

SECTION 3 OBLIGATIONS

Development Owners, Primes, and Subcontractors are responsible for meeting the requirements for Section 3, found in 24 CFR 75. **Section 3 pertains to all housing construction, demolition, or rehabilitation projects funded with over \$200,000 of housing and community development financial assistance.**

Section 3 requirements state that **“to the greatest extent feasible”** projects shall ensure contracts, employment, and training are provided to workers and businesses that are Section 3 eligible ([§75.19](#)). Subrecipients and contractors must also include Section 3 language in any agreement or contract to ensure requirements are met ([§75.27](#)), and are required to use the clauses provided by TDHCA on its [Multifamily Direct Loan Page](#).

See the federal definitions of Section 3 workers [here](#), and Section 3 Businesses [here](#). Reporting and benchmarks for this compliance are considered according to benchmarks established by HUD ([§75.23](#)), and measured by percentage of total work hours performed by Section 3 workers ([§75.25](#)). HUD established benchmarks include:

- 25% of the total labor hours for grant-assisted projects each year as performed by eligible Section 3 workers; and
- 5% of targeted eligible Section 3 total labor hours worked
 - Employed by Section 3 Business Concern (see below)
 - Low- or very low-income workers who reside within the neighborhood or project service area
 - Youth Build participants

Inability to meet Section 3 benchmark goals for hiring or subcontracting requires sub recipients or contractors to document the “qualitative nature of its activities and those its contractors and subcontractors pursued” ([§75.25\(b\)](#)).

Section 3 Reporting

Before a project is awarded, Owners are encouraged to review HUD’s guidance and TDHCA’s supplemental materials for Section 3. During the construction phase of a project, **the Prime and LSO** must coordinate to document Section 3 status for eligible workers including Targeted Section 3 workers.

To document Section 3 requirements, TDHCA encourages projects to use the HUD-provided Section 3 Resources and Tools: <https://www.hudexchange.info/programs/section-3/resources-and-tools/#section-3-tools>.

HUD provides the following forms:

- Documenting low-income employee and business eligibility
 - Section 3 and Targeted Section 3 Worker: Employer Certification (HUD-4736A)
 - Section 3 and Targeted Section 3 Worker: Self Certification (HUD-4736C)
 - Section 3 Business Certification ([Form S303](#))

- [Search for a HUD Section 3 Business](https://www.hud.gov) (hud.gov)
- Document Section 3 Worker Hours using the Tracking Section 3 Labor Hours form (HUD-4737A)
- Document Section 3 Business Hours using the Tracking Section 3 Business Labor Hours form (HUD-4737)

Upon completion of project, **the Prime and LSO** will coordinate to ensure completion of Section 3 responsibilities. TDHCA encourages completing and submitting the TDHCA Section 3 Cumulative Report ([Form S302](#)) to describe outreach efforts, ratios of Section 3 labor hours to total labor hours, and worker training, pursuant to creating economic opportunities for low- and very low-income persons.

The LSS or other TDHCA staff will review Section 3 performance in combination with DBRA documentation, as applicable. TDHCA will not release retainage until a project sufficiently meets all federal cross-cutting regulation reporting requirements, including Section 3.

Projects subject to Davis-Bacon and Related Acts

If DBRA applies to a project, the required certified weekly payrolls may serve as verification of Section 3 labor worked hours, replacing the use of HUD-4737A, only if payroll is supported with Section 3 low-income employee and/or business certifications.

For more guidance regarding Section 3 requirements, visit <https://www.tdhca.texas.gov/multifamily-direct-loan-program>.

View resources available on HUD Exchange:

- Section 3 Tools: <https://www.hudexchange.info/programs/section-3/resources-and-tools/#section-3-tools>
- Section 3 Guidebook: <https://www.hudexchange.info/programs/section-3/section-3-guidebook/welcome/>
- Section 3 Final Rule Summary: <https://www.hudexchange.info/resource/6566/key-changes-of-section-3-final-rule-summary-chart/>
- Section 3 Job Aid Presentation for Contractors: <https://www.hudexchange.info/resource/7017/section-3-job-aid-for-contractors-and-subcontractors-hcd-financial-assistance/>
- Section 3 Sample Plan: <https://www.hudexchange.info/resource/6560/section-3-sample-plan/>
- Section 3 HUD Compliance Review Checklist: <https://www.hudexchange.info/resource/6559/section-3-hud-compliance-review-checklist/>