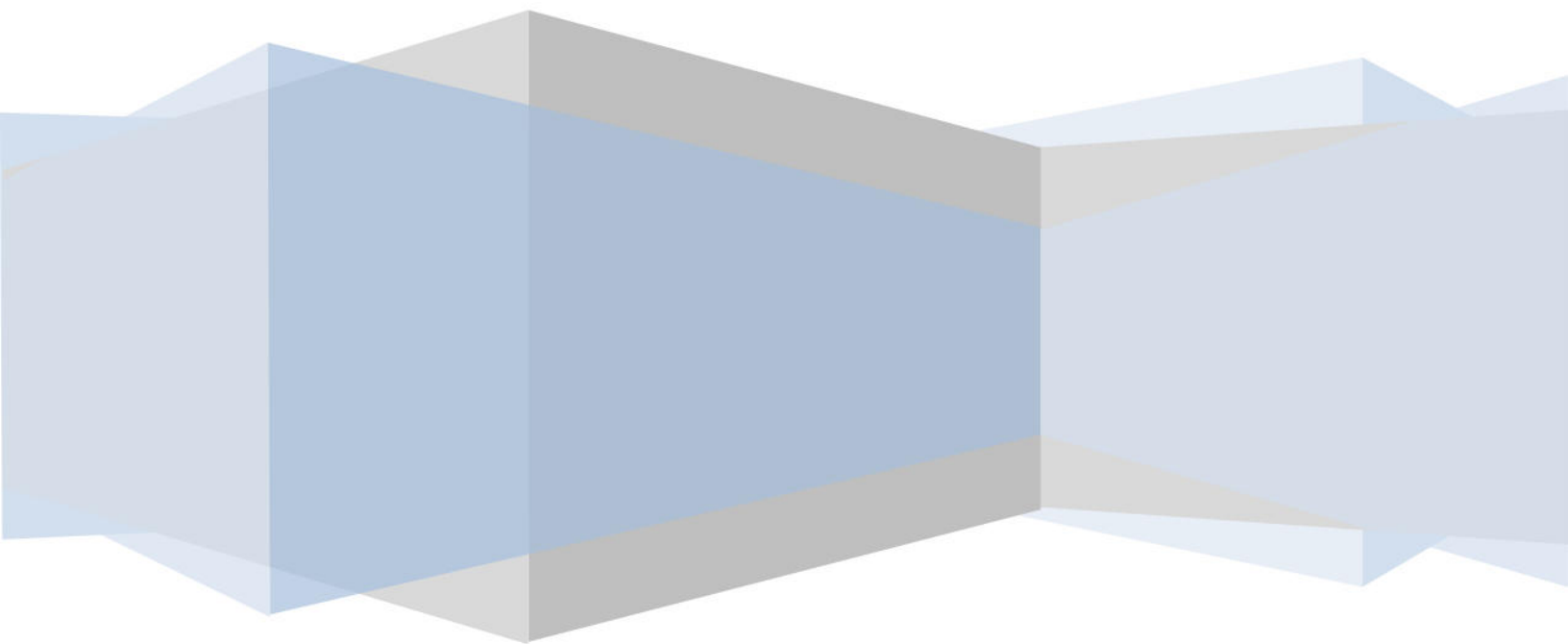


## Section 3 Guidance



## Section 3 Information and Terminology

### *Section 3 of the Housing and Urban Development Act of 1968*

Section 3 and the regulations at 24 CFR Part 75 and 24 CFR Part 135 ensure that employment and other economic opportunities generated by certain HUD financial assistance shall, to the greatest extent feasible, be directed to low- and very low-income individuals and to business concerns they own or that employ them.

#### **Who Must Comply with Section 3 Requirements?**

Section 3 applies to employment opportunities generated as a result of projects receiving federal Housing and Urban Development (HUD) funds, such as HOME or National Housing Trust Fund funding through the NC Housing Finance Agency, whether those opportunities are generated by the owner, contractor or subcontractor.

If the total federal funds from Department of Housing and Urban Development, including any of the sources listed below, exceeds \$200,000 at the project level then Section 3 regulations apply.

#### Applicable Sources of Federal Funds:

- Community Development Block Grant (CDBG)
- HOME Investment Partnership (HOME)
- HOME Investment Partnerships American Rescue Plan Program (HOME-ARP)
- National Housing Trust Fund (NHTF)
- Emergency Solutions Grants (ESG)
- Housing Opportunities for People with Aids (HOPWA)
- Disaster Recovery
- Section 202 or 811
- University Partnership Grants
- Economic Stimulus Funds
- Lead Hazard Control Grants or Health Homes Production Grants (\$100,000 threshold instead of a \$200,000 threshold)

#### **Section 3 Worker**

Section 3 workers are individuals who currently meet at least one of the following eligibility criteria, or met the criteria when hired within the last 5 years:

- The worker's income meets the Low-Income or Very Low-Income definition for the current year in the county of their residence as established by the [Department of Housing and Urban Development](#).
- The worker is employed by a Section 3 Business Concern.
- The worker is a YouthBuild participant.

### **Targeted Section 3 Worker**

Targeted Section 3 workers are individuals who meet one of the following criteria:

- The worker is employed by a Section 3 business concern.
- The worker currently meets at least one of the following eligibility criteria, or met the criteria when hired within the last five years:
  - The worker meets the low-income or very low-income definitions as established by [Department of Housing and Urban Development](#) and lives within the neighborhood or service area of the project, as defined below.
  - The worker is a YouthBuild participant.

More information as well as the listing of YouthBuild grant recipients can be found on the Department of Labor Employment and Training Administration's [website](#).

### **Section 3 Service Area/Neighborhood of the Project**

The Section 3 service area or neighborhood of the project is an area within one mile of the Section 3 project. If fewer than 5,000 people live within one mile of the Section 3 project a circle will be created, centered on the project and made large enough to encompass a population of 5,000 people according to the most recent [U.S. Census data](#), which will constitute the service area.

### **Section 3 Business Concern**

A business can be classified as a Section 3 business if it meets at least one of the following criteria, documented within the last six months:

- At least 51% or more of the business is owned and controlled by low- or very low-income individuals according to [Department of Housing and Urban Development's income limits](#).
- Over 75% of the labor hours performed for the business over the last three months are performed by Section 3 workers.
- At least 51% of the business is owned and controlled by current public housing residents or residents who currently live in Section 8 assisted housing.

### **Section 3 Benchmarks and Compliance**

The measurement of compliance with Section 3 regulations is the percentage of total labor hours worked on a Section 3 project worked by Section 3 workers or targeted Section 3 workers. The Section 3 benchmarks apply to projects awarded in excess of \$200,000 of federal funds in total, including HOME, HOME-ARP, NHTF and other funds listed above.

- At least 25% of the total number of labor hours worked on a Section 3 project must be worked by Section 3 workers.
- At least 5% of the total number of labor hours worked on a Section 3 project must be worked by targeted Section 3 Workers.
  - This 5% is included as part of the 25% worked by Section 3 workers.

If it is not feasible to meet the benchmarks, recipients must be prepared to report on the qualitative nature of the activities it pursued to meet the benchmarks. Such qualitative efforts may include, but are not limited to, the following:

- Engage in outreach to generate applications from targeted Section 3 workers.
- Provide training and apprenticeship opportunities to Section 3 workers.
- Provide technical assistance to help Section 3 workers compete for jobs.
- Provide or connect Section 3 workers with assistance seeking employment opportunities such as: resume writing, interview preparations and connecting individuals with job placement services.

- Hold at least one job fair.
- Provide or refer Section 3 workers to services which support work readiness such as interview clothing, test fees, transportation, childcare, etc.
- Provide Section 3 workers assistance to apply for or attend community college, a four-year academic institution or vocational and technical training.
- Assist Section 3 workers secure financial literacy training or coaching.
- Engage in efforts to identify and secure bids from Section 3 business concerns.
- Provide technical assistance to help Section 3 business concerns bid on contracts.
- Divide contracts into small jobs to encourage participation by Section 3 business concerns.
- Promote use of business registries aimed to create opportunities for Section 3 business concerns.

### **What are considered Best Efforts?**

HUD's focus is on the outcomes as a result of efforts put forth. The reported results will be compared to the outcome metrics defined by the program benchmarks. If the benchmarks are not met HUD and the NC Housing Finance Agency will evaluate the qualitative efforts made by the owner, contractor and subcontractor to ensure best efforts have been taken to employ Section 3 workers and targeted Section 3 workers.

### **Section 3 Implementation**

Section 3 must be implemented in a manner consistent with existing Federal, State and local laws. Section 3 neither supersedes these laws, nor do these laws cancel or override Section 3 obligations.

- Employment – Section 3 is race and sex neutral, directed at low-income and very low-income individuals.

### **Forms and Reporting Requirements**

In an effort to streamline documentation and reporting, the NC Housing Finance Agency and HUD have created a variety of forms, both optional and required. A summary of documents is laid out below. As indicated, the owner must sign the *Section 3 Compliance Certification* prior to the issuance of the final commitment letter. Additionally, the *Section 3 Quarterly Report* is due to the NC Housing Finance Agency quarterly by the 10<sup>th</sup> of the following month (April 10<sup>th</sup>, July 10<sup>th</sup>, October 10<sup>th</sup>, and January 10<sup>th</sup>), while the project is in development. Finally, the *Section 3 Summary Report* is due in conjunction with the final cost certification. Copies of the listed reports can be found on the NC Housing Finance Agency's [website](#).

| <b>Form Title</b>                                                                        | <b>Summary</b>                                                                                                                  | <b>Responsible Party</b>    | <b>Received by</b> | <b>Deadline</b>                                                   | <b>Requirement Status</b> |
|------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------|-----------------------------|--------------------|-------------------------------------------------------------------|---------------------------|
| HUD Form 4736A – Section 3 Housing and Community Development Employer Certification Form | Employer verification of employee’s status as a Section 3 worker or Targeted Section 3 worker                                   | Employer and Project Owner  | Owner              | As applicable                                                     | Required                  |
| HUD Form 4736C – Section 3 Worker Self-Certification                                     | Employee’s verification employee’s status as a Section 3 worker or Targeted Section 3 worker                                    | Employee and Employer       | Owner              | As applicable                                                     | Optional                  |
| Section 3 Business Concern Certification                                                 | Verifies company’s status as a Section 3 Business Concern                                                                       | Section 3 Business Concern  | Owner              | As applicable                                                     | Required                  |
| Subcontractor Form                                                                       | Summarizes hours worked by Section 3, Targeted Section 3 and general workers from each subcontractor/contractor to report.      | Subcontractor or contractor | Owner              | Suggested: Quarterly                                              | Optional                  |
| Section 3 Compliance Certification                                                       | Required of each project owner to ensure an understanding and compliance with the Section 3 regulations.                        | Project Owner               | NCHFA              | Prior to issuance of the Final Commitment Letter                  | <b>Required</b>           |
| Section 3 Quarterly Summary                                                              | Required of each project owner to track compliance with Section 3 benchmarks.                                                   | Project Owner               | NCHFA              | The 10 <sup>th</sup> of each month following the end of a quarter | <b>Required</b>           |
| HUD Form 4737 – Section 3 Utilization Tracker: Business Labor Hours                      | Optional HUD form to assist project owners track Section 3 hours                                                                | Project Owner               | Owner              | Suggested: Quarterly                                              | <b>Optional</b>           |
| HUD Form 4737A - Section 3 Utilization Tracker: Section 3 Labor Hours                    | Optional HUD form to assist project owners track Section 3 hours                                                                | Project Owner               | Owner              | Suggested: Quarterly                                              | <b>Optional</b>           |
| Section 3 Summary Report                                                                 | Required at the completion of the project to report total hours worked on the project and compliance with Section 3 benchmarks. | Project Owner               | NCHFA              | At time of final cost certification                               | <b>Required</b>           |