Substantial Improvement and Substantial Damage: Dealing With It During Non-Disaster Times
March 10, 2011
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Village of Lisle
What Is Substantial Damage?
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• Damage of any origin sustained by a structure whereby the cost of restoring the structure to its before-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 to be substantial improvement, regardless of the actual repair work performed.
What Is Substantial Improvement?

• 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 the “start of construction” of the improvement. This term includes structures that have incurred “substantial damage”, regardless of the actual repair work performed.
Purpose of SI/SD

- Protect the property owner’s investment and safety, and,
- over time, to reduce the total number of buildings that are exposed to flood damage, thus reducing the burden on taxpayers through payment of disaster assistance.
Why 50%?

• Compromise between two extremes:
  – Prohibit all investment in existing structures that don’t meet NFIP requirements.
  – Allow improvements of all kinds to structures in floodplain that are at risk of flood damage; no end to repeated flood damages.
Community Responsibilities

• Determine whether proposed improvements are “substantial improvements”

• Determine whether work necessary to restore a damaged building to its pre-damaged condition constitutes repair of “substantial damage”
Community Responsibilities

• Verify cost of work
• Determine market value
• Make SI/SD determination
• Require owner to obtain permit
• Recordkeeping
Determining Costs of Work

• Costs to Include:
  – Materials and labor
  – Site preparation
  – Demo and debris disposal
  – Costs to comply with code requirements
  – Costs to elevate structure
  – Contractor’s overhead and profit
  – Sales taxes on materials
  – Structural elements, exterior and interior finishes
  – Built in appliances, cabinets, bookcases, furniture

• Costs to Exclude:
  – Plans and specs
  – Permit fees
  – Land survey costs
  – Carpeting over finished flooring
  – Outside improvements (landscaping, irrigation, sidewalks, driveways, pools, detached accessory structures)
  – Costs to correct EXISTING violations of health, safety, sanitary codes
  – Plug-in appliances such as washers, dryers, stoves, refrigerators
All Cost Estimates Must Be Created Equally!

- **Materials**: Fair Market Value! Even if they came from Uncle Bobby or were garbage-picked!
- **Labor**: Use prevailing wage rates even if owner paid less, or owner did the work himself, or by volunteer labor
- **Contractor’s overhead and profit**: Add it in even if owner did the work himself or by volunteer labor
- **Include ALL work** being done, even if you wouldn’t normally require a permit for it.
Sources of Cost Estimates

- Professional Contractor (trust but verify!)
- Professional Estimator
- Architect
- Property Owner (usually for small do-it-yourself projects)—receipts, manhours
- Your plan reviewer/ R.S. Means data
- Marshall Swift (marshallswift.com); ask your assessor if he/she has it, and borrow it
- SDE software
Handouts for Permit Applicants

• SI/SD cost estimates can be hard for people to understand
• We created handouts for permit applicants:
  – General information
  – Small project cost estimates
  – Professional Contractor cost estimates
  – Architect cost estimates
  – Samples of various types of estimates
Determining Market Value

- Tax Assessor
- Property Appraisals
- Architect, using R.S. Means or other source of costs
Use Your Assessor

- Assessors have web sites with property information
- Look for value of buildings alone (without the land)
What if there’s no assessed value?

• Some buildings aren’t assessed separately. Types of buildings:
  – Apartment and condo association “common” structures—laundry buildings, clubhouses, pool locker rooms, individual apt buildings
  – College buildings

• You also won’t be able to get a professional appraisal

• Owner must get architect to establish value
Making SI/SD Determinations

Cost of Improvement or Cost to Repair to Pre-Damage Condition > 50% of Market Value of Building
What if the work exceeds 50%?

• Then, in order to do the proposed work, the property owner must bring the structure into full compliance with current NFIP standards and your floodplain requirements.
Cumulative Substantial Improvement

- NFIP requires that you look at each improvement separately.
- Cumulative SI is a higher regulatory standard that you can adopt in your community.
- CRS communities can earn up to 110 points for cumulative SI
- ICC coverage is available to your property owners ONLY if you adopt the cumulative requirement
Cumulative SI: Parameters

• Clearly define your community’s rules for cumulative SI. Do it BEFORE you have a permit applicant standing before your elected officials!
  – What is the start date of period?
    • When structure was built?
    • Date your floodplain ordinance was passed?
    • Certain number of years (past five? Ten?)
  – What market value will you use? At start of period, or just before current improvement?
Recordkeeping for NFIP

- Use a form to record status of the property in the floodplain
- Record market value of property and date established
- As each permit is issued: clearly document the SI/SD determination made at time permit issued (can use the form)
- Notify property owner if permit value exceeds 50% (or is close)
Recordkeeping for Cumulative SI

• Do everything on previous slide, plus:
  – Start a “Substantial Improvement” file
  – Use a form to record status of each property in the floodplain
    • Record market value of property and date established
    • Keep a record of all permits issued, and cumulative value of permits
  – Notify property owners of status at key points
  – If status is close to 50%, send letter to owner and record that letter against the property (for notice to future buyers)
Substantial Improvement

Property Record

PIN: 08-10
Property Address: Burlington Ave
Buildings on Property: SFR

Value of buildings: 29,400
Date: 2/07
Source: Lisle Township

Lisle Twp Assessor value of improvements: $29,400 x 312 = $9,100

<table>
<thead>
<tr>
<th>Improvements</th>
<th>Date</th>
<th>Work Done</th>
<th>Value of Work</th>
<th>Value to Date</th>
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<tbody>
<tr>
<td></td>
<td>2/21/07</td>
<td>Upgraded HVAC,</td>
<td>365,771.76</td>
<td>365,771.76</td>
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</tbody>
</table>
Lisle Township Property Information

Back to search results | Try another search

Location Information
Parcel Number: 08-10-06
Address: BURLINGTON AVENUE
Cty: LIBE

Physical Characteristics
Year Built: 1959
1st Floor: 1,150
2nd Floor: 0
3rd Floor: 0
1/2 Story: 0
Gross Living Area: 1,150
Half Baths: 0
Full Baths: 1

Garage Area: 0

Lot Area (SF): 8,168*
*Lot Area (SF) is derived from the DuPage County GIS and may not reflect the actual lot area.

Assessment Information

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<th>Year</th>
<th>Land</th>
<th>Improve</th>
<th>Total</th>
<th>Type</th>
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<tr>
<td>2010</td>
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</table>

Where do your tax dollars go? (DuPage County Clerk Web Site)

Sales Information

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<tr>
<th>Month</th>
<th>Year</th>
<th>Sale Price</th>
<th>Doc. Number</th>
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<tr>
<td></td>
<td>2010</td>
<td>995,000</td>
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New! View the recent sales in your neighborhood with photographs and a great interactive map!
"If you have problems viewing the map, please make sure you allow pop ups from this site.

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Public Education

- Newsletter article about SI/SD, sent to all addresses in community
- We use copies of that article to send to floodplain residents periodically, or to send with requests for SI/SD cost estimates to permit applicants
• Newsletter

Article

Explain how SI/SD affects their property
Essential Tools

- IAFSM Desk Reference, Section 16
- FEMA Publications
  - Book: SI/SD Desk Reference
  - Software: Substantial Damage Estimator
Where to get it:
IAFSM web site, illinoisfloods.org
Section 16
Substantial Improvement/Substantial Damage Desk Reference

FEMA P-758 / May 2010

FEMA
Where to Get It

- [www.fema.gov](http://www.fema.gov)
- Search for P-758
- Available to download or order on CD (pdf) or printed manual
Substantial Damage Estimator

- Software on CD
- Also includes video, “SDE and Your Community”
- Also includes user’s manual in pdf file
Substantial Damage Estimator

- Manual
  - CD (pdf)
  - Printed
  - Download
Where to Get Them

- www.fema.gov
- Search for P-784
- Available: CD with software, manual, and video, AND printed manual
Questions?

• Contact Information:
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Named One of Money Magazine’s TOP 20 “BEST PLACES TO LIVE” in America