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TO: COUNCIL MEMBERS

FROM: David Whitaker, Director 
Legislative Policy Division Staff

DATE: June 17, 2020

RE: **CDBG Section 3 Demolition Compliance**

Council President Pro-Tem Sheffield requested the Legislative Policy Division (LPD) to draft a report examining the City of Detroit’s compliance monitoring for contractors that are using CDBG funds for demolition, determine how many contractors hit the Section 3 hiring threshold, and explore the possibility of developing a point or ranking system for contractors that have achieved certain hiring thresholds. LPD was also instructed to include Section 3 hiring compliance records in all future LPD (Teeter) contract reports.

Background

Section 3

The federal government created a provision in Section 3 of the Housing and Urban Development Act of 1968, as amended, that established guidelines to foster local economic development and individual self-sufficiency. The Act mandates that projects using funds from Housing and Urban Development (HUD) for housing and community development, must “to the greatest extent feasible” provide employment and job training opportunities to low-/very low-income persons and contracting opportunities to businesses, with a preference given to people and businesses in the area in which the project is taking place that meet qualifications of the project. Section 3 requirements apply to projects receiving excess of \$200,000 in federal assistance for housing

construction, rehabilitation, or demolition and to sub-contractors when any contract or subcontract exceeds \$100,000 for a project in excess of \$200,000.

Section 3 Resident:

- Public housing residents
- People living in the area where a HUD-assisted project is located and who have a household income that falls below HUD’s income limits (80% or 50% AMI).

Section 3 Business Concern:

- 51% owned by section 3 residents
- Employs section 3 residents for at least 30% of its full-time permanent staff
- Provides evidence of a commitment to subcontract 25% or more of the dollar value amount of the awarded contract to section 3 business concerns.

Section 3 Goals set forth in the City of Detroit’s HUD Section 3 Policy Plan:

- At least thirty percent (30%) of all new hires needed to complete the project should be Section 3 Residents
- At least ten percent (10%) of the total dollar amount of all covered construction contracts should be awarded to Section 3 Business Concerns
- At least three percent (3%) of the total dollar amount of all covered non-construction contracts should be awarded to Section 3 Business Concerns.

CDBG Funds

Community Development Block Grant (CDBG) Program provides annual grants to states, cities, and counties to develop viable urban communities by providing decent housing and expanding economic opportunities for low- and moderate-income persons. The program is authorized under Title 1 of the Housing and Community Development Act of 1974, as amended. CDBG funds can be used for many types of projects that addresses building a more sustainable community, including:

- | | |
|------------------------------|-------------------------|
| • Education | • Health Services |
| • Homeless/Emergency Housing | • Recreation Activities |
| • Public Safety | • Seniors/Elderly |

However, LPD was asked to focus on Section 3 Business Concerns working on demolition projects using CDBG funding. This report will detail LPD’s findings.

Section 3 Compliance Monitoring

Procurement solicits bids for demolitions from a pre-approved list of companies, which includes Certified Section 3 Business Concerns. HRD administers the funds after Council approves the contract. Certified Businesses are not guaranteed to be awarded the contract, but they are given priority over non-certified businesses. Contracts are awarded based on capacity, qualifications, and past performance. In the instance a contract that is covered by section 3 requirements is awarded to a non-certified business, that business must submit documentation stating that it will “to greatest extent feasible” comply with section 3 requirements.

Compliance processes begin before the contract is awarded. If the business is awarded a contract using CDBG funds, it is required to submit/update a Section 3 Plan, provide a list identifying their total workforce details of any Section 3 eligible employees, projected workforce needed for the project, how they will recruit Section 3 residents/ businesses, and possible sub-contractors. HRD continues to verify information provided by business throughout the life of the project, and submits this information to HUD. Below, is a chart, provided by HRD detailing the compliance process for businesses that are required to be Section 3 complaint.

Compliance Process	Document Information
Project formation & prior to contract being awarded	Obtain the Section 3 Plan for strategic planning
	Obtain the Section 3 Clause to be included in your subcontracts
	Complete Section 3 Plan
	Submit Section 3 Plan with NOFA or RFP
Prior to start of work & prior to receiving Notice to Proceed	Submit updated Section 3 Plan with documentation of outreach to businesses and individuals
	List of All subcontractors
	For each developer, general contractor, and subcontractor a project workforce list
Throughout the project	Any updated information on subcontracts and new hires
	Copy of each payment request with supporting documentation of work performed
	Copy of certified payrolls submitted at agreed frequency (weekly, bi-weekly, monthly, or with payment request only)
End of project	Section 3 summary report - HUD 60002 form
	Contract & subcontract activity report - HUD 2516 form

Currently, HRD uses CDBG funds for commercial demolitions only. This may change after the new Demolition Department fully implements its new demolition process. CDBG funds were used in residential demolitions years ago. It is uncertain HRD will begin using CDBG funding for residential demolitions in the future.

Hiring Threshold

9 businesses that have been completed the Section 3 Certification process. This means information submitted by the business to HRD has been verified and they’ve reached the hiring threshold set forth by the City of Detroit’s HUD Section 3 Policy Plan. The chart below lists all 9 Section 3 certified businesses.

**City of Detroit
Section 3 Certified Business List**

Business Name	Business Street Address	Suite	Business City, State, Zip	Contact Name	Business Phone Number	Goods & Services	Business Email Address
A & M Contractor Supply, LLC	19443 Washburn Street		Detroit, MI 48221	Angela Simon	313-971-2490	Supply materials - carpet, tile, cabinet and granite	info@AMContractorSupply.com
Canbai Construction Co., LLC	16574 Edinborough		Detroit, MI 48219	Bailey Tate	313-779-9397	General Contractor	Canbai@Ameritech.net
Eminent Contracting, LLC	514 S. Fort Street		Detroit, MI 48217	Cesar Mireles, Jr.	313-932-8999	Concrete flatwork, sidewalks, ADA ramps, driveways, roadways, and curb & gutter	CMireles@EminentContractingLLC.com
Gayanga Co.	1420 Washington Blvd.	Suite 301	Detroit, MI 48226	Brian McKinney	313-230-4930	Construction Engineering Firm	Brian@Gayangaco.com
GS Group	17800 Woodward Avenue	Suite 200	Detroit, MI 48203	Monica Starks	313-279-0449	Environmental and Construction services in residential, commercial, and industrial settings	MStarks@GSGroupMI.com
J Keith Construction, LLC	1010 Antietam		Detroit, MI 48207	Keith Jones	313-454-1703	Construction	KJones@JKeithConstruction.com
MWV Environmental Services, Inc.	18407 Weaver Street		Detroit, MI 48228	Katrenia B. Williams	313-646-2523	Specializes in asbestos abatement, hazardous and universal waste removal, and tire removal	mwwEnv@yahoo.com
Qualified Abatement Services, Inc.	1935 McGraw Street		Detroit, MI 48208	Forrest Goyette	313-361-6003	Performs asbestos and lead abatement services, mold remediation and selective demolition	QAbatement@sbcglobal.net
Ross Plumbing Services, LLC dba Ross Plumbing Mechanical & Construction Services, LLC	269 Walker Street	Suite 313	Detroit, MI 48207	Jonathan Ross	313-283-1120	Residential, commercial, & industrial plumbing services	Jonathan@RossPMC.com
Stroyko Construction Group, Inc.	2817 E. Grand Blvd.		Detroit, MI 48211	Irena Milanova	248-219-8858	General Contractor	IrenaM@StroykoConstruction.com
VM3 Consulting Corporation	1048 Woodward Avenue		Detroit, MI 48226	Alisha M. Moss	313-701-1385	Consulting firm focused primarily in the at-scale construction industry - capital planning, supply chain development/diversity/ongoing management, owner's representative, real estate development & small business process improvement	Alisha.Moss@vm3construction.com

Point or Ranking System Feasibility

It is certainly feasible to establish a point or ranking system for CDBG covered demolitions. Although LPD, understands the benefits of a point system, LPD is not equipped to develop or implement a ranking system on the behalf of another department. Procurement awards contracts, therefore, they would be more qualified to execute an effective ranking system for CDBG funded demolition projects. A point/ranking system would require collaboration between Council members and Procurement to determine the goals and values of establishing a point system. Once a point system is created, LPD (Teeter Report) will include this information in future reports as Council wishes.

Conclusions & Recommendations

The law permits businesses to self-report Section 3 compliance data to HUD and the City of Detroit. HUD relies on the City to verify a business is attempting to comply with Section 3 requirements. It is the City's responsibility to deploy people to confirm a business's Section 3 status and maintain a registry that can be used by the community, businesses, and residents to

find opportunities created by the use of Section 3 HUD funds. However, the City has had challenges in both the past and present, allocating sufficient resources for outreach in the community and take full advantage of what the Section 3 program can accomplish for the City and its residents.

There was typically only one person managing the program dating back to the early 2000s. Section 3 responsibilities was originally enforced by one employee in the former Planning and Development Department (now HRD). PDD expressed concerns to management and Council that additional resources and policies were needed to make the program more effective and impactful. The lack of resources led a former employee to sue the City in 2011. In response, Council allocated 3 additional employees to the Purchasing Department (now OCP) to expand the program. At that time, the Purchasing Department was financing Demolition with CDBG dollars, which was managed by BSEED. The Purchasing Department and Planning Department did not merge Section 3 responsibilities, although, PDD's sole employee was still responsible for certifying demolition contractors, provide technical assistance to the Purchasing Department, monitoring compliance, and reporting to HUD.

The program was at a standstill due to funding complications during the City's bankruptcy. After bankruptcy, the program was transferred to CRIO in 2017 and back to HRD in 2019. Since then, HRD's sole Section 3 manager has been submitting documentation to HUD for annual reporting, verifying information submitted by businesses, compiling data, and developing/expanding the program for projects that are subjected to Section 3 compliance.

LPD found that additional funding would assist HRD in gaining 1-3 additional team members to assist in:

- Policy and Process Development
- Compliance verification; deploying employees to businesses to ensure they are complying with Section 3 requirements.
- Certification Process; obtaining and organizing information submitted by businesses and developing/managing a database of all certifications for businesses, residents, and government officials.
- Training and Outreach; partnering with city agencies such as, Workforce Department/Detroit-At-Work, Detroit Housing Commission, DESC, Michigan Works, YouthBuild Programs, Randolph Technical Center, and others.
- Reporting; annual reports sent to HUD and council that includes list of certified Business Concerns, # of resident certifications, # of section 3 covered demolitions, # of covered development and construction projects that are HUD assisted, resident training outreach, # of complaints, and imposed penalties.

Please, do not hesitate to contact LPD, if City Council has any additional questions.