

**WRITTEN TESTIMONY OF  
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UNITED STATES DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT  
ON  
STRENGTHENING THE EFFECTIVENESS OF SECTION 3**

**[HEARING ON LEGISLATIVE PROPOSALS TO INCREASE WORK AND HEALTH CARE OPPORTUNITIES FOR PUBLIC AND SUBSIDIZED HOUSING RESIDENTS]**

On behalf of the U.S. Department of Housing and Urban Development (HUD), I am pleased to join Assistant Secretary Sandra Henriquez to discuss the importance of fostering job opportunities in public housing and the Department's responsibilities related to Section 3 of the Housing and Urban Development Act of 1968 (Section 3). At the outset, I would like to thank Chairwoman Maxine Waters, Congresswoman Nydia Velázquez, and the Subcommittee for holding this hearing, for their dedication to creating economic opportunities for low-income persons, and for giving the Department the opportunity to share its expertise and views on this issue.

Chairwoman Waters and Congresswoman Velázquez, you both represent metropolitan areas that have significant populations of low-income residents—the very populations that Section 3 is design to assist with economic opportunities.

Thus, it is fitting to hold this field hearing in New York City, to hear how Section 3 currently works in real communities and how we can do better. It is extremely important that we improve employment opportunities for low-income residents, and I pledge my cooperation to work with you on a legislative proposal that does just that. We must ensure that HUD funds result in meaningful employment, training, and contracting opportunities for low-income persons throughout the country.

My testimony describes HUD's efforts to implement Section 3 and our continued efforts to improve compliance with Section 3 requirements. The new leadership at HUD is ready to make this happen and we appreciate the reforms Representative Velázquez offers in the Earnings and Living Opportunities Act to further this effort.

**Importance of Section 3 at HUD**

Just about every community in America has benefited from HUD-funded housing, rehabilitation, infrastructure improvements, and public facilities such as community centers, parks, and libraries. But as a Department, our job is not done without going beyond the “bricks and mortar” of communities to establish economic opportunities and self-sufficiency for residents of these communities. This HUD-funded construction and rehabilitation results in new employment and contracting opportunities within the community. Congress passed Section 3 to ensure that low- and very low-income residents benefit from those opportunities, multiplying the effect for HUD's investment in local economies in the form of wages to residents, contracts to businesses that are owned by or employ them, and sales revenue for those in the community that provide services to these persons.

Section 3 requires that when certain HUD-funded recipients hire new personnel that they give preference to low- and very low- income persons and/or businesses owned by these persons or that substantially employ these persons, and that 30 percent of these new hires be Section 3 covered persons.

HUD ensures compliance with Section 3 in three ways. First, the Department requires all Section 3 covered businesses to submit yearly reports of their Section 3 activities. The Department monitors these reports for compliance. Second, as an additional check, the Department conducts compliance reviews of entities subject to Section 3. Third, the Department investigates complaints from individuals alleging that a recipient or contractor failed to comply with Section 3. If an entity is found to be in noncompliance with Section 3, the Department works to achieve an informal resolution before taking more aggressive sanctions.

In an example of one compliance review, the Department conducted a compliance review of Kansas City, MO, after several complaints of alleged noncompliance. The compliance review resulted in a number of corrective actions that the Department instructed them to implement to address these findings. Kansas City not only took the Department's findings seriously, it dedicated a significant amount of time and resources to the development of policies and procedures that has resulted in an impressive number of employment and contracting opportunities for Section 3 residents and business concerns. Specifically, in 2007, Kansas City provided 49 new jobs Section 3 residents (39 percent) and awarded 26 percent of the total dollar amount of all contracts to Section 3 business concerns.

### **Recent Section 3 Implementation Activities**

More than 5,000 direct recipients of HUD funding totaling approximately \$12.1 billion each year are required to comply with the requirements of Section 3. However, the Department cannot effectively monitor recipient compliance without basic information about their participation. Section 3 covered recipient agencies are required to submit annual reports on their Section 3 activities. Prior to 2006, FHEO received reports from only about 4 percent of covered recipient agencies. Since that time, the Department has taken a number of steps to improve this reporting and has increased reporting to 25 percent; however, in more than 80 percent of the reports submitted, the recipient failed to meet the minimum goals and did not include valid explanations for this failure. As an incoming Assistant Secretary, I was dismayed to learn this, but today's leadership at HUD is committed to do better, and bring about meaningful compliance with Section 3.

In the past year or so, the Department had already begun to take steps in this direction by increasing Section 3 training, technical assistance, and outreach activities. Specifically, the topic of Section 3 has been included in a number of national conferences, including the Annual Conference of the Public Housing Authorities Directors Association and the National Council of State Housing Agencies. In addition, the Department has begun using webinars and satellite broadcasts to provide consistent training on the requirements of Section 3 to large audiences of recipients and HUD staff. As Assistant Secretary, I will continue and bolster these efforts to ensure that recipients understand the requirements of Section 3.

We are also working to educate all of the program areas within HUD on Section 3 and its requirements. To that end, on July 30, 2009, we will hold webcast training for all Departmental

employees on Section 3. To further increase compliance, we are revising the annual reporting form for reporting Section 3 activities in an effort to improve the quality of Section 3 data received by the Department. We will also remind recipients of their duty to comply with Section 3. However, if education on the requirements and outreach to assist recipients do not increase compliance, the Administration will explore the available consequences and sanctions for noncompliance.

To further establish incentives to create economic opportunities, on May 28, 2009, Secretary Donovan entered into a partnership with Labor Secretary Hilda Solis aimed at providing employment opportunities for residents of public housing. Specifically, this partnership encourages public housing agencies to coordinate with local DOL Workforce Investment Boards (WIB) to create employment opportunities to achieve the requirements of Section 3. We will also explore establishing similar partnerships with other agencies. There may be ways in which these agencies can use their resources to produce economic opportunities in the communities where their funds are spent, and HUD will be explore the creation of such opportunities with them.

The Department has made additional efforts to ensure compliance by recipients of the HUD funding under American Recovery and Reinvestment Act of 2009 (ARRA). Two key purposes of ARRA are to *(1) preserve and create jobs and promote economic recovery; and (2) assist those most seriously affected by the current economic downturn*, which are directly in line with the intent of Section 3.

Through ARRA, Congress provides the Department \$13.6 billion, of which approximately \$7.8 billion or 57 percent are subject to the requirements of Section 3. To ensure these economic opportunities would be properly directed to local residents with the greatest financial needs, and the businesses that employ these persons, the Department immediately issued guidance to recipients of HUD's ARRA funds regarding their Section 3 obligations. In addition, the Department provided training on Section 3 obligations as part of its webcast on civil rights requirements and ARRA funding.

## **The Road Ahead**

I agree with the Subcommittee that a more robust Section 3 program at HUD is necessary to foster more economic opportunity for low-income persons.

We now have a leadership team at HUD that is committed to more aggressive outreach to HUD recipients to advise them of their obligations under Section 3, and will work collaboratively with FHEO to achieve compliance. Also, as suggested in the Discussion Draft of the Earnings and Living Opportunities Act, the Department has already gone beyond the four walls of HUD to collaborate with other federal agencies on joint efforts to integrate Section 3 into the wide range economic-recovery activities supported by programs throughout the federal government. We welcome the opportunity to exchange ideas with the Subcommittee on where HUD can seek greater collaboration.

We are also exploring the full range of sanctions available to us to address those entities who still fail to comply. The draft legislation recognizes the limits of the current law, and seeks ways to strengthen compliance and HUD's ability to compel such compliance. We are

committed to working with this Subcommittee to seek the reforms, statutory or otherwise, that will give the law and compliance process more teeth. We also invite further discussion on what rights to private action individuals should have under the law and what remedies should be available to persons injured by a violation of the law.

### **Conclusion**

In summary, thank you for bringing long needed attention to ways to strengthen the promise of Section 3 and make economic opportunity a reality for more public housing residents and companies who employ them. HUD is encouraged by Congresswoman Velázquez's efforts to reform Section 3 and we look forward to working with you on this and other measures to strengthen this program.

Again, I would like to thank the Subcommittee on Housing and Community Opportunity for allowing me to provide this testimony. I look forward to answering your questions.