

Economic Opportunities for Low-Income People (24 CFR 135) *Understanding Section 3*

**HUD Requirements for Local Government
and Non-profit Subrecipients**
**Housing & Urban Development Act of 1968 (12 U.S.C. 1701u) (Section 3) (Title
24-HUD, Chapter 1)**

City of Woonsocket, Rhode Island
Department of Planning & Development

HUD Section 3 Basics

- New employment, job training, and contract opportunities for low-or very-low income residents and related businesses.
- Projects in proximity to eligible population neighborhoods.
- HUD-funded housing rehab & construction and other public construction.

Section 3 Definitions (24 CFR 135.5)

- Section 3 Residents:
- Low-income individuals (80% of HUD AMI) living in the metro area (MSA) or non-metro county area of project (especially public housing residents).
 - Hiring preferences to meet Section 3 requirements
 - Low-income residents in local MSA
 - HUD Youthbuild program participants)
 - Homeless, if project assisted under McKinney Act (42 U.S.C. 11301 et seq.)

Section 3 Definitions

- Section 3 Business:
 - Owned 51% or more by Section 3 residents; or at least 30% of employees qualify as Section 3 (or within 3 years of the date of first employment with the business concern were section 3 residents);
 - Or commits to subcontract $\geq 25\%$ of dollar value of project contracts to Section 3 eligible businesses;
 - & gives hiring preference to those who meet these conditions and for participating in HUD Youthbuild programs (24 CFR 135.36; 42 USC 12899).

Types of Economic Opportunities available under Section 3

- Jobs and Employment
- Job Training
- Contracts and Business

“Opportunity” involves reasonable access and fair notification.

Who provides the Economic Opportunities?

- Recipients of HUD funding, contractors, subrecipients, and subcontractors

How?

- Section 3 Clause (24CFR135.38) in formal solicitations and contracts, specifying that work performed under the contract adheres to Section 3 requirements.
- Contractor & Subrecipient Section 3 Plan outlines strategies by which they expect to fulfill Section 3 obligations.
- Subrecipient and contractors actually provide economic opportunities to low-income persons and qualified Section 3 businesses –to the greatest extent feasible (§135.30).

Who obtains Economic Opportunities under Section 3?

- Low-and very low-income persons (24 CFR135)
 - For training & employment Public & Assisted housing residents
 - Residents of affected project neighborhood
 - Youth-build program participants
 - Homeless
- For contracting
 - Section 3 businesses, who match the definition

To which programs does HUD Section 3 Apply?

HOME funds: apply if Project receives

- CHDO Set-Aside
- Assistance or financing involving: new/ reconstruction, rehabilitation, or demolition

Does not apply if assistance or financing does not involve

- New Construction/ Reconstruction,
- Rehabilitation, or
- Demolition

HUD Section 3 Applicability

- Applies to:
 - Emergency Solutions Grants Program (ESGP)
 - Any construction, rehabilitation, or demolition
 - Notice of funding availability
- Does not apply if:
 - Neither funded by HUD nor involving any construction, rehab or demolition

HUD Section 3 Applicability

Applies to:

Community Development Block Grant

- New/ Reconstruction/ Rehabilitation
- Demolition
- Infrastructure Development

Community Development Block Grant (CDBG) Disaster Recovery Programs

Does not apply if not construction-related

- CDBG Disaster Recovery - Homebuyer Assistance

HUD Section 3 Applicability

- Neighborhood Stabilization Program (NSP) involving
 - New/ Reconstruction or Rehabilitation
 - Demolition
- Does not apply to Assistance or Financing without
 - New Construction/ Reconstruction,
 - Rehabilitation, or
 - Demolition

HUD Section 3 Inapplicability

- Does not apply:
 - Woonsocket HOME Downpayment Assistance
 - Section-8-only PHAs

What triggers HUD Section 3?

- Any amount of Section 3-covered funding invokes requirements for entire project, including other funding sources, involving:
 - New employment, training, or contracting for
 - Housing rehab (including lead-safety)
 - Housing construction, reconstruction, demolition,
 - Public construction

HUD Section 3 Thresholds

Any HUD project funding that allows construction:

- for contractor or subcontractor with contracts exceeding \$100,000 (for covered activities)
- if no individual contract exceeds \$100,000, Section 3 responsibilities apply only to the recipient agency (if funding exceeds \$200,000)
- for covered contracts, subrecipients and contractors must submit a Section 3 Plan, as well as meet other Section 3 reporting requirements.

Numerical Goals for recipients, subrecipients & contractors (“greatest extent feasible” test, 24 CFR§135.30)

- 30% of total number of new hires
- 10% of all covered construction contracts, awards to Section 3 business concerns.
- 3% of all covered non-construction contracts, awards to Section 3 business concerns.
- Failure to meet numerical goals requires explanation from [sub]recipient.

Recipients' Section 3 Responsibilities (24 CFR 135.32)

- Include “Section 3 Clause” in all formal bid packages/solicitations and contracts (24 CFR 135.38).
- Notify contractors of Section 3 responsibilities.
- Notify eligible residents & businesses about employment & contracting opportunities.
- Facilitate training & employment of eligible Section 3 residents and businesses.

Recipients' Section 3 Responsibilities (continued)

- Assist & cooperate with HUD on compliance.
- Do not contract with Section 3 regulation violators, as identified by HUD (24 CFR 135.72).
- Document Section 3 compliance actions.
- Submit Section 3 Summary Reports (HUD-60002), either annually or prior to final draw.

Section 3 Process Within Woonsocket DPD

- Provide technical assistance to program areas and subrecipients;
- Develop Department-wide materials, including
 - Forms and presentations
 - Inserts for Program Manuals
 - Inserts for NOFAs and applications
 - Inserts for Contracts
- Collect and compile subrecipient data for purpose of submittal to HUD
- Compile one program-year-end HUD-60002 report for each program area that uses Section 3 assistance.

HUD Monitoring & Reviewing Procedures

- Monitors performance & investigates complaints.
- Reviews & analyzes subrecipient and contractor compliance with Section 3 in hiring & contracting of eligible residents & businesses and methods used to meet requirements (24 CFR 135.74).
- HUD may monitor or review recipients at any time.
- Non-compliance may result in debarment, suspension or limited denial of participation.

Conclusions

- Ideally, Section 3 promotes:
 - Optimal benefit per expenditure for the people that HUD programs strive to assist.
 - Sharing of information about employment and training opportunities for low-income people.
 - Improvement of future economic prospects for low-income residents of areas targeted by HUD programs.

QUESTIONS: CALL 401.767.9232