

Quick Guide: HUD Section 3 Requirements After the Final Rule

This guide is intended only to provide a quick overview of the Section 3 provision within the Housing and Urban Development (HUD) Act of 1968 (as well as the more recent updates in the Final Rule that went into effect November 2020). It is not exhaustive, so it is therefore considered best practice to check out the [HUD Exchange's website](#) for more information.

What is Section 3?

Section 3 aims to direct HUD funds towards benefiting “low- and very low-income persons” through the creation of employment and other economic opportunities for said individuals. For recipients of such funding, this means specific Safe Harbor Reporting goals must be followed on their construction projects to employ a certain amount of these individuals – generally identified as Section 3 Workers and Targeted Section 3 Workers (defined in [24 CFR 75](#)).



What Types of Projects are Subject to Section 3?

Section 3 applies to housing construction/rehabilitation, community development, or any other public works projects that:

1. are **at least partially** funded by a HUD program, **and**
2. receive such assistance **in excess of** \$200,000 or more

Generally, most HUD assistance falls under two categories: either Public Housing (PHA) financial assistance or Housing and Community Development (HCD) financial assistance.



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Which Individuals Qualify as Section 3 Workers and Targeted Section 3 Workers?

Per HUD's guidelines, a Section 3 Worker is defined as someone that has:

1. earned an income (the prior year) that was below a [HUD established threshold](#); **or**
2. is employed by a [Section 3 business](#); **or**
3. is a [YouthBuild participant](#).

And then there are **Targeted Section 3 Workers**, which the criteria can vary slightly depending on the type of HUD assistance. For PHA specifically, workers may qualify if they are a resident of public housing or Section 8-assisted housing (or meet #2 or #3 above). For HCD projects, they may qualify if they live within the service area or neighborhood of the project as defined by [24 CFR§ 75.5](#) (or meet #2 or #3 above).

What Reporting Goals Must Now Be Met By HUD Assistance Recipients?

After the Final Rule in November 2020 was announced, HUD requires:

- 25% or more of the total number of labor hours worked by all construction workers employed by a recipient must be **Section 3 Workers**
- And 5% or more of the total labor hours must be **Targeted Section 3 Workers** (although this can be included as part of the 25%). Note: the type of assistance (PHA or HCD) can determine which employee titles may count as part of these metrics – so its important to check [HUD's guidance on this](#).

These metrics happen to be one of the bigger changes in the Final Rule; they were adjusted from the old benchmarks to make them more feasible. They also have been changed to focus on labor hours rather than number of new hires. Additionally, it's crucial to understand that HUD recipients now need to report on demographic classifications where they had not before.

Does This Mean the Old Section 3 Requirements Are Obsolete?

Not quite. Projects awarded prior to the Final Rule will continue following former Section 3 requirements until the project end date. Projects awarded after this date must report the new outcome metrics (check out [this comparison between the two rules on HUD's site](#)).

And, of course, it's important to remember that HUD funds will trigger Davis-Bacon and its prevailing wage requirements, regardless of the project award date. It is generally recommended to use a compliance solution that already captures and tracks all of this data that HUD requires so you can easily report on it as needed.



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