

## **Substantial Improvement/Damage Determination**

### **Improvement Costs That Must Be Included**

#### **All structural elements, including but not limited to...**

- Spread or continuous foundation footings and pilings
- Monolithic concrete slab foundations
- Bearing walls, tie beams, and trusses
- Wood or reinforced concrete decking or roofing
- Floors and ceilings including insulation
- Attached decks, stairways and porches
- Interior partition walls
- Exterior wall finishes
- Windows and doors
- Roof sheathing
- Roof re-shingling or re-tiling
- Roof dormers
- Balconies
- Hardware

#### **All interior finish elements, including but not limited to...**

- Floor cover such as tile, wood, vinyl, carpet, marble, etc.
- Wall and ceiling finishes such as drywall, painting, stucco, plaster, wood paneling, marble, etc.
- Kitchen, utility, bathroom, and garage cabinets and counter tops
- Built-in bookcases, cabinets, entertainment centers, aquariums, bars, wine racks, etc.

#### **All utility and service equipment, including but not limited to...**

- HVAC equipment including ducting, boilers, chillers, etc.
- Plumbing services including water heaters, sinks, fixtures, toilets, showers, tubs, etc.
- Electrical services including light fixtures, ceiling fans, etc.
- Built-in appliances including dishwashers, ovens, ranges, garbage disposers, trash compactors, etc.
- Security and fire alarms, and fire suppression systems
- Central vacuum systems
- Water filtration, conditioning or recirculation systems

#### **Miscellaneous costs that must be included...**

- Labor and other costs associated with demolishing, removing or altering of building components
- Overhead and profit

The value of donated or discounted materials must be included at their full market value and estimated as though they were purchased during a normal market transaction.

The value of self or volunteered labor must be estimated at prevailing wages for the appropriate type of construction wage scale.

## **Improvement Costs That May Be Excluded**

### **Costs of improvements to correct existing code violations, only if...**

- A regulatory official was informed and knew the extent of the code related deficiencies
- The deficiency was in existence prior to the damage event or improvement
- Only the “minimum necessary” to assure safe living conditions may be excluded from the improvement cost

### **Historic structures, must be...**

- Listed in the National Register of Historic Places; or
- Certified by the Secretary of the Interior as contributing to the historical significance of a historic district; or
- Listed on a State inventory of historic places approved by the Secretary of the Interior; or
- Listed on a local inventory certified “up-the-ladder” by the State and/or the Secretary of the Interior.
- If the improvements are for purposes of restoration or preservation only and the structure meets one of the above “certifications”, then the substantial improvement requirements may be waived upon issuance of a variance.

### **ADA requirements...**

- Structural upgrades necessary to comply with the American Disabilities Act may be excluded from the total improvement cost if the building falls within one of the 12 organizations included within the purview of Title III of ADA.

### **Debris removal and clean-up costs may be excluded...**

- Debris removal: removal of debris from building or lot, dumpster rental, transport fees to landfill, landfill dumping fees
- Clean-up: dirt and mud removal, building dry-out, etc.

### **Outside improvements may be excluded...**

- Landscaping
- Sidewalks
- Fences
- Yard lights
- Swimming pools
- Screened pool enclosures
- Sheds
- Gazebos
- Detached structures including garages
- Landscape irrigation systems
- Wells and septic systems

### **Excludable miscellaneous items...**

- Items not considered real property: throw rugs, furniture, refrigerators, other contents not connected/attached to, or part of, the structure

### **Other excludable costs...**

- Plans and specifications
- Surveys
- Permit fees

## **Acceptable Methods for Determining Market Value**

### **Methods...**

- Independent appraisals by a professional appraiser
- Detailed estimates of the structure's Actual-Cash-Value
- Adjusted property appraisals used for tax assessment
- Qualified estimates from tax assessor's or building department's staff

### **Replacement cost vs. market value...**

- Replacement cost does not equal market value
- Replacement cost may be used to estimate market value only if "depreciated" (Actual-Cash-Value)

### **Actual-Cash-Value**

- Is determined by taking today's replacement cost of the structure and depreciating this value
- Replacement cost of the structure is determined using the same cost estimating guide that was used for improvement/repair cost estimate
- Depreciation is loss in value due to any cause
- Depreciation is the difference between market value of a structural improvement and its replacement cost as of the date of valuation
- There are three general categories of depreciation:
  1. physical: loss in value due to physical deterioration
  2. functional: loss in value due to lack of utility of part or all of the structural improvement. It is usually related to inadequate or outdated design characteristics, physical layout, and mechanical equipment.
  3. external: external, locational, or economic obsolescence is loss in value due to causes outside the property and independent of it. For example, no pride in ownership, next to a railroad tracks or highway, numerous structures in the neighborhood are vacant or for sale, etc. Therefore, market value should not be based on external depreciation.
- Market value estimates based on "rental potential" are also unacceptable

All of the above information is provided by the State of California Department of Water Resources' Workshop Presentation of the National Flood Insurance Program's Substantial Improvement & Substantial Damage, 2004.