HOUSE KEYS | Season 1: Episode 4: All About Section 3, A Building Block for Economic Advancement

We talk with HUD's Tim Smyth about Section 3 and the Department's proposed changes to the rule so that it will be more beneficial for businesses and workers.

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TRANSCRIPT:

HOST: Welcome to House Keys, a podcast that focuses on all things related to housing. In past episodes, we've talked about the severe shortage of affordable housing, we've talked about how we house people after major disasters, and we've talked about the absolute lack of housing and how we tackle homelessness in this country.

So, housing is a big thing and has a lot of moving parts. But today, we're going to be talking about a little known, a maybe, little understood issue in the housing world called Section 3.

Only in the government world of course do we call programs by the section of the law that created them. In this case, Section 3 is the section of the Housing and Urban Development Act of 1968, so Section 3 has been with us for more than half a century.

And joining us to talk about this is Tim Smyth, a senior person here at the Department of Housing and Urban Development, HUD. Tim, welcome.

SMYTH: Thank you Brian, thanks for having me.

HOST: Now, a lot of folks know Section 8, generally, as being a rental assistance program that helps millions of families. But what is Section 3?

SMYTH: At bottom, it's an attempt to target employment opportunities to the people and communities that HUD money serves.

HOST: So all these taxpayer dollars that come from an agency like HUD that go out into the world, there is a Section 3 requirement on behalf of the recipients of that money. And what is that requirement?

SMYTH: The requirement under the current statute and interim rule is to use that money to hire people that either benefit from HUD assistance or live in the communities where HUD assistance will go. And hiring them will take on a variety of context depending on the grant program or type of money that it is. But, oftentimes, you're talking about hiring in the trades and services industries for new construction.

HOST: So, it's about hiring people?

SMYTH: Yes.

HOST: …those on the receiving end of our assistance, the beneficiaries, lower income families?

SMYTH: Correct.

HOST: Okay so that's a good aspiration. But HUD is seeking to change those Section 3 rules and might suggest that the current rules aren't working so well.

SMYTH: The federal regulations sit beneath the statute and help people understand what the statute means. The statute remains unchanged. Since 1994, HUD has been operating under an interim rule. So, one of the reasons that the Secretary, as soon as he arrived, rolled down to people like me that it's a problem he wanted to tackle is because the interim rule didn't go through the formal rule making process. So currently, the proposed rule is out for public comment. That means that anyone in America can offer comments on how it might work, who it might benefit, so that's part of the process that we've been missing for a long time. There's also enhancements, or tweaks, on the way we administer the program that the new rule captures.

HOST: So it sounds like a little bit of government sausage making. But I take it that Secretary Carson noticed when he came here that Section 3 wasn't working the way it was supposed to as we aspired it back in the day? How is it actually functioning in the real world today, Section 3?

SMYTH: Part of the answer is that we don't totally know. Only about 25% of the recipients that have the Section 3 reporting obligation to tell HUD how it's working out there in the world, are reporting.

HOST: That's a problem.

SMYTH: That's a problem because you don't even have the story on the front end, of which you can then solve the problem.

The other way that it's currently working is that the gravamen of the interim rule is that recipients are required to hire these low and very low-income persons in the communities in which the money is going to be spent.

One of things that the new proposed rule offers as an alternative solution is the idea that we would track the hours of those Section 3 residents once they are hired. And they would retain that status even as they move towards sufficiency. So that means that the hours that the person works, even as they get raises and become self-sufficient, the recipient would still get credit for hiring that Section 3 person. And they'd get credit for every hour they work as opposed to every new person that is brought on, and perhaps then leaves that position.

HOST: Ok, so I've heard it described as under current rules, those who have this Section 3 requirement can hire multiple people for very short periods of time and get credit for having hired multiple people, when in fact these people don't have any really meaningful career ladder to these jobs – they're not really employment opportunities. They're short lived. How does this new rule seek to maybe change that?

SMYTH: So, let me just zoom out for a second. The idea is that billions of dollars appropriated by Congress flow through HUD to grantees like public housing authorities, cities, states, etc. The question is who should get the jobs that that money creates? One way or another, with or without Section 3, someone is going to do that work. And the question is who. The goal of Section 3 is to direct those job opportunities to the people who we believe need them the most. People who are recipients of our assistance or people who live in those communities. Or people who started businesses in those communities. So, directing the opportunities to those people is really the heart of Section 3.

HOST: Right. How does this new rule put some meat on the bone?

SMYTH: Glad you asked. So, one of the key differences between the new proposed rule and the current regulatory structure is the definition of a targeted Section 3 worker. So, if you think of two concentric circles, you have a broader circle that's anyone that meets the Section 3 obligation. And to some extent, or to a large extent, the definition under the current interim rule and under the new proposed rule is largely the same. But then what staff did after listening to lots of stakeholders and thinking about the real goal of Section 3, is created this additional category of targeted Section 3 workers. Specifically, recipients of HUD assistance, those who live in HUD-assisted properties, as well as folks that are participating in the Youth Build program, which I believe is administered by the Department of Labor, and by giving credit for specifically those targeted hires, that's that idea of making sure that the money gets to the people that we, as a Department, believe need those opportunities the most. And that's new.

HOST: Yeah. And you also indicated that the focus is on, this shift away from the interim rule to the new proposed rule if it becomes final, would mean that people hired – these targeted workers who are hired – would be hired to real jobs, that have some promise of advancement, that would put them on the path of self-sufficiency, which is sort of the goal of this in the end, is it not?

SMYTH: So one of the criticisms of the current structure – and this is criticism by stakeholders, by grant recipients, by others, that we hear again and again, is that by tracking hires, there's no incentive on the back end to develop that employee into a position where they have a career. Simply counting how many people you hire. So there's been the criticism made where it creates this revolving door, where the recipient is incentivized to make sure they're hiring, but not necessarily make sure that they're developing.

And you know, Secretary Carson, on the EnVision Center initiative, on a number of initiatives has publicly said, many times, that he is interested in developing the whole person, that he's interested in these ladders of opportunity, and that's what this rule is trying to solve- these ladders of opportunity.

HOST: HUD's been helping roughly the same number of households for a generation. Roughly 4.7 million households. Meanwhile, the waiting list for HUD assistance is just a mile long in many of these communities around the country. And I've heard the Secretary over and over again talk about having to do more than just subsidizing rents, but actually create a framework where people actually leave this assistance. I guess, making room for others to come into these programs who need them. So, where does this Section 3 proposed rule fit into that scheme of things?

SMYTH: Yeah, 3 in 4 folks who are eligible for HUD rental assistance are not currently receiving it. The programs, as you point out, are just simply not large enough.

HOST: Just based upon their income?

SMYTH: Yeah, and the rent burden. The scholars who give us that statistic say folks that are spending more than 50% of their income on rent, 3 in 4 of those folks are receiving no HUD assistance. Or, 1 in 4 are receiving HUD assistance. So, there's two ways to solve that problem. We can keep expanding the pie of those who get assistance, or we can try to help the people who are currently get it achieve self-sufficiency, right?

HOST: Right.

SMYTH: So, I believe its in the Fiscal 2019 budget, there is a marginal increase actually in the number of vouchers. It actually is going up I believe by almost 100,000. You're right -roughly the same amount of people being served. But the idea is if we are also helping folks move to self-sufficiency, develop a career, develop an income, that creates capacity to help other people who are in need.

And let me just say one other thing- there is one other detail that is appropriate. More than half the folks that we are currently assisting are elderly or disabled. And that's worth pointing out because it's a very solvable problem. When you're directing the amount of money that flows through this building to create employment opportunities in these communities, once you call out the elderly and disabled, it becomes a very solvable problem.

HOST: The numbers aren't beyond us. Ok so, is it fair to say to maybe just as emphatically as I'm going to say it that HUD is proposing to encourage public housing authorities to hire people to real jobs? As opposed to these temp jobs that lead to nowhere and pay very little.

SMYTH: I think that there are a number of adjustments in the proposed rule that incentivize long-term employment.

HOST: Now, this is a proposed rule and in the world of government sausage making, if people wanted to contribute to this policy making, what do they do?

SMYTH: They can offer a public comment. And right in the proposed rule it gives the name, and address and mechanism by which those comments are offered. We anticipate a significant number of them I'm told. Those comments are aggregated and considered. It's our duty to carefully consider them and adjust in anyway that's appropriate.

HOST: Because HUD has a lot of partners that would have to live with this rule once it's out there, right?

SMYTH: As well as the people we serve.

HOST: Let's wrap this up by going back in time to 1968 when Section 3 became an idea that was baked into law and then into regulation. Again, the whole purpose that might rub some people the wrong way – some people go, 'oh I don't know, shouldn't the best people be hired for these jobs?' But the idea behind Section 3 was to just open the door, right and allow HUD assisted folks – and those like them at the lower income spectrum – be able to get a fair shot at some of these opportunities. Is that right?

SMYTH: Absolutely, and I think that one of the things that you just hear again and again, is it's not simply enough to just develop the housing in these communities, we have to make sure we are investing in the people in these communities. I think every dollar we spend investing in the people of these communities is a dollar well spent.

HOST: Tim Smyth, thank you for joining us.

SMYTH: Thank you, Brian.

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