**Instructions for the Disposition of Unused Bond Proceeds**

Under the Internal Revenue Code (IRC) and Regulations, excess bond proceeds held by a school administrative unit can only be used to pay debt service on bonds. The IRC requires that until the last payment(s) on the debt service, the excess bond proceeds, after final close out of the project (final audit) and payment of any arbitrage rebate to the Internal Revenue Service, must be deposited in an escrow account that earns interest restricted to a rate no greater than the interest rate earned by holders of the bonds. The school administrative unit should consult their own bond counsel on how to preserve the unused bond proceeds and accrued interest in a manner consistent with the Internal Revenue Code and individual bondholder agreements.

State law, 20-A MRSA §15672(2-A), requires that principal and interest payments made from unused bond proceeds be excluded from subsidy:

**2-A**. **Debt service costs.**  "Debt service costs," for subsidy purposes, includes:

A. Principal and interest costs for approved major capital projects in the allocation year, including the initial local share of school construction projects that received voter approval for all or part of their funding in referendum in fiscal year 1984-85, but excluding payments made with funds from state and local government accounts established under the federal Internal Revenue Code and regulations for disposition of excess, unneeded proceeds of bonds issued for a school project;

* Within thirty (30) days of acceptance of the final audit of a school construction project, the school administrative unit must place the unused bond proceeds in a segregated restricted yield account. A restricted yield account is recommended to avoid arbitrage penalties.
* **Unused bond proceeds in excess of $5000**, Within 30 days of acceptance of the final audit of a school construction project the school administrative unit must provide to the Department of Education’s School Finance & Operations Team (SFO), an estimate of the interest that will be earned on the unused bond proceeds from the period of deposit to the next scheduled bond payment. *However, if the next scheduled bond payment is within 30 days, please contact Paula Gravelle at* Paula.B.Gravelle@maine.gov *before providing this estimate*. The school administrative unit must use these unused bond proceeds plus any interest earned on the account to pay down the debt on the bond at the earliest possible date allowed under federal tax law and bondholder agreement.
	+ For projects where the amount approved for inclusion in subsidy calculations is less than the total amount approved by the State Board of Education for carrying out the project, as stated in the *Certificate of Approval for School Construction Aid*, only a pro rata share of the amount representing the State/Local portion of participation in the project will be used to adjust the debt service subsidy payment(s).
* **Unused Bond Proceeds $5000 or less “*de minimis”* amounts**, the school administrative unit must use these unused bond proceeds plus any interest earned on the account to pay down the debt on the bond at the earliest possible date allowed under federal tax law and bondholder agreement.

If you have any questions, please contact Paula Gravelle @ Paula.B.Gravelle@maine.gov.