

CDBG Advisory

Section 3 Compliance - 24 CFR Part 75

Dear CDBG Grantees:

Section 3 of the Housing and Urban Development Act of 1968, as amended, provides that to the greatest extent feasible, preference for economic opportunities, such as job training and employment that arise through HUD-assisted projects, shall be directed toward Section 3 residents and to business concerns which provide economic opportunities to these residents. Section 3 reporting and performance requirements apply to the Unit of General Local Government (UGLG) if the CDBG award for rehabilitation, housing construction or public construction (including infrastructure and façade improvement) is more than \$200,000.

A Section 3 covered contract is a contract or subcontract (including a professional services contract) awarded by the UGLGs or contractor for work generated by the expenditure of Section 3 covered assistance, or for work arising in connection with a Section 3 covered project. Section 3 covered contracts do not include contracts for the purchase of supplies and materials. However, if the materials contract includes installation, then the contract constitutes a Section 3 covered contract.

Attached please find a Section 3 packet which includes the following documents:

- 1. Section 3 Overview**
 - This document summarizes Section 3.
- 2. Section 3 Flow Chart**
 - This document is helpful in determining if your project is subject to Section 3 requirements.
- 3. Section 3 Total Labor Hours Final Report**
 - This report captures labor hours for a project and must be completed by UGLGs receiving a CDBG award in excess of \$200,000.

Additional information is found in [Chapter 9 – Fair Housing and Equal Opportunity](#) of the CDBG Grant Administration Manual (GAM). Failure to comply with Section 3 reporting requirements will result in monitoring findings and may impact future CDBG funding opportunities.

If Section 3 applies to a project, the Section 3 Labor Hours Final Report and Safe Harbor Report (if applicable) is due to your CDBG Program Specialist, at project closeout.

October 2022



SECTION 3 OVERVIEW (24 CFR Part 75)

To the greatest extent feasible, Units of General Local Government (UGLGs) must ensure that lower income residents that reside in their communities receive employment, training, and contracting opportunities.

To the greatest extent feasible, preference for economic opportunities, such as job training and employment that arise through HUD-assisted projects, shall be directed to Section 3 residents* and to business concerns* which provide economic opportunities to these residents.

UGLG Compliance with Section 3:

The UGLGs are responsible for the following regarding their Section 3 compliance:

- Developing a Section 3 Policy (Form 9-B) and Section 3 Plan (Form 9-B3) for the UGLGs and contractors. Please see the samples in the Grant Administration Manual (GAM).
- Including a Section 3 Clause and provisions and the Section 3 Contractor's Packet (form 4-T) in the construction contracts.
- Submitting a Section 3 Labor Hours Report at project closeout.

What Triggers the Requirements of Section 3?

Section 3 projects are housing rehabilitation, housing construction, and other public construction projects awarded \$200,000 or more in CDBG funds. Section 3 reporting and performance requirements apply to UGLGs and all contractors and subcontractors associated with the awarded project.

Section 3 covered contracts do not include professional contracts or contracts for the purchase of supplies and materials. However, if the materials contract includes installation, then the contract constitutes a Section 3 covered contract.

Section 3 Benchmarks/Section 3 Labor Hours Final Report:

The Section 3 regulations establish numerical benchmarks that the UGLGs and covered contractors must report on labor hours worked:

- Section 3 Worker Hours - 25% or more of total hours worked shall be by Section 3 residents.
- Targeted Section 3 Worker Hours - 5% or more of total hours worked shall be performed by Section 3 workers, residing within a one-mile radius of the project. If less than 5,000 people live within the one-mile radius, the circle may be expanded outward until that population reaches 5,000.

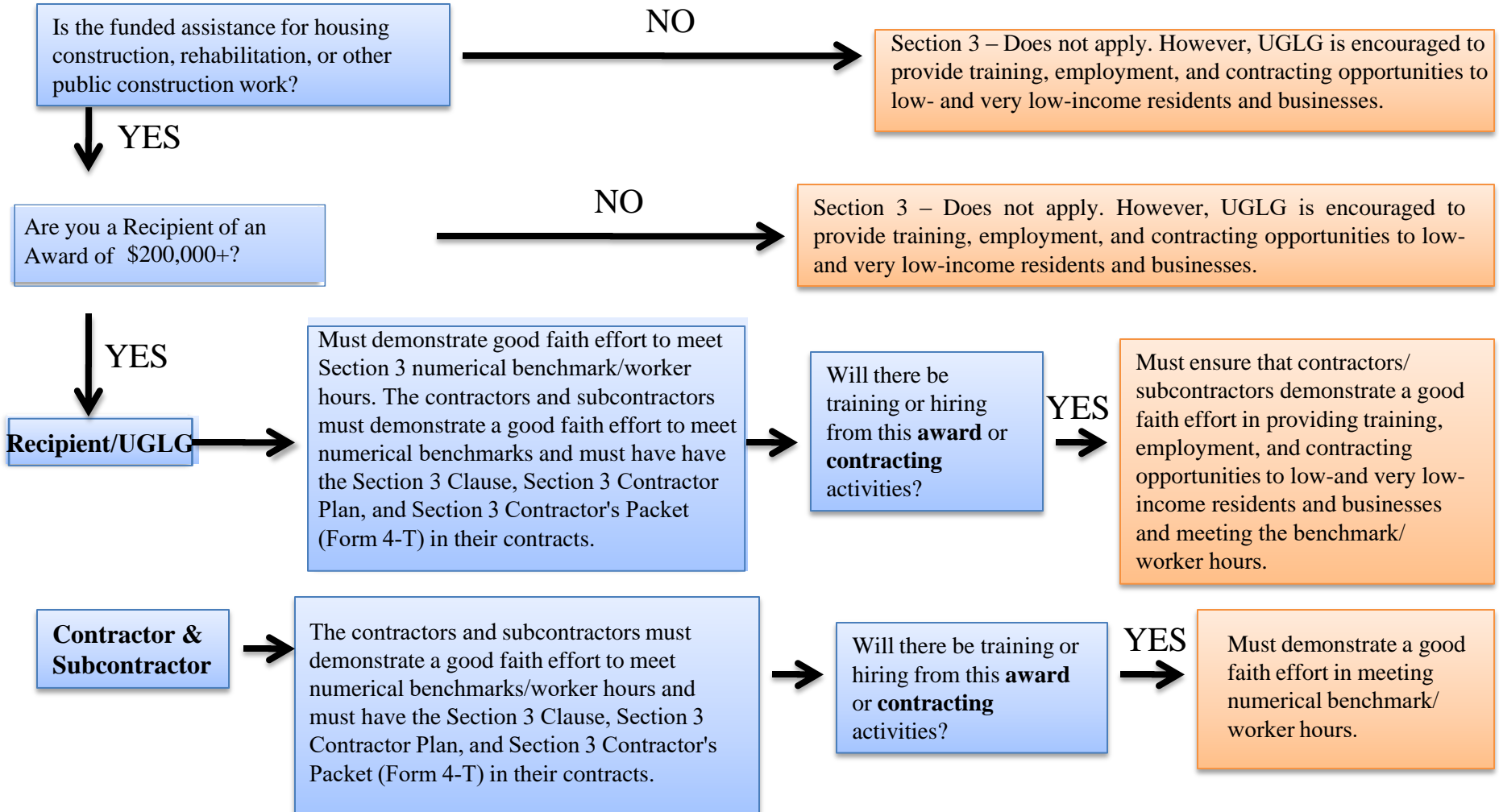
If the recipient (or its covered contractors, subcontractors and sub recipients) did not hire any new employees during the reporting period, and/or if no contracting or training opportunities resulted, reporting is still required.

Recipients that fail to meet the minimum numerical benchmarks above bear the burden of demonstrating why it was not possible to do so.

*as defined in the Grant Administration Manual (GAM), Chapter 9, Section 3

Section 3 Flow Chart

Use the following chart to determine if your project is subject to the requirements of Section 3 of the Housing and Urban Development Act of 1968, as amended (24 CFR Part 75).



Section 3 requirements apply to the entire project or activity funded with Section 3 covered assistance/CDBG funds, regardless of whether the Section 3 activity is fully or partially funded with Section 3 covered assistance.