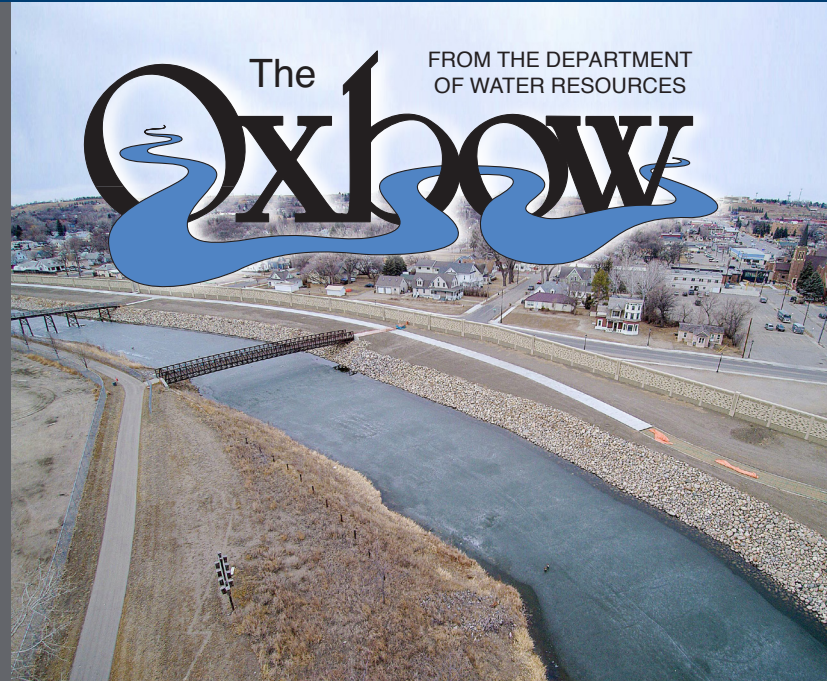


# UPDATED FEMA GUIDELINES BENEFIT RURAL NORTH DAKOTA COMMUNITIES



Infrastructure projects submitting for financial assistance are typically reviewed through the lens of benefit cost analysis (BCA). A BCA normalizes the allowable and relevant costs of a project, as well as normalizes allowable and relevant benefits. The resulting comparative ratio enables reviewing entities to make informed decisions more readily based on economic efficiency of a project. Simply stated, the BCA is an important tool for determining a project's return on investment.

The Federal Emergency Management Agency (FEMA) has implemented changes to their methods for Building Resilient Infrastructure and Communities (BRIC) and Flood Mitigation Assistance (FMA) programs, specifically to the methodology of the BCA. The Office of Management and Budget (OMB) Circular A-94 provided guidance to FEMA requiring a discount rate of 7% be used for project BCA development. The discount rate is the rate of return used to discount future cash flows back to their present value. Recent requests by FEMA to OMB, prompted by constituent comments, requesting the discount rate be lowered to capture more long-term benefits has been approved and will be implemented in the BRIC open application period. FEMA recently instituted the **new methodology** for assessing cost-effectiveness and provided a webinar introducing these changes through a partnership between the



Natural Hazards Center at the University of Colorado and FEMA. The new methodology changes the threshold for eligibility under the cost-effectiveness criteria for mitigation projects. The new approach specifically is intended to expand opportunities for Economically Disadvantaged Rural Communities (EDRC), Tribal Areas, and communities with a Social Vulnerability Index (SVI) greater than 0.6. There is also an avenue to a lower threshold of qualification for projects that address impacts promulgated from climate change, construction using low-carbon compliance standards, and difficult to quantify benefits.

The reduction in the discount rate effectively increases the value of long-term project benefits. Put another way, if you consider acquiring \$100 at a date 20 years from now, and inflation is 7%, the present value of that gift is \$26. Correspondingly, if the inflation rate is 3% the present value of the gift is \$55. The discount rate functions similarly, where the value of future project benefits is higher with the lower discount rate. This change by FEMA will allow more projects with greater long-term benefits or a longer functional life to be more competitive with projects that have larger near-term benefits. The approach will improve the longer-term investment payback metrics for EDRC and tribal projects, increasing the likelihood of participation and support for those entities.

The Department of Water Resources (DWR), through their cost-share grant program, has been using a lower discount rate since economic efficiency testing became a legislated requirement at the start of the 2019-2021 biennium. This targeted progress by FEMA brings their analysis closer in

line with the more community friendly approach the DWR has implemented for cost-share grants with a total project cost of \$200,000 or greater. DWR has historically used the published rate for analysis of the benefits annually provided by the U.S. Army Corps of Engineers for water projects, which has ranged from 2.25% to 2.875% over the last 4 years (<https://planning.erdc.dren.mil/toolbox/library/EGMs/EGM22-01.pdf>). DWR welcomes FEMA's more inclusive approach that recognizes the challenges of our rural communities in their quest for relief from the risks and hardship of floods and flood fighting actions.

DWR encourages our rural and tribal communities to reach out early in the project planning process to DWR and Department of Emergency Services staff to discuss regulations, BCA and other requirements, permitting, and financial options that may be available. The DWR remains committed to supporting ND communities in their efforts to provide a more flood resilient future.

For questions, please email DWR Economist, Duane Pool at [dpool@nd.gov](mailto:dpool@nd.gov).

## Changes In FEMA's Benefit-Cost Analysis Effectiveness Test

