state housing and non-housing activities, and carry inadequate state-level consequences for failure to follow them (although there are federal repercussions in the case of noncompliant use of funds).

In order for a state housing policy to truly be comprehensive in nature, it should be based on existing and future housing needs, and set goals and priorities governing all state housing agencies and resources. A single document describing needs, developing policies, setting targets, coordinating resources, and requiring periodic evaluation seems to be a viable approach, although there may be other approaches not addressed by this research. Such a written plan offers guidance, transparency, and predictability to those groups partnering with HFAs to develop and finance affordable housing. It maximizes both governmental efficiency in managing and targeting scarce resources, as well as the equitable distribution of those resources throughout the state's population. Plans are most

[67] As evidence that ConPlans can be mistaken for a comprehensive plan, due to fact that Governor Blagojevich's Executive Order was signed near the end of the year in 2003, Illinois' ConPlan was used as its first Comprehensive Housing Plan for 2004.

effective when progress toward goals is periodically evaluated against concrete benchmarks.

There are several downsides to comprehensive state planning for housing as well. First, while comprehensive planning for housing may guide innovations around the policy areas specified in the plan, it may thwart innovations in other areas not included as a priority. Second, in an environment of scarce resources, some policy areas may be privileged over others based on how simple and inexpensive they are to accomplish, and how quickly results can be reported, regardless of what the highest priority may be. In the case of Illinois, advocates found that efforts to win a new program targeting the special needs population resulted in funds being funneled from the Affordable Housing Trust Fund to capitalize it. Since the program was advocated for as a result of the State Comprehensive Housing Plan, it made it difficult for the advocacy community to express dissatisfaction with this diversion of resources. This situation can have the reverse affect on innovation as a whole: rather than encouraging new ideas, it can foster an environment where groups compete to preserve existing favored programs. Finally, states are caught in between the desire to spread their assistance across a broad population and to impact a large number of units, versus the potential need to provide a smaller subsection of the population with deeper subsidies. Caution should therefore be exercised in setting targets that may look impressive and equitable on paper, but in effect leave the state's neediest households without assistance.

C. The Rise of Multi-Interest Housing Coalitions

Somewhat unique among redistributive social policies, housing has a long history of organized support and opposition from a broad spectrum of both private-sector and nonprofit interests. With the decline of federal housing resources, those who build, finance, sell, and advocate for housing have stronger incentives to influence housing policy innovation at the state level. Specifically, advocates have gained some standalone successes, as well as cultivated sophisticated campaigns and coalitions to unite diverse housing interests around a common statewide affordable housing agenda.

Advocacy groups have become more savvy in convincing state government in general, and HFAs specifically, to take a more proactive role in housing policy innovation. As they understand state government better, they are shifting their arguments and strategies accordingly. Acting independently, some advocacy groups have faired well in getting specific concerns heard and garnering response, usually around a specific population or problem. In Illinois, advocates often take credit for winning a particular piece of legislation. One member of the nonprofit development community pointed to a statewide nonprofit housing association and described their success:

> “They have hired lobbyists, and their [member] organizations themselves have done tons of outreach to their state senators and state representatives to do tours of...housing and to educate them about the benefits, the financial benefits, of...[that type of] housing. They have developed documents, and just going at this year after year after year, they have gradually increased the number of state representatives and senators...[who] will support it whether they are a Democrat or Republican. So it’s just a lot of education and a lot of outreach....”

There is increasing awareness among advocates that linking together with diverse interests can help them increase their influence on state housing policy and inspire innovation. To balance the power of the innermost Circle of Influence on HFAs – their

Boards, bondholders, and credit rating agencies – new statewide multi-interest housing coalitions (MIHCs) are emerging to advance a unified policy agenda. While they do not target HFAs per se, as they are usually more focused on legislative solutions, their ideas often encourage (or force) HFA innovation.

Both Illinois and New Jersey provide evidence of this growing trend in coalition building among various production-oriented and mission-driven interests. IHDA staff noted a political turning point when advocates were able to gain the support of "non-traditional groups" that would have historically been opposed to their efforts. When such opposition "disappeared," and were no longer "using whatever legislative tactics that can be used to stall or delay legislation," state political will for housing innovation increased. This motivated Illinois' Governor and Legislature to take actions preempting the conservative influence of the HFAs' risk-adverse inner circle to meet a broader array of state housing needs.

MIHCs have found common ground in economic arguments for housing that extend beyond benefits to individual assisted households to address impacts on local and state economies. A key component of this argument concerns workforce housing, and the need for employees to locate affordable residences near to their place of work. Illinois' State Comprehensive Housing Plan identified its "Live Near Work" initiatives as combating traffic congestion, road infrastructure costs, and air pollution. They also point out benefits for employers, local businesses, schools, and families (Illinois Housing Development Authority, 2005). A New Jersey coalition of nonprofit and private developers, real estate agents, lenders, unions, religious institutions, and advocates emphasize the need to "house the people who fuel our economy,...[and who] cannot live near where they work," or else "our economic well-being and quality of life will suffer" (Homes for New Jersey, 2005, p.3).

Part of the success of MIHCs may be due to the relatively broad housing agenda they embrace. Instead of advocating solely on behalf of those suffering the worst housing problems, they have cast their policy net into more productive waters. They have found that affordable housing policy innovation becomes more politically palatable when a large emphasis is placed on the 'deserving poor', such as low-wage earners, seniors, the disabled, and homeless children, along with service professionals, including teachers, police officers, firefighters, and home healthcare workers. Programs for those with the "greatest need" are then easier to add on as only one small element of a broader agenda (Anti-Poverty Network of New Jersey, 2005; Homes for New Jersey, 2005).

D. HFA Transparency and Accountability

HFAs seem to be surrounded by an impenetrable cloud of mystery. Many state housing interests do not understand the unique functions of HFAs, and either expect too much, or demand too little. Exposing their inner workings and opening them up to better public scrutiny may simultaneously minimize negative perceptions of HFAs through increased transparency, while challenging them to a deeper commitment to fulfillment of their public purpose via greater accountability.

By design and regulation, HFAs prioritize the minimization of financial risk and the increased production of units over a mission to target their risk-taking and production to serve households with the most severe housing needs (e.g. the lowest income brackets, special needs). The fundamental dilemma HFAs face in meeting this double-bottom line is not intuitive to potential partners such as developers and advocates, who require a better understanding HFAs priorities and decision-making. As one representative from the development community noted regarding IHDA: “I think a lot of what they do is perceived externally as arbitrary because it is not discussed and decided in a public forum. So IHDA will make decisions, and that’s the lay of the land until they make a different decision. And it just sort of comes out like manna from heaven.” This kind of “administrative policy making” occurs beyond the chambers of the legislature and is primarily “invisible” to those who are impacted by it (Maynard-Moody, 1989, p.140). These leads to significant misunderstandings and frustration on the part of developers, lenders and advocates, that often go unexpressed and unacknowledged. As a result, HFAs lose potential partners and miss opportunities to assist with housing projects that would benefit the state and serve its public purpose.

State legislatures are also suspicious of HFA activities, as many HFAs do not have to report to them, and are not subject to state budgetary authority. Agency opacity has led to a lack of trust in both New Jersey and Illinois legislatures, leading to a hesitancy to support further HFA innovation. IHDA is described as “shying away from the legislative control as much as possible.” One advocate was surprised by legislative reluctance to support a new program due to the fact that the new revenues discussed would fall under IHDA’s authority, as legislators explained “we do not like that idea because we do not have oversight over IHDA....”

Even while HFAs must manage their financial risks, they could still be challenged to try harder and reach deeper in serving their public purpose. As public agencies, there is a need to periodically assess whether HFAs are indeed meeting their public purpose goals, and introduce better targets that can be monitored and evaluated for the sake of increased accountability. Such a process would reveal where HFAs may be underutilized in meeting state housing needs. As HFAs are only authorized housing lenders insofar as they are instrumentalities of the state, an argument could be made for the results of this evaluation to take precedence over credit-rating assessments. In fact, it may even be incorporated into the rating process. For example, if formal consequences are specified for HFA failure to meet its public purpose mission, such as the ultimate decommissioning of the agency, then credit rating agencies would be forced to take these evaluations into account. If an HFA received a poor state evaluation, thereby risking decommissioning, this should reflect poorly on its ratings, as rating agencies desire to see positive relationships between HFAs and state government.

E. Maneuvering Hierarchies and Pursuing Collaboration

State housing hierarchies are varied and complex. This research has considered only two out of a myriad of structures: one where the HFA is the sole state housing agency, and one where it is one of several. Concentrating housing authority within a quasi-governmental agency rather than an executive-level state department offers greater independence, politically and financially, while imposing additional unique constraints to innovation. Distributing housing responsibilities among several state entities may promote decentralized decision-making and inspire innovation. However, it can also increase bureaucracy, complicate coordination, and slow implementation. States should reexamine these structures to ensure that agency roles are well-defined and interagency coordination is a high priority in both word and deed.

State interagency coordination is hindered by a combination of differing agency paradigms and conflicting program requirements attached to diverse federal and state funding streams. While it is easy to see the overlap in populations served by different agencies, it is difficult to fashion a joint program to meet common needs while operating under different priorities and assumptions and within disjointed program guidelines. The process of translating from 'clients' to 'units', merging regulatory frameworks, and layering resources is time-consuming and requires compromise. Yet HFAs have shown themselves adept at rising to this challenge when necessary to produce unique policy innovations.

F. Enhancing the Political, Financial and Human Capital of HFAs

Increasing HFA effectiveness in policy innovation requires greater political will, more permanent and targeted financial resources, and hiring and retaining knowledgeable staff. Both publicly visible and behind-the-scenes support from the Governor and State Legislature is critical to giving HFAs a greater mandate to address state housing needs. Bipartisan commitment is needed to move a housing agenda forward no matter which party controls state government. Having a clearly elucidated housing platform helps the public assess candidates and make an informed decision based on state housing needs.

Ideally, new, permanent funds should be created which are dedicated to housing only, target specific state needs but with flexibility in their exact application. They should be easy to access by those intended to utilize them by removing any unnecessary restrictions and simplifying application and implementation processes. Existing resources for housing can be increased and maximized without authorizing new pools of money, but by tapping into dollars controlled by other state agencies, as well as HFA reserves. While many federal and state resources come with a myriad of restrictions on their use, HFAs can lead the way in overcoming hurdles to creatively combine funds. For example, agencies can find ways of bringing together capital funds and operating subsidies to build supportive housing.

While it is traditional for some critical staff appointments to change after an election or a shift in state party control, it is important to weigh such practices against what is best for HFA innovation. On one hand, it could be disruptive to agency momentum to replace leadership at a critical moment. On the other hand, it could also inspire new ideas within a more stagnant environment. In all leadership appointments, critical considerations are an individual's competency to lead the agency, knowledge of state housing needs, understanding of housing markets and finance, and responsiveness to a variety of housing stakeholders. While HFAs cannot prevent political turnover in top staff positions, they can seek professionally competent line staff who are responsive to the needs of various housing stakeholders. Staff who are familiar with a variety of housing needs, markets, and financing options are positive assets to the agencies. Specialists in targeted areas, such as special needs housing or energy efficiency, can assist HFA innovation in addressing these needs.

G. Diffusion

Diffusion of housing policy innovations among state HFAs is certainly occurring. It usually occurs, however, when one HFA or other housing interest group is actively looking for a solution to a particular problem and conducts research to identify states that have successfully pioneered innovations to address a similar issue. Neighboring states do not appear to play a statistically significant role in diffusing innovations. Instead, national networks of HFAs and advocates actively disseminate information broadly, and key individuals help promote ideas from state to state.

H. Local Autonomy: A Thorn in the Side of Statewide Housing Policy

It seems that unless significant steps are taken to challenge local autonomy in the face of state housing needs which conflict with local policies, little progress will be made in expanding housing opportunities in municipalities either hostile or apathetic toward affordable housing. Local government cooperation is critical to expanding housing opportunities that benefit their own jurisdictions, as well as the state as a whole. State laws requiring municipal "fair shares" of regional housing needs do not seem to be producing the desired results. Perhaps they require more incentives for participation, along with more severe consequences for those governments that refuse. Alternatively, or in addition to these top-down approaches, local advocacy efforts around workforce and "middle-income" housing as a necessity for local economic growth have met with some success, especially when supported by the local business community needing housing for their employees. State governments can fund these types of education campaigns and target funding for employer assisted housing as a politically feasible mechanism for increasing affordable housing in suburban locations.

I. Research Limitations

The above findings are limited by the scope of this study and the methodology used to conduct it. These limitations suggest ways to improve future research in the area of HFA policy innovation that may strengthen or challenge the results presented here.

1. Quantitative Analysis

The combination of the method used – Cox proportional hazards regression – and the available data limited the statistical analysis to longitudinal data available over a twenty year period. Utilizing different methods of estimating a Cox model may yield more illuminating results. For example, a stratified model which segments the analysis according to one of the covariates of interest – for example, those HFAs that fall below the median operating budget versus those that are at or above it – may show the results to be sensitive to such stratification (Box-Steffenmeier & Jones, 2004). This is most useful, however, in circumstances where nonproportional hazards are anticipated within a given covariate, e.g. one or multiple threshold effect(s) is(are) expected. All covariates utilized here successfully met the proportional hazards assumption.

Due to data limitations, some theoretical concepts may be more weakly operationalized than others, while others are missing from the model. For example, many state demographic variables were only available every ten years, limiting their usefulness as time-varying covariates. Interest groups are notably missing from the model due to the lack of measurement of or proxy for the strength of various private and nonprofit sector housing interests over the twenty year period of interest.[68] Available HFA data performed

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[68] This study attempted to estimate the influence of the real estate agent lobby utilizing the state membership of the National Association of Realtors per 1000 population, and of statewide community

poorly in the model. While this may suggest that the chosen covariates are indeed theoretically insignificant in the case of housing trust fund policy adoption, it may also indicate poorly worded survey questions on the part of the national membership association collecting the data, and/or insufficient data tracking on the part of HFAs, rendering agency-level data meaningless in the final analysis. Taken together, these limitations point to possible improvements in data collection by expanding and refining current survey instruments utilized by public, nonprofit, and private sector groups for tracking housing data and group membership at the state level.

While great care was taken in choosing a theoretically relevant policy adoption of interest – state housing trust funds – the choice and measurement of this event could be challenged, producing varying results. Specifically, this analysis did not take into account differences between HTFs beyond their source of financing. It could be that policy innovations change in substance in between early-adopters and late-adopters of the same type of policy, and should be taken into account by the model (Glick & Hays, 1991).

The adoption of a different housing policy of interest, or a raw count of a variety of adopted policies, could be modeled instead of trust fund adoption, and may yield different results of theoretical importance. One policy area of interest might be state affordable housing preservation programs, such as those tracked by the National Housing Trust covering efforts to preserve federally-assisted rental housing (National Housing

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development corporation associations by dichotomously indicating the year of the formation of such association. Both measures turned out unsuccessful due to too much variation, or not enough event occurrences. (Qualitative research revealed that in the case of housing trust funds, statewide CDC associations sometimes developed *after* the policy was adopted as a result of the successful advocacy campaign, as in the case of Illinois.) No measure was found to indicate the influence of perhaps the most important housing interest: private housing developers/homebuilders.

Trust, 2007).[69] Many states have adopted policies and preferences to finance and preserve this current supply of affordable housing, such as including a preservation set-aside in their LIHTC QAP. On the other hand, a raw count of a variety of state housing policy innovations might include dates of adoption of a housing trust fund, housing tax credit, fair housing act, and tenant-based rental assistance program, and range from a value of 0 to 4. To execute such a model, reliable longitudinal data sources on each policy innovation would have to be identified on a state-by-state basis.

A final drawback of the tested models is that only the contiguous states model of diffusion was statistically measured. Another analysis might test the regional and pioneering state theories, or perhaps model the influence of policy entrepreneurs responsible for spreading a particular policy as measured through the collection of original survey data (Mintrom, 1997).

2. Qualitative Analysis

The qualitative analysis presented here was limited by the cases chosen, individuals interviewed, and the scope of the research questions and interview and observation protocols. While theoretical rigor was used in selecting the two state agencies chosen for this analysis, the results are acknowledged as informative rather than generalizable. Deeper theoretical saturation could be achieved by replicating this study utilizing additional cases. For example, it may be useful to look at an HFA in a different region of the country, or one that is wholly combined with a state agency, or in a state

[69] This study also ran models utilizing the adoption of state housing tax credits as the innovation of interest. However, the event had occurred in too few states, yielding unstable results.

with a more liberal or conservative political climate, to see how findings may be sensitive to differences in these factors.

To adequately bound the scope of this study, and maintain the confidentiality of the interviewees, several important groups of people were not approached for interviews: elected officials, members of the HFAs Board of Directors, and those households ultimately occupying HFA-financed housing. While politics undoubtedly plays a strong role in the operations of HFAs, no elected officials were asked to participate in this research. Similarly, no members of the Board of Directors of HFAs were interviewed. This was primarily due to issues of confidentiality, although it is an omission that perhaps requires remedying in order to achieve a more complete understanding of HFA roles and influences. No individual end users of HFA-financed housing were interviewed for this study, as it was assumed they had little independent influence on HFA policies and programs outside of interest groups. This assumption could be challenged and tested.

The scope of this research only covered the processes of initiation and adoption of policy innovations of HFAs, but did not address implementation and subsequent policy learning. This findings suggest, however, that interest group pressures and other factors continue to influence housing policy beyond official adoption, shaping program guidelines and forcing HFAs to learn and adjust programs over time. These processes require further study to understand how policies evolve.

By design, this study was not structured to measure the impact of HFA innovations, although most would agree that evaluating policy results is just as important as understanding policy adoption. While a plethora of evaluations exist on major federal housing policies and programs, some of which are administered by states, few analyses of equivalent policies at the state level are readily available. This remains a critical gap in the literature on state housing policy that could be addressed through both state-funded and independent research on policy outcomes to assess the ultimate results of adopted policies.

J. Future Research

This research has uncovered several areas ripe for future research concerning why and how states innovate around housing policy. One opportunity is to delve more deeply into the differences between legislative and administrative (HFA) policy-making. As MIHCs focus on legislative initiatives, it is important to understand what opportunities they may be missing by failing to engage with the daily decision-making of HFAs.

As an emergent influence on statewide housing policy, it useful who participates in MIHCs across the nation, what their full agenda is, the strategies they utilize to forward it, and what outcomes they are achieving. What are the key characteristics of states with active MIHCs versus those that do not have one? What factors contribute to the formation of such coalitions? Are some members easier or more critical to attract than others? Are some groups more successful, and why? What is the impact of their success (or failure) on their state’s affordability crisis? It is important to assess the longevity and long-term consequences of such coalitions and their campaigns, as well as their short-term victories.

As a recent state policy innovation, the emphasis on workforce housing should be evaluated for its implications and outcomes. Do such policies represent radical departures from the status quo, as they are marketed, or do they simply build upon existing programs? Are those households served by such programs statistically different than those served by other HFA programs similar in nature? Do new programs serving this population redirect existing funds away from other households in need, or do they result in a net increase of affordable housing resources available? Do they achieve their goals of attracting and stabilizing the local workforce? What do the employees and employers who participate actually think about the success of such programs?

Finally, the tension between local and state governments around fair housing policies has been previously documented, as has the not-in-my-backyard attitude of many municipalities toward affordable housing. This research has uncovered yet another facet of this conflict: state financing versus local approval of affordable housing. The relationship between when a local project receives approval and when state financing is awarded seems significant. Do states wait for local approval before making financing decisions, letting cities determine their own needs, or do they pressure municipalities to approve projects by awarding funding first? Do those states with legislative expectations of local government responsibility for affordable housing have greater success in project approval than those that do not? What types and combinations of carrots and sticks actually help encourage local affordable housing approval? Can state and local governments find common ground on this issue, or will municipalities continue to hold the higher ground?

K. Conclusion

Addressing the limitations of this current study, and pursuing additional research on states and housing policy innovation, will continue to fill the void in current understanding on the importance of state policies and institutions on the future of affordable housing in the U.S. As federal engagement in housing is expected to decline further, state responses to today's affordable housing crisis must be more closely scrutinized. State HFAs play a critical role in both identifying and addressing state housing needs and should be acknowledged as an important player in state housing policy. Understanding how they have evolved to fill complex roles within the state housing infrastructure, and the numerous factors that promote and constrain their innovation, is a positive step in this direction.

Appendix A – Governmental Institutional Housing Structures for Illinois and New Jersey

Figure A-1: Illinois' Institutional Housing Structure

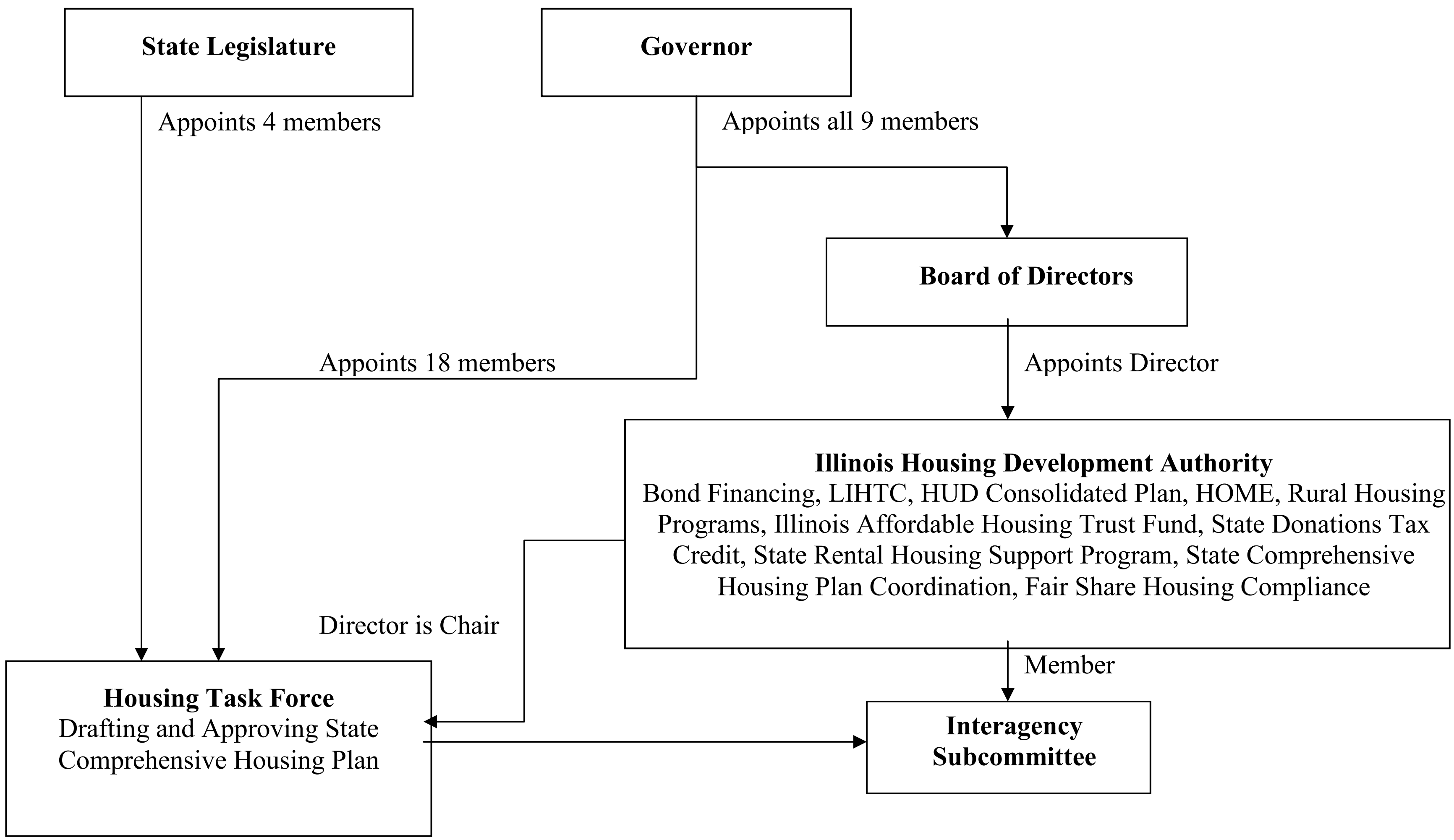
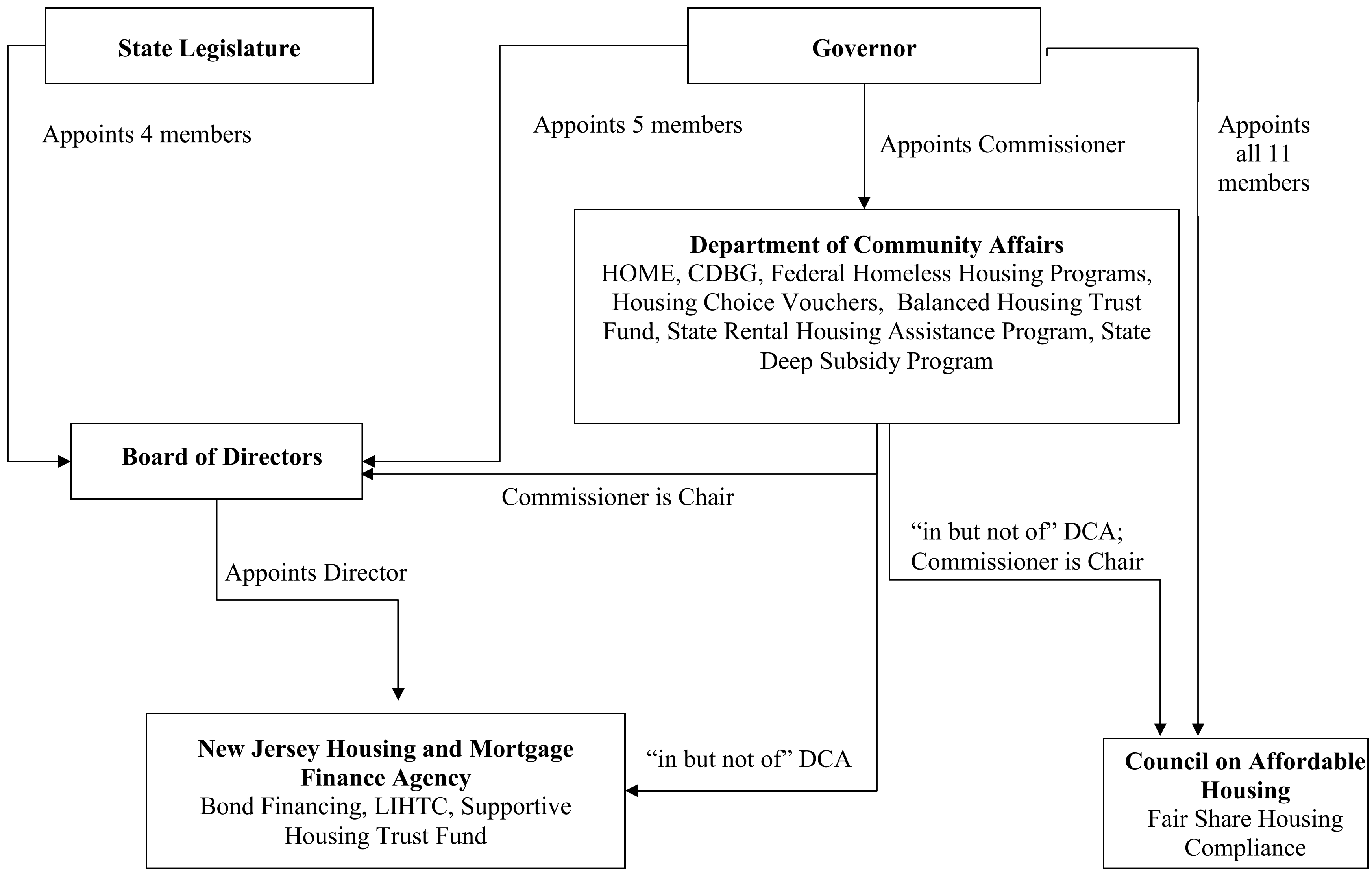


Figure A-2: New Jersey's Institutional Housing Structure



Appendix B – List of Documents Reviewed

ILLINOIS

Comprehensive Housing Plans
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NEW JERSEY

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National Housing Institute. (2004, October). Preserving New Jersey's Affordable Private Rental Housing Stock: A Preliminary Assessment.

Appendix C – List of Observations Conducted

Event Name	Date	Location	Sponsor(s)	Attendees
Breakfast Meeting with DCA Commissioner Susan Bass Levin and NJHMFA Director Marge Della Vecchia	March 24, 2006	NJHMFA Trenton, NJ	New Jersey Women in Housing and Finance	State & local gvmt For-profit developers Nonprofit developers Advocacy groups Financial institutions Public housing authorities Technical assistance providers
2006 Governor Jon S. Corzine's Conference on Housing and Community Development	September 26, 2006	Atlantic City Conference Center Atlantic City, NJ	NJ Department of Community Affairs; NJHMFA	Developers Advocacy groups Technical assistance providers Financial institutions
Session #1:Choices for Homeownership				
Session #2: Color Me Yellow and Stay Out of the Red				
2006 National Housing Conference's National Policy Summit – Fulfilling the Dream: Shaping Housing Policy for Future Generations	October 11-12, 2006	Palmer House Hilton Chicago, IL	National Housing Conference	Academics Advocacy groups Developers Federal, state & local government Financial institutions Public housing authorities Technical assistance providers
First Annual Governor's Conference on Affordable Housing	October 17-18, 2006	Chicago History Museum Chicago, IL	Illinois Housing Development Authority	Advocacy groups Developers Technical assistance providers Financial institutions Local government Public housing authorities
Session #1: What is Next for Illinois' Housing Policymakers?				
Session #2: Options for Preserving Affordable Housing				
Session #3: Innovative Programs for Municipalities				

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PUBLICATIONS

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