



Section 3 of the Housing & Urban Development Act of 1968

City of Houston

Housing & Community Development Department

Section 3

- ▶ Giving a hand up rather than a hand out



What is Section 3?

- ▶ Section 3 is a provision of the Housing and Urban Development Act of 1968, which recognizes that HUD funds are typically one of the largest sources of federal funding spent in communities through the form of grants, loans, entitlement allocations, and other forms of financial assistance.
- ▶ Section 3 is intended to ensure that when employment or contracting opportunities are generated because a covered project or activity needs to hire additional workers or to award contracts for work, preference must be given to low- and very low-income persons or business concerns residing in the community where the project is located.

Purpose / Intent of Section 3

- ▶ Section 3 recognizes that the *normal expenditure* of certain HUD funds typically results in new jobs, contracts, and other economic opportunities; and when these opportunities are created, low- and very low-income persons residing in the community in which the funds are spent (*regardless of race and gender*), and the businesses that substantially employ them, should receive priority consideration.
- ▶ Section 3 is one of HUD's tools for ensuring that the expenditure of federal funds in economically distressed communities has a multiplier effect by targeting local low- and very low-income persons and qualified businesses for jobs, training, and contracting opportunities.

What does the term “Section 3 resident” mean?

- ▶ A “section 3 resident” is:
 - 1) a public housing resident; or
 - 2) a low- or very low-income person residing in the metropolitan area or Non-metropolitan County in which the Section 3 covered assistance is expended.



What does the term “Section 3 Business” mean?

- ▶ A “Section 3 business” is a business that can provide evidence that they meet at least one of the following criteria:
 - 51 percent (51%) or more owned by Section 3 residents; **OR**
 - At least 30 percent of its full-time employees include persons that are currently Section 3 residents, or within three years of the date of first employment with the business concern were Section 3 residents; **OR**
 - Provides evidence, as required, of a commitment to subcontract in excess of 25 percent (25%) of the dollar award of all subcontracts to be awarded to business concerns that meet the at least one of the qualifications listed above.

What is a Section 3 covered project?

- ▶ A Section 3 covered project involves
 - the construction or rehabilitation of housing (including reduction of lead-based paint hazards),
 - or other public construction such as
 - street repair,
 - sewage line repair or installation,
 - updates to building facades, etc.



Is a non-profit organization considered a “business” for the purposes of Section 3?

- ▶ Yes. A non-profit organization is a legitimate business.
 - The non-profit organization must meet the criteria of a Section 3 business concern as defined in 24 CFR Part 135.5 in order to receive Section 3 preference.

Section 3 applies to recipients of \$200,000 or more of the following financial assistance:

- ▶ HOPE VI funding
- ▶ Community Development Block Grant (CDBG) funding
- ▶ HOME Investment Partnership funding
- ▶ Self-Help Homeownership Opportunity Programs
- ▶ Economic Development Initiatives assistance
- ▶ Brownfields Economic Development Initiatives
- ▶ Continuum of Care Homeless Assistance Programs
- ▶ Housing Opportunities for Persons with AIDS
- ▶ Section 202 Supportive Housing for the Elderly
- ▶ Section 811 Supportive Housing for Persons with Disabilities
- ▶ Assisted Living Conversion Program
- ▶ Lead Hazard Control Grants
- ▶ Healthy Homes and Lead Technical Studies
- ▶ Healthy Homes Demonstration Programs

What dollar threshold amounts apply to contractors / sub-contractors?

- ▶ With respect to recipients of Housing and/or Community Development funding, all contractors (or sub-contractors) receiving covered funds in excess of \$100,000 to complete projects involving housing construction, rehabilitation, or other public construction are required to comply with the requirements of Section 3.

What responsibilities do contractors/subcontractors have if they receive Section 3 covered financial assistance?

- ▶ If the contractor/sub-contractor needs to hire new persons to complete the Section 3 covered contract, they are required to direct their newly created employment opportunities to Section 3 residents (i.e., 30% of new hires).
- ▶ If the contractor/sub-contractor needs to subcontract portions of the work to another business, they are required to direct their newly created subcontracting opportunities to Section 3 businesses (i.e., 10% of construction contracts, and 3% of non-construction contracts).
- ▶ In addition, the contractor / sub-contractor must notify the City of Houston / HCDD about all efforts to comply with Section 3 and submit any required documentation.

Does Section 3 apply to other State/local laws?

- ▶ Compliance with Section 3 shall be achieved to the greatest extent feasible, and consistent with local laws and regulations.



What is the relationship between Section 3 and Minority Business Enterprises (MBEs)?

- ▶ Section 3 preferences are not tied to race or ethnic origin of the owner. A minority business enterprise must provide evidence that it meets at least one criterion of a Section 3 business outlined above in order to receive preference under Section 3.
- ▶ Section 3 will serve to support, and not impede, contract opportunities for minority business enterprises.

What are the responsibilities of the City of Houston under Section 3?

- ▶ The City and its HCDD are required to ensure their own compliance and the compliance of **their contractors/subcontractors** with the Section 3 regulations, as outlined at 24 CFR § 135.32.



Does Section 3 require the creation of training, employment, and contracting opportunities?

- ▶ The City and its Contractors are **NOT** required to create jobs or contracts for Section 3 residents and business concerns simply for the sake of creating them.
- ▶ Section 3 requires that **when employment or contracting opportunities are generated** because a project or activity undertaken needs more personnel either through individual hiring or the awarding of contracts, the City and its Contractors must give preference in hiring to low- and very low- income persons and/or businesses owned by these persons or that substantially employ these persons.

Are Section 3 residents or business concerns guaranteed employment or contracting opportunities under Section 3?

- ▶ **NO.** Section 3 residents must show that they meet the qualifications for new employment opportunities created.
- ▶ **NO.** Section 3 business concerns must prove that their firms are responsible and have the ability to perform successfully under the terms and conditions of the proposed contract.

Are recipients and contractors required to provide long-term employment opportunities, and not simply seasonal or temporary employment?

- ▶ Recipients and contractors are required, to the extent feasible, to direct **ALL** employment opportunities to low- and very low-income persons, including seasonal and temporary employment opportunities.
- ▶ Employment goals are based on “new hires”, which is defined as full-time employees for permanent, temporary, or seasonal employment opportunities.
- ▶ Recipients and contractors are encouraged to provide long-term employment. They may count a Section 3 resident employee for three years to meet the business criterion that at least 30% of the permanent, full-time employees are Section 3 residents.

Acceptable documentation includes, but is not limited to the following:

- ▶ Proof of residency in a public housing development.
- ▶ Evidence that the individual resides in the Section 3 area and is a low or very low-income person, as defined in §3(b) (2) of the U.S. Housing Act of 1937 (1937 Act).
- ▶ The City may choose to allow prospective Section 3 residents to self-certify their eligibility. Any self-certification should include a statement of penalty for falsifying information.

What is acceptable evidence for determining eligibility as a Section 3 Business?

- ▶ 51% or more owned by Section 3 residents; **OR**
- ▶ Has permanent, full time employees at least 30% of whom are currently Section 3 residents, or within three years of the date of first employment with the business concern were Section 3 residents; **OR**
- ▶ Has a commitment to sub-contract in excess of 25% of the dollar award of all sub-contracts to be awarded to such businesses described above.
- ▶ The City may choose to allow prospective Section 3 business concerns to self-certify their eligibility. Any self-certification should include a statement of penalty for falsifying information.