

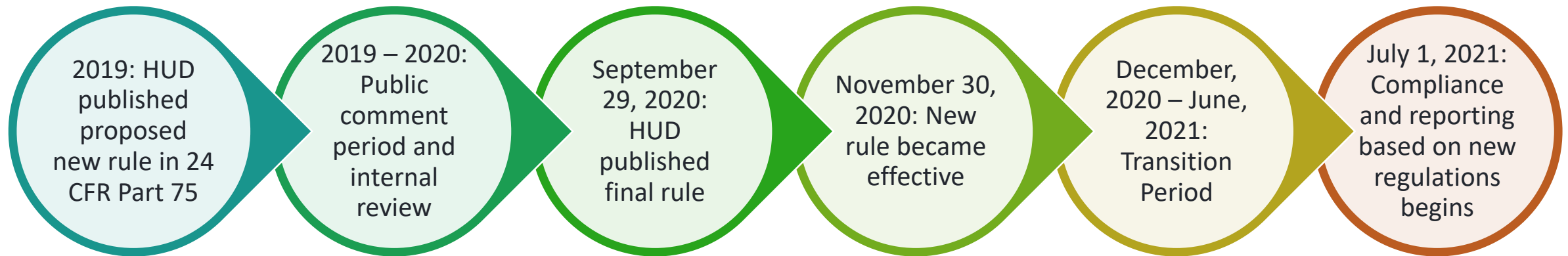
# NCHFA Section 3 Training

HOME & NHTF Funded Rental Development

# Agenda

- Overview of Section 3 rule
  - Applicability
  - Regulatory changes
  - Definitions
- Reporting Requirements
- Review Forms
- Other Resources
- Questions

# Timeline



Final Commitment Prior to November 30, 2020	Final Commitment between December 1, 2020 & June 30, 2021	Final Commitment after July 1, 2021
Legacy Projects	Transition Projects	New Projects
Old Section 3 regulations apply	New Section 3 requirements apply	New Section 3 requirements apply
Focus on number of new hires	Hours worked by: Section 3 & Targeted Section 3 Workers	Hours worked by: Section 3 & Targeted Section 3 Workers

# Which rule applies to you?

## *Legacy Projects*

- Projects committed prior to November 30, 2020 must adhere to old rule (24 CFR Part 135)
- Continue to report based on number of workers hired and utilize existing NCHFA Section 3 forms.
- Required Documents:
  - Yearly Summary Report – The 10<sup>th</sup> of each January
  - Final Summary Report – At time of final cost certification
- These projects are referred to as legacy projects

# Which rules apply to you?

## *Transition Projects & New Rule Projects*

- Projects committed after November 30, 2020
- Must adhere to the new rule (24 CFR Part 75)
- Must use NCHFA's updated Section 3 forms available on our website
- Required Documents:
  - Quarterly Summary Report – The 15<sup>th</sup> of each month following a quarter end
  - Final Summary Report – At time of final cost certification
  - Section 3 Compliance Certification - Prior to issuance of the Final Commitment Letter

# Section 3: New Rule

- Efforts are focused on the number of labor hours performed by Section 3 workers and Section 3 Targeted workers.
- Benchmarks are based on the percentage of labor hours worked on a project performed by Section 3 and Targeted Section 3 workers.
- Single funding applicability threshold.

# Benchmarks

- 25% of all labor hours on a project must be performed by Section 3 workers
  - $\text{Section 3 labor hours} / \text{Total labor hours} = 25\%$ .

## AND

- 5% of all labor hours on a project must be performed by Targeted Section 3 workers.
  - $\text{Targeted Section 3 labor hours} / \text{total labor hours} = 5\%$ .
  - The Targeted Section 3 labor hours are included in the total Section 3 labor hours.



# Section 3 Worker

Section 3 Workers are workers who currently fit, or when hired within the past 5 years fit, at least one of the following criteria:

- A low- or very low-income worker (as defined by HUD's area median income)  
OR
- Is employed by a Section 3 Business Concern  
OR
- Is a YouthBuild participant

# Low-Income & Very Low-Income

- Low-Income: below 80% AMI
- Very low-income: below 50% AMI
- Determined by HUD annually
- Income limits can be found at: <https://www.huduser.gov/portal/datasets/il.html>
- Use the residential address of the worker

2023 Example County		
AMI Level	Income Category	Upper Limit
50% AMI	Very low-income	\$31,700
80% AMI	Low-income	\$50,700

# Section 3 Business Concern

- A Section 3 Business Concern is:

- 51% or more owned or controlled by low or very low-income people

**OR**

- Over 75% of the labor hours performed for the business over the last three month period are performed by Section 3 workers

**OR**

- 51% or more owned and controlled by current residents of public housing or Section 8 housing.

# YouthBuild

YouthBuild programs provide academic and skills training for youth ages 16 – 24 who have dropped out of high school or previously dropped out and are currently re-enrolled.

- A list of local YouthBuild programs can be found on the Department of Labor's website at: <https://www.dol.gov/agencies/eta/youth/youthbuild>

# Targeted Section 3 Worker

A Targeted Section 3 Worker must:

meet the definition of a Section 3 Worker

**AND**

meet one of the following criteria:

- Employed by Section 3 Business Concern

**OR**

- Currently fits, or fit when hired within the last 5 years, at least one of the following criteria:
  - Lives within the **service area** or neighborhood of the project
  - A YouthBuild participant

# Service Area as Defined in 24 CFR 75.5



HCD

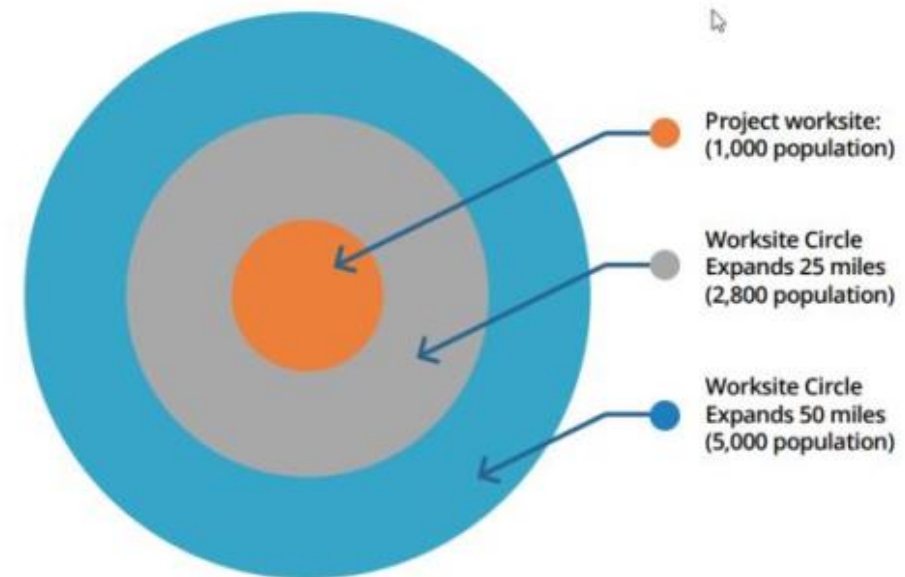
A. *Service Area* = an area within one mile of the Section 3 project

**OR**

B. If < 5,000 people live within one mile of Section 3 project,

Then, *Service Area* = an area within a circle centered around the Section 3 project site that encompasses 5,000 people.

\*According to the most recent U.S. Census



Source: HUD. (2021, December 7). *Section 3 Final Rule Training Course*, Day 1 Slide 34

# Understanding Worker Types



# Professional Service Labor Hour

- Professional services are “non-construction services that require an advanced degree or professional licensing...”
  - These hours are excluded from the total labor hours.
    - These hours are not counted in the denominator of the calculation
  - But, Professional Service labor hours that are worked by Section 3 workers or Targeted Section 3 workers are counted as part of the total Section 3 worker hours or Targeted Section 3 worker hours.
    - These hours are counted in the numerator of the calculation.



# Funding Applicability Thresholds

- Section 3 regulations apply to projects which receive over \$200,000 in Housing and Community Development funding in total.
- RPP awards are over \$200,000
  - If a project receives an RPP award that is federally funded (HOME, NHTF or CDBG-DR) Section 3 applies to the project.

# What if we cannot meet the benchmarks?

If a developer does not meet the quantitative benchmarks, they must describe the qualitative measures they undertook to provide opportunities for low and moderate-income households.

These opportunities may include:

- Outreach efforts to generate additional Section 3 & Targeted Section 3 applicants
- Direct or indirect job training for Section 3 workers
- Outreach to solicit bids from Section 3 business concerns
- Job fairs

# Reporting Requirements

Form Title	Summary	Responsible Party	Received by	Deadline	Requirement Status
HUD Form 4736A Employer Certification	Verifies employee’s status as a Section 3 worker or Targeted Section 3 worker	Employer and Project Owner	Owner	As applicable	Required
Section 3 Business Concern Certification	Verifies company’s status as a Section 3 Business Concern	Section 3 Business Concern	Owner	As applicable	Required
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	Required
Section 3 Quarterly Summary	Required of each project owner to track compliance with Section 3 benchmarks.	Project Owner	NCHFA	15 <sup>th</sup> of each monthly following the end of quarter	Required
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	Required
Optional Forms	Optional forms created by the Agency, HUD or others that are useful but not required. Available on the Agency’s website.	Various	Owner	Various	Optional

# Example Forms

- Section 3 Summary Report
- HUD Form 4736A Employer Certification

# Other Resources

- NCHFA Section 3 Landing Page  
<https://www.nchfa.com/rental-housing-partners/rental-developers/section-3-local-jobs-initiative>
- HUD – Section 3 Portal  
<https://www.hud.gov/section3>
- HUD Section 3 Opportunity Portal  
<https://hudapps.hud.gov/OpportunityPortal/>
- HUD Exchange – Section 3 Resources and Tools  
<https://www.hudexchange.info/programs/section-3/resources-and-tools/#section-3-tools>

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# Questions?