
Coates' Canons Blog: Interim Budget

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Article: <https://canons.sog.unc.edu/interim-budget/>

This entry was posted on June 27, 2014 and is filed under **Budgeting & Appropriations, Featured Posts Related To COVID-19, Finance & Tax**

Each North Carolina local government and public authority (local unit) must adopt an annual balanced budget ordinance. **G.S. 159-8**. The Local Government Budget and Fiscal Control Act, **G.S. Ch. 159, Art. 3** (LGBFCA), provides a basic framework for the preparation and enactment of the budget ordinance. It specifies, for example, that departmental requests be submitted to the unit's budget officer on or before April 30 (**G.S. 159-10**) and that the proposed budget and budget message be submitted to the governing board on or before June 1 (**G.S. 159-11**). These dates function more as targets than actual deadlines, though. They are intended to help keep a unit on track with the budgeting process. The only date with any legal consequence is July 1. That is the date by which the budget ordinance must be adopted in order to recognize revenues, levy property taxes, and authorize expenditures for the fiscal year. **G.S. 159-13(a)**. (Note that some public authorities operate on a different fiscal year. The deadline for those units is the first day of the new fiscal year.)

Several local units miss the July 1 deadline each year, though. This post discusses the consequences of not having a budget ordinance in place by July 1 and the steps a unit must take until a budget ordinance is adopted.

Missing July 1 Deadline

Why do units miss the July 1 deadline? The reasons are varied. Some units choose to wait until the State adopts its budget or until they learn the fate of grant applications or other potential funding sources in order to better predict revenue streams for the year. Other units miss the deadline by a few days simply because of the governing board's meeting schedule. Some units, however, miss the deadline because board members are deadlocked and unable to garner a majority of votes to approve the budget ordinance. (Note that the budget ordinance may be adopted at any regular or special meeting of the board by a simple majority of board members present and voting, assuming a quorum is present. **G.S. 159-17**.)

Importance of July 1 Deadline

Why is the July 1 deadline so important? The budget ordinance serves as the authorizing document for most of a local unit's expenditures. In fact, with limited exceptions, "no local government or public authority may expend any moneys, regardless of their source (including moneys derived from bond proceeds, federal, state, or private grants or loans, or special assessments), except in accordance with a budget ordinance . . ." **G.S. 159-8(a)**. (The exceptions are for expenditures accounted for in a project ordinance, trust or agency fund, or intergovernmental service fund.) The budget ordinance is only effective for a single fiscal year. **G.S. 159-8(b)**. For most units, that means that as of midnight on July 1, the prior year's budget no longer gives authority to incur obligations or disburse funds. Without a budget ordinance in place a unit may not order goods, enter into service contracts, pay its bills, or even pay staff salaries. This is true even if the prior year's budget ordinance authorized the expenditures. It is also true even if the goods were ordered or services contracted for in the prior fiscal year. Once a fiscal year expires, so does its budget ordinance. And once expired, a budget ordinance no longer provides authority to incur obligations or disburse funds. (Both the preaudit and disbursement processes require that there be a budget appropriation in the current year's budget authorizing an expenditure before an obligation may be incurred or funds disbursed. See **G.S. 159-28**.)

Interim Appropriations

The LGBFCA recognizes that a unit may not meet the July 1 deadline. If a unit does not have a budget ordinance in place by July 1, the Act requires a unit's governing board to make "interim appropriations" that cover the time period between July 1 and the adoption of the budget ordinance. **G.S. 159-16**.

Scope of Interim Appropriations

Interim appropriations have a limited scope, however. They can only be used “for the purpose of paying salaries, debt service payments, and the usual ordinary expenses” of the local unit. A unit may not levy property taxes, assess new fees, or authorize new expenditures. Interim appropriations are used only to keep the government running on a temporary basis. They should be made for each fund (e.g. general fund, enterprise fund) in which expenses will be incurred.

Although often referred to as an interim budget, interim appropriations do not technically constitute a budget because they do not include revenues. Instead, they simply authorize a unit to continue to make routine expenditures until the budget ordinance is adopted. A unit must fund the interim appropriations with available fund balance or current revenues. A unit should ensure that it has the funds to cover and disbursements that will come due during the interim period.

Adoption of Interim Appropriations

A unit’s governing board may make interim appropriations by resolution or ordinance. If the board fails to make interim appropriations as of July 1, the unit may not incur any expenses or make any disbursements, including payroll or debt service payments. Although a unit likely can operate a few days without interim appropriations, it quickly will find itself unable to effectively function until interim appropriations are made or the budget ordinance is adopted.

The **North Carolina Department of State Treasurer’s Policy Manual for Local Governments: Section 10: Budgeting** includes a sample interim appropriation ordinance at Exhibit H.

Duration of Interim Appropriations

How long can interim appropriations sustain the unit’s operations? There is no statutory directive as to how long a unit may function without a budget ordinance in place. There are some practical limitations to operating under interim appropriations, though. As stated above, interim appropriations may not be used to levy property taxes or impose new fees or charges. Delaying budget ordinance adoption for a significant period of time may impact revenue streams to the unit for the fiscal year. Interim appropriations also may not be used to authorize new functions, activities, or projects. (Note, however, that most major capital projects are authorized through a project ordinance. A project ordinance may be adopted at any time and is not limited to a single fiscal year. **G.S. 159-13.2.**) Perhaps most significantly, failure to adopt a budget ordinance may send a negative signal about the stability of the government to lenders, contractors, vendors, and others.

If a unit’s governing board does not adopt a budget ordinance (and/or if it does not make interim appropriations) after a reasonable period of time the state’s Local Government Commission (LGC) may get involved. The LGBFCA authorizes the LGC to “assume full control of all [of a unit’s] financial affairs” if a unit “persists, after notice and warning from the Commission, in willfully or negligently failing or refusing to comply” with the provisions of the LGBFCA or if a unit defaults on its debt service payments or seriously threatens to default on future debt service payments. **G.S. 159-181.** If the LGC exercises this statutory authority, the Commission becomes “vested with all of the powers of the governing board as to the levy of taxes, expenditure of money, adoption of budgets, and all other financial powers conferred upon the governing board by law.” *Id.* The LGC is likely to take this action only in extreme cases, though.

Accounting for Interim Appropriations

When a unit adopts the annual budget ordinance, it must charge all interim appropriations to the appropriate department or function in the budget ordinance. **G.S. 159-16.** The governing board is required to levy taxes, assess fees and/or appropriate fund balance in a sufficient amount to offset budgeted appropriations, including interim appropriations.

Links

- www.ncleg.net/EnactedLegislation/Statutes/HTML/BySection/Chapter_159/GS_159-8.html
- www.ncleg.net/EnactedLegislation/Statutes/HTML/ByArticle/Chapter_159/Article_3.html
- www.ncleg.net/EnactedLegislation/Statutes/HTML/BySection/Chapter_159/GS_159-10.html



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- www.ncleg.net/EnactedLegislation/Statutes/HTML/BySection/Chapter_159/GS_159-11.html
 - www.ncleg.net/EnactedLegislation/Statutes/HTML/BySection/Chapter_159/GS_159-13.html
 - www.ncleg.net/EnactedLegislation/Statutes/HTML/BySection/Chapter_159/GS_159-17.html
 - www.ncleg.net/EnactedLegislation/Statutes/HTML/BySection/Chapter_159/GS_159-28.html
 - www.ncleg.net/EnactedLegislation/Statutes/HTML/BySection/Chapter_159/GS_159-16.html
 - www.nctreasurer.com/slg/Policies%20Manual/10Budgeting.pdf
 - www.ncleg.net/EnactedLegislation/Statutes/HTML/BySection/Chapter_159/GS_159-13.2.html
 - www.ncleg.net/EnactedLegislation/Statutes/HTML/BySection/Chapter_159/GS_159-181.html