Bringing Section 3 to Life

BY KEN MILLER

THE SECTION 3 provision of the Housing and Urban Development Act helps low-income people and businesses participate in HUD-funded construction. Sounds like a good idea: build skills and self-sufficiency while helping to build housing. The rules are simple, and there shouldn’t be a fear factor; HUD just asks us to try ‘to the greatest extent feasible.’ Yet many local housing authorities (LHAs) are frustrated by their lack of progress in implementing Section 3. Let’s look at the obstacles—and then talk about how we can do better. Much better.

Obstacles

In our interviews with building contractors, the first problem they mention is readiness. Contractors don’t think our residents are ready to work. The concern shows up in four dimensions:
construction skills (carpentry, plumbing, etc.); literacy and numeracy; safety; and “soft” skills (e.g., being on time, or not texting during a meeting).

The situation is similar when it comes to businesses owned by low-income people. These small businesses could compete for work on HUD projects, but owners sometimes have trouble with paperwork like bid documents, invoicing, and reporting. And because these Section 3 businesses are often “a guy and a truck,” a small problem like a flat tire or a sick kid can stop the show.

Sometimes contractors have the lead time and enough margin to set up training programs; but those situations are the exception, not the rule. Most of the time contractors see Section 3 as more trouble than it's worth.

A second obstacle is the strong construction market. This is ironic; if there's more work, there should be more hiring opportunities, right? But with all the private work available, contractors stay away from public construction (except for large, long-term projects). Contractors explain this paradoxe in a couple of ways. Public work is more complicated to bid and administer, and these complications increase contractors' costs.

Another concern is that HUD limits profit to 10 percent. On a big job, that can be plenty of money, but on a small job it may not be worth the effort. Also, HUD-financed jobs go to the lowest bidder. This seems to make sense. But if a contractor is desperate for work and is willing to break even, he or she will win the bid—and then may be unable to perform because of cash flow issues. Other contractors bid low and expect to make their money on change orders once the project is underway. Both cases put financially healthy, scrupulous contractors at a disadvantage. They feel HUD bidding is a game, and they don't want to play.

We may be the third problem. Sometimes LHA staff treat Section 3 like a box to check off; and in some cases, we think residents don't want to work, or aren't capable of learning new skills. This becomes a self-fulfilling prophecy: we don't expect much and so not much happens.

Fourth, sometimes our clients really don't want to work. They've lost track of their responsibilities. Or feel hopeless. We may need new ways to motivate them.

And fifth, our staff and our clients are sometimes confused: How can someone work and still qualify for housing support? Residents and voucher recipients are concerned they’ll lose their housing if they make any money.

This is a misperception.

According to HUD’s “Resident Characteristics Report” for May 2017, 35 percent of households in supported housing (public housing, tenant vouchers, project vouchers, etc.) have wage earnings. Since many of our households are elderly or disabled, this means many clients age 18—65 are employed at least part time.

Clearly, earned income is compatible with supportive housing. Subsidies may decrease as income grows, and eventually a family may earn too much to stay on subsidy. But isn't self-sufficiency the idea?

Frame the Decision

Despite these obstacles, Section 3 can help make a profound change
in our clients’ lives. Like any important change, this one starts with a leadership commitment.

Organizations can be good at just a few things. Put another way, focus is essential for success. But think about all the competing demands we face: clean, safe buildings and neighborhoods; family support; employee development; community relations; matching our housing to changing demographics. Oh yeah—and sustainable funding.

Confronted by these demands, “Section 3 compliance” doesn’t sound very compelling, does it? It does sound like a box to check so we can move on to something else. Especially when we’re simply asked to try, with no penalty for failure. The underlying choice, however, isn’t really about regulatory compliance. The question is whether quality housing is an end in itself, or whether it can be transformative. Are four walls simply shelter, or the foundation for financial self-sufficiency?

This isn’t a cookie-cutter issue; there’s no single right answer. Each LHA is different, and priorities change over time. But if we’re dissatisfied with Section 3 performance, we need a powerful, motivating way to define the opportunity. Financial self-reliance—the spirit of Section 3—is the right frame to use.

Align the Organization
If we decide to use housing as the springboard for self-sufficiency, LHA leadership needs to align the organization. This means ensuring everyone understands and embraces the idea.

One common misalignment is between Family Services and Procurement. Family Services wants training and jobs for residents, to strengthen families. Procurement wants to minimize barriers for contractors bidding on jobs, so the LHA has more choices. Both departments are working for the good of the LHA but their approaches may be at odds. Similarly, the Development and Project Management staff need to have resident hiring as a priority. They can communicate the importance to contractors; and they can provide lots of lead time to find and prepare residents who can compete for jobs. Everybody inside the organization should understand the priority. Rather than balking at the challenges of compliance, staff should ask, “How can we do this?”

Broaden the Scope
Every Cabinet department, state, and local government spends money on construction. In fact, public sector construction is a third of all construction spending in the U.S., reaching about $300 billion annually. (If Congress approves a new infrastructure spending package, that number will jump even higher.) A lot of public money comes with a “targeted hiring” provision to help disadvantaged people become self-reliant. Sometimes the focus is gender or ethnicity, sometimes veteran status, local residence, or disability. The low-income focus of Section 3 is simply HUD’s version. By broadening the scope to the entire public sector, our residents have more opportunity—and we gain new allies. Each new elementary school or light rail track becomes a chance for our clients to work and build skills.

LHAs have a unique relationship with disadvantaged people: we know where they live. Of all the public agencies we have the closest, most frequent interaction with the low-income community. We can help other government-funded builders reach their goals by connecting them with our clients. This pipeline to our people can be valuable to funders and to contractors, and our people can enjoy greater opportunity.

Build a System
A system is a set of parts working together to form a whole. The HCV program is an example. The parts include processes for application, screening, inspection, and payment. Each part fits neatly with what comes before and what comes after; the parts share information in a common language; all the parts work toward a single purpose. They form a system. But what if one agency took applications, another screened for eligibility, a third agency inspected rental units, and a fourth sent payments? And the four agencies had different sources of funding, defined their purposes differently, and didn't talk with each other? We'd have a mess: duplicated effort, gaps, and ineffectiveness. That’s sometimes the situation in the community when it comes to preparing low-income people for construction work. What could be an effective system is often a scattered collection of pre-apprenticeship and apprenticeship programs, skills classes, placement services, stipends, family services, and more. In some communities, no one tracks the people who have been educated, no one monitors what skills will be in demand, and no one evaluates the effectiveness of training programs.

Because we speak for so many low-income people, LHAs can provide unique leadership. We can encourage community programs to work together more closely and
more effectively. Here’s a good example: the new partnership between NAHRO and Community Action Programs (CAP). Instead of LHAs duplicating community services, NAHRO helps build links to local community action agencies. Communities save money and clients receive more complete services, including job preparation.

**Think Start-Ups**

Section 3 isn’t only about individuals; it also creates opportunities for small businesses. Ten percent of all construction sub-contracting (and three percent of non-construction sub-contracting) on HUD projects is supposed to go to Section 3 businesses. A Section 3 business can be defined in one (or more) of these three ways:

- a majority of the ownership is low-income residents;
- 30 percent of the full-time staff is low-income residents; or
- at least 25 percent of sub-contracts go to other low-income businesses.

Let’s consider a few ways our clients can take advantage of Section 3 business opportunities.

**Example One:** A group of residents meets with the LHA and learns:

- the LHA spends $40,000 a year to clean and paint vacant units;
- the LHA is willing to use the provision in Section 15.3 of the HUD Procurement Handbook, allowing bid solicitations to be limited to resident-owned businesses.

The residents form a Limited Liability Company (LLC) to provide unit-turn services. (Forming an LLC costs roughly $200.) They meet with a credit union, which agrees to loan money for bonding, supplies, and equipment, contingent on the LLC winning a contract from the LHA.

The residents hire an experienced painter on a job-by-job basis. This painter becomes a “working lead,” handling the trickier painting and teaching others.

Because bidding can be complicated, the residents pay a retired LHA procurement manager to help prepare the first bid.

After successfully turning several LHA units, the company starts soliciting business from private and nonprofit apartment owners throughout the community.

**Example Two:** Ten residents form an asbestos removal company, with a focus on public buildings. These residents know nothing about asbestos removal, and they don’t want jobs. Their goal is to build wealth.

They sell 49 percent of their company to a small, established firm, which agrees to train and employ LHA residents. The firm is interested because—as part of a Section 3 business—it can win more jobs.

The original 10 residents, majority owners, have 51 percent of the profit (which they can take as income or re-invest in the company), and other residents earn wages and gain experience.

These are simply examples. Section 3 businesses are successful in many communities, and with our help, can thrive even more.

**Recap**

Section 3 is supposed to help our clients achieve financial self-sufficiency, but it doesn’t always work. Among the obstacles are: contractors’ perception that our clients aren’t ready; difficulty getting contractors to bid on smaller LHA jobs; staff attitudes; client motivation; and confusion over whether earning money is compatible with supportive housing.

We can make Section 3 more successful by taking several steps:

- Commit to client self-sufficiency as a priority;
- Align the staff;
- Engage with other public agencies with requirements similar to Section 3;
- Help community resources work more like a system; and
- Think creatively about client businesses.

We have good reasons to re-invigorate Section 3, and this is a great time to do it. NAHRO staff is eager to help, with information, research, and connections. Let’s keep building!

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