



## Pre-Development Budget: Costs Associated with Assessing and Launching a Project

A pre-development budget is needed to estimate the costs associated with assessing the project's feasibility. A sound preliminary investigation is essential to prevent the organization from committing significant resources to a project that is not viable. The revenue for this initial budget will generally come from agency resources or small foundation grants, or from a [CSH Project Initiation Loan](#).

Pre-development tasks that may require financial expenditures include:

- *Professional fees.* Legal fees will likely be incurred in drafting agreements; some initial assessments will be required from architects, environmental consultants, development consultants, and zoning/land use experts.
  - Note: For the most part, payment is only made when tasks have been successfully completed. The project architect, for example, will be paid when he or she delivers to the developer satisfactory, completed plans for the stage of development (preliminary, design development, construction, etc.). The individual responsible for financial management must work closely with his/her counterparts who are responsible for managing the development to assure that payments are not released until the work has been satisfactorily completed.
- *Site acquisition costs.* Often, non-profits developing housing will be required to expend dollars to acquire site control through an option, contract of sale or other instrument.
- *Soil and Environmental Review/Testing:* For new construction and substantial rehab projects, public funders will often require you to conduct an environmental assessment of the site, a preliminary process which, depending on its outcome, may necessitate the preparation of more costly environmental studies. If there are potential hazardous wastes – such as lead paint, asbestos or buried oil tanks – funders as well as banks may require costly assessments to be conducted and abatement plans to be prepared before they will fund the project.

These initial pre-development tasks represent actual 'risk' to the non-profit. If the project does not proceed, the resources expended will be 'lost.' If the organization was fortunate enough to receive a grant to cover these expenses and the grant was not a 'recoverable' grant, then as long as it operates within the budget established for the grant, it will not have lost any money. If, however, it is funding these expenses out of agency resources or through a 'recoverable' grant or loan and the project does not proceed, then the organization will have lost these resources.

Non-profits, like any other developer, should seek to share these risks with others. It is often possible to convince professionals to agree to provide services 'on contingency,' meaning that they will be repaid for their services, if, and only if, the project is demonstrated to be feasible and funding from other sources is obtained for the development. Similarly, sites can sometimes be obtained from public sources, such as municipally or federally owned property. Often, non-profit developers can obtain control over these sites without having to expend up-front capital.

Since the non-profit is often at risk for pre-development expenditures, these need to be managed very carefully. Any expenditure over budget will be extremely deleterious to the organization. To limit costs and properly prepare a detailed budget, the non-profit developer should request a proposal from the various professionals and consultants whose services are required for pre-development tasks. Where possible, existing staff of the non-profit developer (if one is in place) should be used for these tasks to limit the time required by outside professionals.

For the most part, the costs that will be incurred by the developer in the preconstruction phase will be included in the project development budget. It should be noted that government funding programs will frequently maintain funding ceilings for certain kinds of expenditures. Architects and project managers, for example, are usually only reimbursed according to set schedules. Prior to entering into any agreements with outside professionals, the non-profit developer should contact potential funding sources and obtain information on their reimbursement policies for the use of professionals.

If the organization enters into an agreement to pay a professional above the established schedule of a funding agency, it might be required to pay the overage from its own funds. The non-profit developer should also determine whether government funders are willing to make any advance payments for professional and other pre-development costs or whether the agency will only advance monies when the project is ready to start construction.

[Source: \*Financial Management and HUD Compliance\*, Center for Urban Community Services/Corporation for Supportive Housing HUD Curriculum](#)