

Overview of the National Flood Insurance Program and Substantial Damage / Substantial Improvements

Improvement and Repair of Property in the Floodplain

Our jurisdiction is a participating community in the National Flood Insurance Program (NFIP) administered by the Federal Emergency Management Agency (FEMA). In exchange for making flood insurance available to citizens of our jurisdiction, FEMA requires the community to adopt and enforce floodplain management regulations governing new construction and substantial improvements in mapped floodplains.

If you are rebuilding after a storm, renovating, remodeling, or adding an addition to your home or business, here is information you need to know concerning substantial improvement and substantial damage.

Making Substantial Damage / Substantial Improvement Determinations

The purpose of the Substantial Damage (SD) / Substantial Improvement (SI) requirements is to protect the property owner's investment and safety; and to reduce the total number of buildings that are exposed to flood damage over time, thus reducing the burden on taxpayers through payment of disaster assistance. The SI/SD requirements are triggered when the local official determines that the cost of repairing or improving a building located within a Special Flood Hazard Area (SFHA) equals or exceeds 50% of the building's market value (excluding land value).

Substantial Damage (SD) means damage of any origin sustained by a structure whereby the cost of restoring the structure to pre-damaged condition would equal or exceed 50% of the market value of the structure before the damage occurred. Work on structures that are determined to be substantially damaged is considered a substantial improvement, regardless of the actual work performed. The cost of the repairs must include all costs necessary to fully repair the structure to its before-damage condition.

Substantial Improvement (SI) means any reconstruction, rehabilitation, addition, or other improvement of a structure, the cost of which equals or exceeds 50% of the market value of the structure before "start of construction" of the improvement. This term includes structures, which have incurred "substantial damage", regardless of the actual repair work performed. The term does not, however, include either: (1) any project for improvement of a structure to correct existing violations of state or local health, sanitary, or safety code specifications that have been identified by the local code enforcement official and which are the minimum necessary to assure safe living conditions, or (2) any alteration of a "historic structure", provided that the alteration will not preclude the structure's continued designation as a "historic structure". Once the cost of the work and the market value of the structure have been determined, the Floodplain Administrator will make a final determination of SI/SD. The work is determined to be SI/SD when the ratio of the cost of work to the market value equals or exceeds 50%.

If the local jurisdiction determines that improvements or repairs to a building constitute SI/SD, then the building must be brought into compliance with the NFIP floodplain management requirements for new construction.

The Local Jurisdiction's Responsibility

Communities that participated in the NFIP must determine whether proposed work qualifies as a substantial improvement or repair of substantial damage. If work on buildings constitutes SI/SD, then structures must be brought into compliance with NFIP requirements for "new construction", including the requirement that the lowest floor be elevated one (1) foot above the base flood elevation (BFE). There are four (4) major actions our jurisdiction performs in administering the SI/SD requirements:

- Determine costs,
- Determine market values,
- Make SI/SD determinations, and
- Reviewing and approving applications for Flood Hazard Development Permits

Determining Costs

The term "costs of improvements" includes the complete costs associated with all of the types of work performed. The term "costs of repair" includes the costs of all work necessary to restore a damaged building to its pre-damaged condition. Both terms include the costs of all materials, labor, and other items necessary to perform the proposed work.

Costs That Must Be Included in SI/SD Determinations. The attached list, "*Included and Excluded Costs for Damage Repair Estimates*," characterizes the types of costs that must be included in estimates that will be used to make SI/SD determinations.

Sources of Cost Information. The cost of improvements and the costs of repairs are necessary to make the SI/SD determination. The following are acceptable methods to determine the costs:

- Itemized costs of materials and labor, or estimates of materials and labor that are prepared by licensed contractors or professional construction cost estimators.
- Building owners may submit cost estimates that they prepare themselves. Owners will need to provide as much supporting documentation as possible, such as pricing information from lumber companies and hardware stores. The estimate must include the value of labor, including the value of the owner's labor.

Donated/Discounted Materials. The value placed on all donated or discounted materials should be equal to the actual or estimated cost of such materials and must be included in the total cost. The applicant should provide cost estimates of the value of donated/discounted materials based on actual or estimated costs.

Owner/Volunteer Labor. The normal "market" value or "going rate" for labor must be included in the estimate of the cost of improvements and the costs to repair. The value placed on labor should be estimated based on applicable minimum-hour wage scales for the skill and type of construction work that is done.

Determining Market Value

Generally, market value can be explained as the price a willing seller and buyer agree upon. The market value of a building reflects its original quality, subsequent improvements, physical age of building components, and current condition. For purposes of determining SI/SD, market value pertains *only to the structure in question*. The value of the land, landscaping, detached accessory buildings, etc., are *not* included in the market value.

When work is an improvement, the market value is the building's market value "before the 'start of construction' of the improvement." When work is repair of substantial damage, the market value is the building's market value "before the damage occurred."

Acceptable estimates of market value can be obtained from these sources:

- Assessed value developed for property tax assessment purposes.
- Detailed estimates of the structure's actual replacement cash value, including depreciation.
- An independent appraisal by a licensed professional appraiser.

The tax assessed value will customarily be used by the local jurisdiction unless the owner chooses to determine market value by a professional appraiser at the owner's expense. Whatever method is used, the closer the estimate falls relative to the 50% threshold, the more precise the market value figure needs to be. In such circumstances, the local jurisdiction may require the owner to submit an appraisal from an independent professional appraiser.

If you have any questions about these requirements, contact your local jurisdiction:

Floodplain Administrator:

Jurisdiction:

Telephone:

Email:
