



SECTION 3 REQUIREMENTS FOR RECIPIENTS OF FEDERAL FUNDING



SECTION 3

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Introduction

Kentucky Housing Corporation (KHC) administers certain Department of Housing and Urban Development (HUD) funding for housing development activities, which includes the HOME Investment Partnerships (HOME) Program, National Housing Trust Fund, and the special allocation of HOME funds established in the American Rescue Plan (HOME-ARP). In most instances, activities utilizing these funds must meet “Section 3” requirements.

“Section 3” refers to Section 3 of the Housing and Urban Development Act of 1968. The stated purpose of the Act is to ***“ensure that the employment and other economic opportunities generated by Federal financial assistance for housing and community development programs shall, to the greatest extent feasible, be directed toward low- and very-low-income persons, particularly those who are recipients of government assistance for housing.”***

HUD regulations at 24 CFR § 75 (Subpart C) establish the requirements that must be followed to ensure the objectives of Section 3 are met. The reporting instructions contained herein were designed by KHC to ensure that HOME, HOME-ARP, and NHTF projects meet the requirements of Section 3 and the pertinent HUD regulations.

Disclaimer

This guide is meant only for project owners, developers, and their contractors and subcontractors, that are receiving HOME, HOME-ARP, or NHTF funding administered by Kentucky Housing Corporation. Other sources of funding and other activities may be subject to Section 3 requirements; however, this guide does not address these other sources of funding or the Section 3 requirements that may be applicable to them. Specifically, this guide does not address any requirements that may arise due to public housing financial assistance, as defined in the Section 3 regulations at 24 CFR § 75.3(a)(1). Section 3 requirements for such financial assistance may differ from requirements applicable to Section 3 projects. Project owners utilizing other forms of HUD funding that is not administered by KHC should not rely on this document for guidance.

Discussion of the regulations at 24 CFR § 75 in this guide is meant to provide a basic introduction to recipients receiving KHC administered HOME, HOME-ARP, and NHTF funding so that recipients may better understand the purpose behind the reporting requirements discussed above. It is important that all recipients and their contractors and subcontractors read and understand the regulations for themselves, independent of this guide. Nothing in this guide should be construed as legal advice or guidance. Furthermore, it is important that project sponsors that receive HOME, HOME-ARP, or NHTF funding administered by KHC read and understand the Section 3 regulations found at 24 CFR § 75 and in HUD Notice CPD-21-07 and do not rely solely on this guide for understanding Section 3 requirements.

Applicability

Section 3 requirements apply to projects receiving more than the maximum threshold in funding from HUD programs that provide housing and community development financial assistance. Effective March 16, 2026, that threshold has increased from \$200,000 to **\$300,000**. That means that any project that receives HOME, HOME-ARP, and/or NHTF funding from KHC in a combined amount of \$300,000 or more is subject to Section 3 requirements.

Section 3 requirements **do not** apply to:

1. Material Supply Contracts
2. Indian and Tribal Preferences, and
3. Other HUD assistance and other Federal assistance not subject to Section 3.

Summary of Requirements

Prioritization

Section 3 Workers: To the greatest extent feasible, and consistent with existing federal, state, and local laws and regulations, recipients, subrecipients, contractors and subcontractors shall ensure that employment and training opportunities arising in connection with Section 3 projects are provided to **Section 3 workers** within the metropolitan area (or nonmetropolitan county) in which the project is located. Where feasible, priority for opportunities and training should be given to:

1. Section 3 workers residing within the service area or neighborhood of the project, and
2. YouthBuild participants.

Section 3 Business Concerns: To the greatest extent feasible, and consistent with existing federal, state, and local laws and regulations, recipients, subrecipients, contractors and subcontractors should ensure that contracting opportunities awarded in connection with Section 3 projects to **business concerns** that provide economic opportunities to Section 3 workers residing within the metropolitan area (or metropolitan county) in which the project is located. Where feasible, priority for contracting opportunities should be given to:

1. Section 3 business concerns that provide economic opportunities to Section 3 workers residing within the service area or the neighborhood of the project, and
2. YouthBuild programs.

Safe Harbor Numerical Benchmarks

To meet the safe harbor provision, the following numerical benchmarks must be met:

1. 25% or more of all labor hours on a project must be performed by Section 3 workers
2. 5% or more of all labor hours on a project must be performed by Targeted Section 3 workers

Qualitative Efforts

If the safe harbor numerical benchmark is not met, then recipients must have undertaken good-faith, qualitative efforts to direct employment and other economic opportunities toward Section 3 and Targeted Section 3 workers. Those efforts must be documented on **the Section 3 Work Hours and Outreach Efforts Report** form.

Section 3 Contract Clause

The Section 3 regulations require that contracts executed in association with the development of Section 3 projects include certain terms or provisions. Recipients must include language applying Section 3 requirements in any subrecipient agreement or contract for a Section 3 project. They must also require subrecipients, contractors, and subcontractors to meet the prioritization requirements of 24 CFR [§ 75.19](#), regardless of whether Section 3 language is included in recipient or subrecipient agreements, program regulatory agreements, or contracts.

Section 3 contracts do not apply to material supply contracts. However, where such contracts include services such as installation of the product or material, then the contract is subject to Section 3 requirements. For example, a contract to purchase windows would not be subject to Section 3 requirements. However, a contract for the purchase and installation of windows would be subject to Section 3 requirements.

Reporting and Record Keeping Requirements

KHC requires recipients to make reports and provide records to KHC by **August 15** of each fiscal year during the construction period and again at project completion. All required reporting forms are located on KHC's website, www.kyhousing.org.

Safe Harbor Compliance

The HUD regulations at 24 CFR § 75 provide a “safe harbor” provision where recipients will be considered to be in compliance with Section 3 requirements so long as certain criteria are met. There are two parts to the safe harbor provision that recipients must meet in order to be considered in compliance with Section 3 requirements. These are:

1. Certify that Section 3 mandated prioritization efforts have been followed; and
2. Meet or exceed the HUD established Section 3 benchmarks for labor hours worked by Section 3 and Targeted Section 3 workers.

Prioritization Efforts

The Section 3 regulations require that, “to the greatest extent feasible...recipients...shall ensure that employment and training opportunities arising in connection with Section 3 projects are provided to Section 3 workers within the metropolitan area (or non-metropolitan county) in which the project is located.” Priority for these opportunities, where feasible, should be given to:

1. Section 3 workers residing within the service area or neighborhood of the project; and
2. Participants in YouthBuild programs.

Labor Hours Numerical Benchmarks

HUD establishes safe harbor Section 3 Benchmarks for Section 3 and Targeted Section 3 workers via the Federal Register. The benchmarks consist of two tests:

1. The number of labor hours worked by Section 3 workers divided by the total number of labor hours worked by all workers on a Section 3 project; and
2. The number of labor hours worked by Targeted Section 3 workers divided by the total number of labor hours worked by all workers on a Section 3 project.

Section 3 Workers: The benchmark for Section 3 workers is 25% of the overall labor hours worked on the project. On a Section 3 project, 25% or more of all labor hours worked must be performed by Section 3 workers in order to meet this benchmark.

Targeted Section 3 Workers: The benchmark for Targeted Section 3 workers is 5% of the overall labor hours worked on the project. To meet this benchmark, 5% or more of all labor hours worked on a Section 3 project must be performed by Targeted Section 3 workers.

HUD establishes and updates these Section 3 benchmarks via the Federal Register not less frequently than once every three years. While KHC will update this Section 3 guide when benchmarks are updated, it is important that recipients understand that the benchmarks are not static, and that recipients and others involved in a Section 3 project should make efforts to understand and respond to any changes in Section 3 requirements.

Reporting Requirements for Labor Hours

To meet the safe harbor benchmarks, it is necessary to report the total number of labor hours worked, the total number of labor hours worked by **Section 3 workers**, and the total number of labor hours worked by **Targeted Section 3 workers**.

KHC requires that recipients report this information using the **Section 3 Work Hours and Outreach Efforts Report** form by August 15 of each fiscal year during the construction period, and again at project completion. Additionally, cumulative labor hours, Section 3 labor hours, and Targeted Section 3 labor hours for the entirety of the project must be reported at project completion.

Qualitative Efforts Requirement if Section 3 Benchmarks are Not Met

If the Section 3 safe harbor benchmarks discussed are not met, then project owners must undertake, document, and report “qualitative efforts” that have been pursued in order to meet Section 3’s goals of ensuring “that the employment and other economic opportunities generated

by,” Section 3 projects are, “directed toward low- and very-low-income persons, particularly those who are recipients of government assistance for housing.” The regulations provide examples of such qualitative efforts, including, but not limited to:

1. Engaged in outreach efforts to generate job applicants who are Targeted Section 3 workers;
2. Provided training or apprenticeship opportunities;
3. Provided technical assistance to help Section 3 workers compete for jobs (e.g., resume assistance, coaching);
4. Provided or connected Section 3 workers with assistance in seeking employment including: drafting resumes, preparing for interviews, and finding job opportunities connecting residents to job placement services;
5. Held one or more job fairs;
6. Provided or referred Section 3 workers to services supporting work readiness and retention (e.g., work readiness activities, interview clothing, test fees, transportation, child care);
7. Provided assistance to apply for/or attend community college, a four-year educational institution, or vocational/technical training;
8. Assisted Section 3 workers to obtain financial literacy training and/or coaching;
9. Engaged in outreach efforts to identify and secure bids from Section 3 business concerns;
10. Provided technical assistance to help Section 3 business concerns understand and bid on contracts;
11. Divided contracts into smaller jobs to facilitate participation by Section 3 business concerns;
12. Provided bonding assistance, guaranties, or other efforts to support viable bids from Section 3 business concerns;
13. Promoted the use of business registries designed to create opportunities for disadvantaged and small businesses.

Reporting Requirements

Any qualitative efforts undertaken to meet Section 3 requirements must be reported using the **Section 3 Work Hours and Outreach Efforts Report** form. This form is also used to report total labor hours for all workers, Section 3 worker labor hours, and Targeted Section 3 worker labor hours. KHC requires that recipients report this information at the end of each fiscal year during the construction period, and again at project completion. Project owners are advised that supporting documentation of each of these efforts must be maintained in the project file and may be requested by KHC at any time.

Professional Services, Labor Hours, and Volunteer Labor

Professional Services and Labor Hours

Professional services are defined in the regulations as “non-construction services that require an advanced degree or professional licensing.” However, this exclusion does *not* cover *all* non-construction services. Examples of professional services given in the regulations include, “legal services, financial consulting, accounting services, environmental assessment, architectural services, and civil engineering services.”

Labor hours worked by Section 3 workers and Targeted Section 3 workers from professional services may be included in reporting for Section 3 and Targeted Section 3 labor hours. However, labor hours from professional services do not need to be included when reporting on total labor hours worked. That is, the labor hours from professional services do not have to be included in the denominator of either benchmark ratio.

For contracts covering both professional services and other work, when labor hours from professional services are not reported, the labor hours under the contract that are not from professional services must still be reported.

Volunteer Labor Hours

Volunteer labor hours **do not count** towards safe harbor benchmarks. Only paid labor hours from applicable funding sources can be counted towards safe harbor benchmarks. Labor hours are defined in the regulations as “the number of paid hours worked by persons on a Section 3 project.” Therefore, volunteer labor hours should be excluded from both the numerator (labor hours worked by Section 3 or Targeted Section 3 workers) and denominator (total labor hours) for purposes of calculating the safe harbor benchmarks.

Certification of Section 3 and Targeted Section 3 Workers

Section 3 Workers

For a worker to qualify as a Section 3 worker, the regulations require that certain documentation verifying the status of the worker be maintained, as described below.

Section 3 Worker Self-Certification

This form allows for a Section 3 worker to self-certify their Section 3 worker status due to either the worker’s income level, their employment by a Section 3 business concern, or their status as a YouthBuild Participant. If this form is used to verify a Section 3 worker’s status, the Section 3 Worker – Employer Certification form is not necessary.

OR

Section 3 Worker – Employer Certification

This form allows an employer to certify that a worker meets the definition of a Section 3 worker because the worker's income from that employer is at or below the Section 3 income limit when based on the employer's calculation of what the worker's wage rate would translate to if annualized on a full-time basis. If this form is used to verify a Section 3 worker's status, the Section 3 Worker Self-Certification form is not necessary.

Targeted Section 3 Workers

For a worker to qualify as a Targeted Section 3 worker, the regulations require that documentation verifying the status of the worker be maintained. Owners may use either the **Section 3 Worker Self-Certification** form or the **Section 3 Worker – Employer Certification** form.

Section 3 Worker Self-Certification

This form allows for a Targeted Section 3 worker to self-certify their Targeted Section 3 worker to certify that they meet the definition of a Targeted Section 3 worker due to either their employment by a Section 3 business concern, their status as a YouthBuild participant, or the fact that the worker is living within the service area or the neighborhood of the project. To qualify as a Targeted Section 3 worker, the worker must also meet the definition of a Section 3 worker.

OR

Section 3 Worker – Employer Certification

This form allows for an employer to certify that a worker qualifies as a Targeted Section 3 worker because they are employed by a Section 3 business concern if the employer meets the definition a Section 3 business concern. When this form is used to certify that a worker is employed by a Section 3 business concern, KHC will require that the employer also submit the **Section 3 Business Concern Certification** form certifying that the employer qualifies as a Section 3 business concern.

YouthBuild Workers

A worker that is a YouthBuild participant meets the definition of a Section 3 worker. Additionally, a YouthBuild participant will also meet the definition of a Targeted Section 3 worker.

YouthBuild is a community-based pre-apprenticeship program that provides job training and educational opportunities for at-risk youth ages 16-24 who have previously dropped out of high school. The Division of Youth Services within the Employment and Training Administration's Office of Workforce Investment at the U.S. Department of Labor administers the YouthBuild program. More information on the YouthBuild program can be found [here](#).

YouthBuild workers may be certified using either the **Section 3 Worker Self-Certification** form or the **Section 3 Worker – Employer Certification** form.

Certification of Section 3 Business Concern

In order for a business concern to be classified as a Section 3 Business Concern, KHC requires that the entity certify that they meet the definition of a Section 3 Business Concern. This can be accomplished by submitting **Section 3 Business Concern Certification** form. A Section 3 Business Concern must meet one of the following criteria:

1. Be at least 51% owned and controlled by low-income persons;
2. At least 75% of the business' labor hours that were performed over the prior three-month period were performed by Section 3 workers; or
3. Be at least 51% owned and controlled by current residents of public housing or housing assisted with project-based or tenant-based Section 8 rental assistance.

Reporting Requirements

Project owners must submit reports Section 3 reports for each fiscal year the project is under construction, using the forms described below. Reports are due:

1. Annually on or before August 15 for activities during the prior fiscal year (July 1 of the prior year to June 30 of the current year). For example, the report for July 1, 2024 to June 30, 2025 is due on or before August 15, 2025; and
2. At project completion and close-out for the period beginning at the end of the prior reporting period through project close-out.

Annual reports may be submitted via email to corpplanreport@kyhousing.org. Please include the project name and number in the subject line of the email. The final, cumulative Section 3 report at project completion should be uploaded via the Universal Funding Application system as part of construction completion/placed-in-service stage submission. Failure to submit Section 3 reports as required will have a negative effect on recipients' capacity scores for future funding opportunities, may result in the inability to draw funds on open projects, and will be considered a noncompliance matter.

1. Section 3 Work Hours and Outreach Efforts Report

This form is used to report Section 3 and Targeted Section 3 labor hours worked for each fiscal year the project is under construction, as well as any outreach efforts which the project owner or their contractors and subcontractors have undertaken during the fiscal year.

2. Section 3 Worker Self Certification

This form should be submitted to KHC along with the annual submission of the Section 3 Work Hours and Outreach Efforts Report whenever there is a need to certify a new Section 3 or Targeted Section 3 worker. If the employer certified on behalf of the employee, this self-certification form is not necessary.

3. Section 3 Worker – Employer Certification

This form should be submitted to KHC along with the annual submission of the **Section 3 Work Hours and Outreach Efforts Report** whenever there is a need to certify a new Section 3 or Targeted Section 3 worker. If the employee self-certified, this employer certification form is not necessary.

4. Section 3 Business Concern Certification

This form should be submitted to KHC along with the annual submission of the **Section 3 Work Hours and Outreach Efforts Report** whenever it is necessary to certify a Section 3 Business Concern.

Summary of Section 3 Reporting Forms

There are four forms that will be used for reporting Section 3 information to KHC. The purpose of each form and the time period for submitting each form is discussed below.

Section 3 and Targeted Section 3 workers may be certified using either the Section 3 Worker Self-Certification or the Section 3 Worker – Employer Certification form; it is not necessary to submit both.

Section 3 Work Hours and Outreach Efforts

Purpose: This form is used to report total number of labor hours worked on a project, the number of labor hours worked by Section 3 workers on a project, and the number of labor hours worked by Targeted Section 3 workers on a project. Additionally, the form is used to report outreach efforts.

Submission of Form: This form must be submitted to KHC on an annual basis. In addition, either the **Section 3 Worker Self-Certification** or **Section 3 Worker – Employer Certification** form, as described below, should be submitted for all Section 3 and Targeted Section 3 workers reported.

Section 3 Worker Self-Certification

Purpose: This form is used for workers to self-certify their Section 3 and/or Targeted Section 3 worker status. If the worker was certified using the **Section 3 Worker – Employer Certification** form, the self-certification is not necessary.

Submission of Form: Except in cases where the **Section 3 Worker – Employer Certification** form is used to certify Section 3 or Targeted Section 3 worker status; the self-certification form must be submitted for every Section 3 or Targeted Section 3 worker as applicable. Certification forms must be submitted with the annual **Section 3 Work Hours and Outreach Efforts** report.

Section 3 Worker – Employer Certification

Purpose: This form is used where employers certify Section 3 and Targeted Section 3 worker status and must be completed and signed by an authorized representative of the employer that is

employing the Section 3 or Targeted Section 3 worker. If the worker was certified using the **Section 3 Worker Self-Certification** form, the employer certification is not necessary.

Submission of Form: Except in cases where the **Section 3 Worker Self-Certification** form is used to certify Section 3 or Targeted Section 3 worker status, the self-certification form must be submitted for every Section 3 or Targeted Section 3 worker as applicable. Certification forms must be submitted with the annual **Section 3 Work Hours and Outreach Efforts** report.

Section 3 Business Concern Certification

Purpose: This form is used to certify that a business is a Section 3 Business concern. The form should be completed and signed by a representative of the Section 3 Business concern and should be submitted to KHC by the project sponsor.

Submission of Form: This form should be submitted as applicable. That is, whenever a contractor or subcontractor is a Section 3 business concern and where the business's status as a Section 3 business concern will cause its workers to be Targeted Section 3 workers.

Glossary of Terms

Business concern: a business entity formed in accordance with state law, and is licensed under state, county, or municipal law to engage in the type of business activity for which it was formed.

Contractor: any entity entering into a contract with a recipient to perform work in connection with a Section 3 project.

Labor Hours: the number of paid hours worked by persons on a Section 3 project.

Low-income person: means a person as defined in Section 3(b)(2) of the Housing and Urban Development Act of 1968.

Material Supplies Contract: a contract for the purchase of products and materials, including, but not limited to, lumber, drywall, wiring, concrete, pipes, toilets, sinks, carpets, and office supplies. If a contract for the purchase of products also includes a service, such as installation, then it is not a material supplies contract and is subject to Section 3 requirements. For example, a contract to replace windows that includes the removal of existing windows and the installation of new windows would be covered due to the involvement of labor.

Professional Services: non-construction services that require an advanced degree or professional licensing, including, but not limited to, contracts for legal services, financial consulting, accounting services, environmental assessment, architectural services, and civil engineering services.

Recipient: any entity which receives Section 3 covered assistance. Developers or owners that receive HOME, NHTF, or HOME-ARP funding from KHC are recipients.

Section 3 Business Concern: a business concern that meets one of the following criteria (documented in the last 6 months):

1. At least 51% owned and controlled by low-income or very low-income persons.
2. Over 75% of labor hours performed for the business over prior 3-month period are performed by Section 3 Workers (low or very low-income persons).
3. At least 51% owned and controlled by current residents of public housing or Section 8 assisted housing.

Section 3 clause: the contract provisions mandated by 24 CFR § 75 must be included in all Section 3 covered contracts.

Section 3 covered contract: a contract or subcontract (including a professional service contract) awarded by a recipient 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 contract and covered contract may be used interchangeably within this document. That is, the term “Section 3 contract” shall have the same meaning as “Section 3 covered contract” when used in this guide.

Section 3 project: the construction, reconstruction, conversion, or rehabilitation of housing (including reduction and abatement of lead-based paint hazards), other public construction which includes buildings or improvements (regardless of ownership) assisted with housing or community development assistance in an amount greater than \$300,000.

Section 3 Worker: any worker who currently met, or when hired within the past five years met, at least one of the following categories, as documented:

1. The worker’s income for the previous or annualized calendar year is below the income limit established by HUD.
2. The worker is employed by a Section 3 business concern.
3. The worker is a YouthBuild participant.

Service Area: within one mile of the Section 3 project, or if less than 5,000 people live within one mile of Section 3 project, the Service Area is an area within a radius centered around the Section 3 project site that contains 5,000 people.

Subcontractor: any entity (other than a person who is an employee of the contractor) which has a contract with a contractor to undertake a portion of the contractor's obligation for the performance of work generated by the assistance or arising in connection with a Section 3 covered project.

Targeted Section 3 Worker: The priorities are:

1. Employed by a Section 3 business concern, or currently meets or when hired, met at least one of the following categories as documented within the past five years (but on or after July 1, 2021);
2. Living within the service area of the neighborhood of the project; or
3. Is a YouthBuild participant.

The 'service area' for Targeted Section 3 workers is a one-mile radius of the Section 3 project, provided, however that if fewer than 5,000 people live within that one-mile radius, the circle may be expanded outward until that population is reached.

YouthBuild programs: YouthBuild program receiving assistance under the Workforce Innovation and Opportunity Act (29 U.S.C. § 3226).

Other Section 3 Resources

Other Section 3 resources that recipients, contractors, and subcontractors may wish to consult:

- I. Section 3 of the 1968 Housing and Urban Development Act (codified at 12 USC § 1701u)
<https://www.law.cornell.edu/uscode/text/12/1701u>
- II. 24 CFR § 75 – Economic Opportunities for Low- and Very Low- Income Persons
<https://www.ecfr.gov/current/title-24/subtitle-A/part-75>
- III. Notice CPD-21-07: Section 3 of the Housing and Urban Development Act of 1968, as Amended by the Housing and Community Development Act of 1992, Final Rule Requirements for HOME and NHTF projects
<https://www.hudexchange.info/resource/6416/notice-cpd2107-section-3-of-the-housing-and-urban-development-act-of-1968/>
- IV. HUD FAQ for Section 3
<https://www.hud.gov/sites/documents/11SECFAQS.PDF>
- V. HUD Exchange Section 3 Resources and Tools
<https://www.hudexchange.info/programs/section-3/resources-and-tools/#section-3-tools>
- VI. Federal Register – Section 3 Project Threshold Updates
<https://www.federalregister.gov/documents/2026/02/13/2026-03002/section-3-project-threshold-updates-for-creating-economic-opportunities-for-low--and-very-low-income>