



Daly City, California

Proposed Live/Work Preference Policy

Disparate Impact Analysis

May 2026

Executive Summary

HEART of SMC engaged Street Level Advisors to conduct a Disparate Impact Analysis (DIA) on behalf of seven jurisdictions across San Mateo County, including Daly City. Daly City's proposed policy would give preference to households that live or work in the jurisdiction when selecting residents for income-restricted affordable housing units. The purpose of this analysis is to determine whether the proposed preference could disproportionately disadvantage any racial or ethnic group in violation of Fair Housing law.

Using census data, the analysis compared the racial composition of households likely to benefit from the preference against the broader market-area population of income-eligible households. Two established statistical tests—the Four-Fifths (80%) Test and the Z-Test—were applied to a hypothetical lottery of 75 affordable units with 4000 applicants (of which 500 would be preference-eligible), following the methodology endorsed by the court in *Langlois v. Abington Housing Authority*.

We found evidence of a statistically significant disparate impact for the proposed preference policy if it were applied to all units in a project. However, applying the preference to 70% of affordable units rather than 100% mitigates this concern and results in outcomes that do not appear to represent a disparate impact for any racial group.

I. Daly City's Proposed Preferences

Affordable housing preferences offer priority to certain qualifying applicants in the lottery-selection process for income-restricted affordable housing projects. Several jurisdictions in San Mateo County have adopted or are considering the adoption of local preference policies. Daly City does not currently have a local preference policy, but the jurisdiction has used local preferences in affordable housing project agreements for mixed-income and 100% affordable projects. Daly City is considering adopting a preference for households that live or work in Daly City.

Preference would then be offered to applicants for affordable housing that include at least one adult (18 or over) that:

- currently lives within Daly City, or
- works within Daly City.

The preference is expected to apply to all newly developed, income-restricted rental or for-sale units in the jurisdiction. The preference would not be expected to be applied to project-based voucher units or supportive-housing units filled through the Coordinated Entry System.

Table 1: Daly City, Local Preference Policy Summary

Jurisdiction	Current, formalized local preference policy?	Local preference used in the past?	If yes, for what kinds of projects?	If yes, which preferences?	Which preferences for new policy?
Daly City	No.	Yes.	BMR ownership and rental projects. Only initial sales thus far; only applies to initial lease up.	Live/work.	Live/work in Daly City.

II. Defining Disparate Impact

Disparate impact is discrimination that occurs when seemingly neutral policies and practices have a disproportionate, adverse impact on any protected class. The legal precedent for disparate impact was established in the 1971 Supreme Court case *Griggs v. Duke Power Co.* The justices determined that Title VII of the Civil Rights Act “proscribes not only overt discrimination, but also practices that are fair in form, but discriminatory in operation.”

Under the Fair Housing Act, policies that generate a disparate impact on protected classes of applicants are illegal unless the “challenged practice is necessary to achieve one or more substantial, legitimate, non-discriminatory interests.”¹

In the context of fair housing, courts have generally looked to employment law guidelines to provide a model for evaluating whether housing preferences have the effect of adversely

¹ Texas Department of Housing and Community Affairs v. Inclusive Communities Project.

impacting any racial group. No policy will result in a perfectly even representation of all racial groups, so courts have used somewhat complex statistical tests including the Four-Fifths Test (also called the 80% Test) and the Z-Test to identify outcomes that result in under-serving one or more groups by a statistically significant amount.

III. Summary of Methodology

To conduct the DIA, we first constructed estimates of the demographics of the overall applicant pool and of the preference-eligible applicant pool for future affordable housing projects. We then compared the racial composition of the population of potential applicants to the composition of households that would benefit from the proposed preference. We used Census Bureau data, as described below, to estimate the likely racial demographics of households that would benefit from a proposed preference and those of the general population of income eligible households in the broader market area (the households that would be expected to be selected if there were no preference).

Following the logic applied in the Langlois v. Abington Housing Authority case², we used this data to conduct two distinct statistical tests: the Four-Fifths Test and the Z-Test.

1. The Four-Fifths Test (or 80% Test) was established and defined in federal labor guidelines and applied to the context of housing in a modified form by the Langlois decision. The Langlois version of this test finds disparate impact if the selection rate for any group in a lottery conducted with the preference would be less than 80% of the rate we would expect for that group in a lottery with no preference.

$$\text{Impact Ratio for Group X} = \frac{\text{Selection rate for Group X w/ preference}}{\text{Selection rate for Group X w/o preference}}$$

2. The Z-Test is a common test of statistical significance. The Langlois decision found that a preference selection rate for a given racial group that was two or more standard deviations from what would be expected with no preference would constitute evidence of disparate impact.

$$Z = \frac{\text{Difference}}{\text{Standard Deviation}}$$

Using this methodology, a proposed preference would be considered to represent a potential disparate impact if it ‘failed’ both tests. The four-fifths test indicates whether there is a meaningful difference in selection rates but, because for smaller population groups, even very small changes in outcome can represent large changes in the selection rate, ‘failing’ this test may not always indicate a fair housing problem. The Z-Test is also necessary to identify outcomes that would be unlikely to happen by pure chance. Only an outcome that is both

² Langlois v. Abington Housing Authority, 207 F.3d 43, 50 (1st Cir. 2000).

meaningful and unlikely is considered to be potentially a fair housing concern. We are only concerned about the Z-scores for results that ‘fail’ the Four-Fifths Test.

Data Sources

Market-Area Residents (comparison group)

We used the Census Bureau’s 2023 5-Year American Communities Survey Public Use Microdata Sample (PUMS) to create custom Census data tables that estimate the number and percentage of renter households earning less than 80% of Area Median Income (AMI) adjusted for household size for each racial group living in San Mateo County. Using PUMS data allowed us to more precisely estimate the income-eligible population in each racial group and to remove lower-income households that already own homes and are unlikely to be eligible for affordable housing (rental or ownership).

Local Residents

We used the Census Bureau’s 2023 5-Year American Communities Survey Public Use Microdata Sample (PUMS) to create custom Census data tables that estimate the number and percentage of households earning less than 80% of Area Median Income (AMI) by race living in Daly City. Because the PUMS data does not provide geographic location by city, but at the Public Use Microdata Area (PUMA) level, we used Census-published tables of households by race and income band for Daly City to proportionally assign PUMS household records to this geography. Using PUMS data allowed us to more precisely estimate the income-eligible population in each racial group and to remove lower-income households that already own homes and are unlikely to be eligible for affordable housing (rental or ownership).

Local Workers

We utilized 2023 data from LEHD Origin-Destination Employment Statistics (LODES) database to estimate the number of households that have at least one member who works in each jurisdiction. Because Census workforce data, including LODES data, is available at the individual level and not the household level, we used countywide data on the number of adult workers per household to convert the individual worker counts into estimates of the number of households in each racial group that work in Daly City. The data does not enable us to identify the race of workers and also know their household income. We thus used the countywide income distribution by race to estimate the share of each group of workers that are lower income. This data does not allow us to exclude households that also live in the jurisdiction, though it is likely that many of the households that qualify as local workers are also eligible for the local resident preference.

Table 2: Data Sources for Preference Pools and Broader Market Estimates

Category	
Market-Area Residents	Households earning less than 80% of AMI (adjusted for household size) located in San Mateo County, per 2023 ACS 5-year PUMS data.
Local Residents	Households earning less than 80% of AMI (adjusted for household size) located within Daly City, per 2023 ACS 5-year PUMS data.
Local Workers	Estimated low-income households (<80% AMI) with at least one member employed within Daly City, based on LODES data.

Combined Pool

We combined the household total estimates for each racial group from the separate analyses to construct a single table that estimates the likely racial composition of the pool of people who would be eligible for the proposed preference in each jurisdiction (for either of the two reasons). To do this we simply added the estimated number of households from each pool and calculated new percentages.

Hypothetical Lottery

In order to illustrate the impact of preferences on a realistic lottery scenario and to evaluate the statistical significance of the results, we have assumed a potential low-income housing project of 75 affordable housing units. We assumed a pool of 4000 applicants of which 500 (or 12.5%) would qualify for the local preference.

The assumed number of applicants eligible for the preference pool has no impact on results. The size of the affordable housing projects does: Smaller projects are less likely to have statistically significant Z scores, while larger projects are more likely to have statistically significant Z scores. We selected a project size towards the high end of the typical range.

IV. Results

Table 3 shows preference-pool demographics relative to market-area demographics. There is a higher share of Asian households in the local-resident pool than in the comparison group. There are lower shares of White and Hispanic households in the local-resident pool than in the comparison group. The shares of Black and Other/Multiple households are comparable across the local-resident pool and the comparison group.

There are higher shares of Black and Asian households in the local-worker pool than in the comparison group. There are lower shares of White and Other/Multiple households in the local-worker pool than in the comparison group. The share of Hispanic households of the local worker pool is comparable to its share of the comparison group.

Table 3: Demographic Estimates for Preference Pools and Broader Market

Comparison Group		Local Residents	Local Workers
	Low Income residents of the broader Market Area	Low Income residents of the City	Low income households with a local worker
Non Hispanic			
White	30%	16%	24%
Asian	22%	48%	26%
Black	4%	3%	8%
Other or Multiple	5%	7%	1%
Hispanic	39%	26%	41%
Total	100%	100%	100%

We used these demographic estimates to simulate the lottery results for a hypothetical affordable housing project lottery in each jurisdiction and compare results between two scenarios – one where the preference policy is applied and units are allocated randomly to preference-eligible households and one where it is not applied and units are allocated randomly to households from the broader market area.

We conducted the 4/5ths test to assess whether selection rates for racial groups fall below 80% of the expected rate with no preference and the z-test to measure statistical significance of observed differences. The selection rate is the share of all applicants (preference and non-preference) that would likely be offered housing through a lottery. For example, in our hypothetical lottery with 4000 applicants for 75 units, the overall selection rate will be 1.8% (i.e., 1.8% of applicants will win a unit). If applicants are selected truly randomly, we would expect that each racial group would also have a 1.8% selection rate. However, when we apply the preference, wherever the preference pool includes relatively more applicants of one racial group and fewer of others, the overall selection rates for each racial group will differ. We evaluated each of the potential preference categories (current residents and local workers) alone and also evaluated a combined pool including applicants from all categories. The combined preference has been weighted according to the ratio of households to workers in Daly City (i.e., 81% residents and 19% workers).³

We found evidence of a statistically significant disparate impact for the proposed preference policy. However, applying the preference to 70% of affordable units rather than 100% mitigates this concern. Below, we've included results summaries for the combined preference, the live preference, and the work preference, all applied to 100% of affordable units. We've also shown results for the combined preference applied to 70% of affordable units. The

³ As described above, under data sources for local workers, people who live and work in Daly City are being counted twice.

proposed design of Daly City's preference policy is the combined preference; the live and work preferences are shown as standalone preferences for informational purposes.

With the Combined Preference applied to 100% of units:

- White applicants are underrepresented in the preference pool and do not meet the 80% selection rate standard of the 4/5 test. This result is statistically significant with a Z score of 2.38.
- Hispanic applicants are also underrepresented in the preference pool and do not meet the 80% selection rate standard of the 4/5 test. This result is not statistically significant, but the Z score of 1.79 is fairly high.
- ***Applying the combined preference to 70% of affordable units mitigates this disparate impact, bringing the Z score for White applicants down to 1.66 (see Table 5 below). This is a more cautious application of the preference given the statistically significant results at higher applications of the preference.***

Table 4: Combined Preference applied to 100% of units

Summary Table - Combined Preference

	Comparison Group Low Income renters in the broader Market Area	Preference Group Low Income renter households that live or work in the jurisdiction	Selection Rate (5K apps)		Impact Ratio (4/5ths test) Preference rate as % of no preference	Z=Score Number of Standard Deviations from mean
			No Preference Applied	Preference on 100% of units		
Non Hispanic						
White	30%	18%	1.9%	1.1%	59%	Z=2.38
Asian	22%	44%	1.9%	3.8%	202%	Z=4.66
Black	4%	4%	1.9%	1.8%	94%	Z=0.11
Other or Multiple	5%	6%	1.9%	2.2%	116%	Z=0.3
Hispanic	39%	29%	1.9%	1.4%	74%	Z=1.79

Table 5: Combined Preference applied to 70% of units

Summary Table - Combined Preference

	Comparison Group Low Income renters in the broader Market Area	Preference Group Low Income renter households that live or work in the jurisdiction	Selection Rate (5K apps)		Impact Ratio (4/5ths test) Preference rate as % of no preference	Z=Score Number of Standard Deviations from mean
			No Preference Applied	Preference on 70% of units		
Non Hispanic						
White	30%	18%	1.9%	1.3%	71%	Z=1.66
Asian	22%	44%	1.9%	3.2%	171%	Z=3.26
Black	4%	4%	1.9%	1.8%	96%	Z=0.07
Other or Multiple	5%	6%	1.9%	2.1%	111%	Z=0.21
Hispanic	39%	29%	1.9%	1.5%	82%	Z=1.25

With the Live Preference applied to 100% of units:

These results, and those below, are included for informational purposes only; the proposed preference would be a combined live/work preference.

- White and Hispanic applicants are underrepresented in the preference pool relative to the broader market area, so their selection rates fall below 80% of what they would otherwise be. These results are statistically significant, with Z scores of 2.66 and 2.88, respectively.
- Black applicants also fail the 4/5 test because they are underrepresented in the preference pool relative to the broader market area. Because this group represents a very small share of the population, both in the preference pool and in the broader market area, any variation in selection would result in disproportionately large changes in selection rate. The results are not statistically significant.
- If the jurisdiction were to adopt a preference for residents alone without also including a workforce preference, we found evidence of disparate impact at 100% preference. However, the combined preference applied to a share of affordable units resolves this problem.

Table 6: Live Preference alone applied to 100% of units

Resident Preference

	Comparison Group	Preference Group	Selection Rate (5K apps)		Impact Ratio (4/5ths test)	Z=Score
	Low Income renters living in San Mateo County	Low Income residents of the City	No Preference Applied	Preference on 100% of units	Preference rate as % of no preference	Number of Standard Deviations from mean
Non Hispanic						
White	30%	16%	1.9%	1.0%	54%	Z=2.66
Asian	22%	48%	1.9%	4.1%	221%	Z=5.54
Black	4%	3%	1.9%	1.3%	67%	Z=0.59
Other or Multiple	5%	7%	1.9%	2.6%	138%	Z=0.75
Hispanic	39%	26%	1.9%	1.3%	67%	Z=2.28

With the Work Preference applied to 100% units:

- Other/Multiple applicants do not meet the 80% selection rate standard of the 4/5 test. Because this group represents a very small share of the population, both in the preference pool and in the broader market area, any variation in selection would result in disproportionately large changes in selection rate. The results are not statistically significant.

Table 7: Work Preference alone applied to 100% of units

Workforce Preference

	Comparison Group Low Income residents of the broader Market Area	Preference Group renter households with individuals that work in the City	Selection Rate (5K apps)		Impact Ratio (4/5ths test) Preference rate as % of no preference	Z=Score Number of Standard Deviations from mean
			No Preference Applied	Preference on 100% of units		
Non Hispanic						
White	30%	24%	1.9%	1.5%	80%	Z=1.17
Asian	22%	26%	1.9%	2.2%	118%	Z=0.84
Black	4%	8%	1.9%	4.0%	211%	Z=1.96
Other or Multiple	5%	1%	1.9%	0.3%	18%	Z=1.6
Hispanic	39%	41%	1.9%	2.0%	104%	Z=0.31