City of Naperville, Illinois
Debt Management Policy

I. PURPOSE AND GOALS

The City of Naperville faces continuing capital infrastructure requirements to maintain a vibrant, livable community and ensure a high quality of life for its residents. The costs of these requirements may exceed available financial resources, requiring the issuance of various types of debt instruments. The City must carefully consider the type of issue, method of sale, and payment structure, and how those factors may affect the City's long-term financial well-being. To help ensure the City's creditworthiness, an established program of managing the City's debt is essential.

In addition, the City Council has the authority to provide conduit financings for non-profit organizations through the issuance of 50l(c)(3) bonds and tax-exempt private activity bonds to promote economic development within the community. As a home rule community, the City is granted an amount per capita each year by the State for the issuance of private activity bonds in the form of Industrial Revenue Bonds (IRB's) to promote new manufacturing facilities and expansion and refurbishing of existing facilities that qualify under the Tax Reform Act of 1986 and 30 ILCS 345.

To this end, the City Council recognizes this “Debt Management Policy" to be financially prudent and in the City's best economic interest.

The purpose of this policy is to provide a functional tool for debt management and capital planning, and facilitate the issuance of conduit financings, as well as enhance the City's reputation for managing its debt in a conservative and prudent manner.

In following this policy, the City shall pursue the following goals when issuing debt:

- Maintain the highest possible credit rating for each debt issue, taking into consideration the type of security being offered.
- Take all practical precautions to avoid any financial decision that will negatively impact the City’s current credit ratings on existing or future debt issues.
- Effectively utilize debt capacity in relation to City growth and the tax base, or utility rate base, to meet long-term capital requirements.

- Consider market timing when making decisions on the issuance of new bonds or refinancing existing bonds.

- Determine the amortization (maturity) schedule that will best fit with the overall debt structure of the City's general obligation debt and related tax levy at the time the new debt is issued. For issuance of revenue bonds, the amortization schedule that best fits with the overall debt structure of the enterprise fund and its related rate structure will be considered. Consideration will be given to coordinating the length of the issue with the lives of assets, whenever practicable, while considering repair and replacement costs of those assets to be incurred in future years as an offset to the useful lives, and the related length of time in the payout structure.

- Assess financial alternatives to include new and innovative financing approaches, including, whenever feasible, categorical grants, revolving loans or other state/federal aid.

- Minimize debt interest costs.

II. DEBT ISSUANCE IN GENERAL

A. Authority and Purposes of the Issuance of Debt

The laws of the State of Illinois authorize the issuance of debt by the City. Section 6 of Article VII of the Illinois Constitution confers upon home rule municipalities the power and authority to contract debt, borrow money, and issue bonds for public improvement projects as defined therein. Under these provisions, the City may contract debt to pay for the cost of acquiring, constructing, reconstructing, improving, extending, enlarging, and equipping such projects or to refund bonds. The City Charter authorizes the City Council to incur debt by issuing bonds for any lawful municipal purpose as authorized by the State Constitution or its Home Rule Powers.

B. Types of Debt Issued

i. <u>Short-Term.</u> (Three years or less) The City may issue short-term debt, which may include, but not be limited to, bond anticipation notes or variable rate demand notes, those instruments that allow the City to meet cash flow requirements related to capital projects or provide increased flexibility in financing programs.

ii. <u>Long-Term.</u> (More than three years) The City may issue long-term debt, which may include, but is not limited to, general obligation bonds, certificates of participation, capital appreciation bonds, special assessment bonds, self-liquidating bonds, and revenue bonds. Various issues could be tax-exempt bonds and taxable bonds dependent on needs and benefit to the City. The City may also enter into long-term leases for public facilities, property, and equipment with a useful life greater than one year.

C. Capital Improvement Program

The Capital Improvement Program (CIP), prepared by the City Manager and approved by the City Council, shall determine the City's capital needs. The program shall be a five-year plan for the acquisition, development, and/or improvement of the City's infrastructure. Projects included in the CIP shall be prioritized, and the means for financing each shall be identified. The first year of the program shall lie the Annual Budget, which shall become the initial basis for debt issuance. The City Council, upon advice from the City's municipal advisor, may consider incurring debt to fund multiple years of the CIP. The CIP shall be revised and supplemented each year in keeping with the City's stated policies on debt management.

D. Structure of Debt Issues

The duration of a debt issue shall not exceed the economic or useful life of the improvement or asset that the issue is financing. The City shall design the financing schedule and repayment of debt so as to take best advantage of market conditions and, as practical, to recapture or maximize its credit capacity for future use, and moderate the impact to the taxpayer. In keeping with the stated goals of this debt management policy, the City shall structure each general obligation issue (except refunding issues) to comply with the debt repayment provisions.

E. Sale of Securities

All debt issues shall be sold through a competitive bidding process based upon the lowest offered True Interest Cost (TIC), unless Council deems a negotiated sale or direct placement of bonds is determined to be the most advantageous to the City.

F. Markets

The City shall make use of domestic capital markets when the conditions best fit the City's financing needs.

G. Credit Enhancements

The City may enter into agreements with commercial banks or other financial entities for the purpose of acquiring letters of credit, municipal bond insurance, or other credit enhancements that will provide the City with access to credit under terms and conditions as specified in such agreements when their use is judged cost-effective or otherwise advantageous. Any such agreements shall be approved by the City Council.

H. Derivatives

The City shall not use derivative products except with the specific authorization of the City Council and only after the adoption of a comprehensive derivatives Policy by the City Council.

III. LIMITATIONS ON THE ISSUANCE OF DEBT

A. State Law

The City shall issue bonds pursuant to the home rule powers granted under Section 6, Article VII of the 1970 Constitution of the State of Illinois.

B. Authority for Debt

The City may, by bond ordinance, incur indebtedness or borrow money, and authorize the issue of negotiable obligations, including refunding bonds, for any capital improvement of property, land acquisition, or any other lawful purpose except current expenses, unless approved by the City Council.

C. Debt Limitation

Because the City of Naperville is a Home Rule community, the debt limitation of the bond laws are not applicable.

D. Maturity Length and Amortization

1. <u>Bonds</u>. All bonds will mature within the period or average period of usefulness of the assets financed. All general obligation bonds issued for general governmental capital purposes will amortize in a manner in which at least 20% of the debt service of the Bonds is retired within the fifth year after issuance, and at least 50% must be repaid within the tenth year after issuance.

2. <u>Notes</u>. Bond Anticipation Notes (BANs) or other short-term/interim funding obligations may be issued for a period not exceeding three years.

E. **Certification**

Annually, the City shall prepare information that shall include the amount of gross debt, deductions from gross debt, net debt, equalized valuation, and net debt expressed as a percentage of the equalized valuation as of the end of the previous fiscal year. This information will be included within the statistical section of the Annual Comprehensive Financial Report prepared by the City.

IV. DEBT ADMINISTRATION

A. Financial Disclosures

The City shall prepare, or engage a dissemination agent to prepare, appropriate disclosures as required by the Municipal Securities Rulemaking Board (MSRB), the federal government, the State of Illinois, rating agencies, underwriters, investors, agencies, taxpayers, and other appropriate entities and persons to ensure compliance with applicable laws and regulations.

At the conclusion of the annual audit, staff or a dissemination agent will submit the Annual Comprehensive Financial Report to the aforementioned organizations and agencies, including Electronic Municipal Market Access (EMMA), which is governed by MSRB in accordance with its continuing disclosure requirements within 210 days after fiscal year end.

B. Review of Financing Proposals

All capital financing proposals that involve a pledge of the City's credit through the sale of securities, execution of loans or lease agreements and/or otherwise directly involve the lending or pledging of the City's credit shall be referred to the Director of Finance/Treasurer who shall determine the financial feasibility, and the impact on existing debt of such proposal, and shall make recommendations accordingly to the City Manager.

C. Establishing Financing Priorities

The Director of Finance/Treasurer shall administer and coordinate the City's debt issuance program and activities, including timing of issuance, method of sale, structuring the issue, and marketing strategies. The Director of Finance/Treasurer, along with the City's financial advisor, shall meet, as appropriate, with the City Manager and the City Council regarding the status of the current year's program and to make specific recommendations.

D. Rating Agency Relations

The City shall endeavor to maintain effective relations with the rating agencies. The City Manager, Director of Finance/Treasurer, and the City's municipal advisors shall meet with, make presentations to, or otherwise communicate with the rating agencies on a consistent and regular basis in order to keep the agencies informed concerning the City's capital plans, debt issuance program, and other appropriate financial information.

E. Investment Community Relations

The City shall endeavor to maintain a positive relationship with the investment community. The Director of Finance/Treasurer and the City's municipal advisor shall, as necessary, prepare reports and other forms of communications regarding the City's indebtedness, as well as its future financing plans. This includes information presented to the press and other media.

F. Refunding Policy

The City shall consider refunding outstanding debt when legally permissible and financially advantageous. A net present value debt service savings of at least two percent (2%) or greater must be achieved, unless the refunding is deemed advantageous for reasons other than savings.

G. Investment of Borrowed Proceeds

The City acknowledges its ongoing fiduciary responsibilities to actively manage the proceeds of debt issued for public purposes in a manner that is consistent with Illinois statutes that govern the investment of public funds, and consistent with the permitted securities covenants of related bond documents executed by the City. The management of public funds shall enable the City to respond to changes in markets or changes in payment or construction schedules so as to (i) optimize returns, (ii) ensure liquidity, and (iii) minimize risk.

H. Federal Arbitrage Rebate Requirement

The City shall maintain or cause to be maintained an appropriate system of accounting to calculate bond investment arbitrage earnings in accordance with the Tax Reform Act of 1986, as amended or supplemented, and applicable United States Treasury regulations related thereto. Such amounts shall be computed annually and transferred from the Bond Construction Fund or other similar fund (i.e., interest earnings revenue account) to the Debt Service Fund escrow account, or other appropriate accounts, for eventual payment to the United States Treasury.

In order to avoid arbitrage earnings on bond proceeds, City staff shall recommend issuance of debt based upon the cash flow needs of the Capital Improvement Program budget, in which contracts for construction or other goods and services can reasonably be expected to be awarded during the calendar year. Consideration shall be given to the feasibility of obtaining rights-of-way, engineering services, or other matters that may affect the completion of the project in a timely manner, before a recommendation to issue debt is made.

To the extent possible, the City may use bond proceeds to reimburse prior expenditures as allowed under United States Treasury regulations 1.150-2, to further limit arbitrage earnings. The City Council shall declare its intent to use this method through the adoption of an Official Intent for Reimbursement Resolution.

V. CONDUIT FINANCINGS

Under federal and state statutes, the City Council has the authority to issue tax-exempt bonds for non-profit organizations organized under Internal Revenue Code 501(c)(3), economic development revenue bonds, also known as private activity bonds, under the Tax Reform Act of 1986, and Recovery Zone Facility Bonds under the American Recovery and Reinvestment Tax Act of 2009 These tax-exempt bonds shall be collectively referred to as conduit financings. The City has no liability or responsibility for repayment of the debt authorized under these statutes.

The following policy and procedures shall be followed prior to the issuance of any such debt:

A. The applicant shall contact the City Manager or the Director of Finance and submit a formal application for the issuance of a conduit financing.

B. For private activity (Industrial Revenue Bonds), the application shall include a written proposal, which shall include the attached application. The application shall be reviewed and recommended based upon the following criteria:
   - o job creation;
   - o growth of Naperville businesses;
   - o enhancement to the City of Naperville tax base.

C. For the issuance of 501(c)(3) bonds, the proposal shall include the following:

   I. The Project

      a. A description of the project, including whether original issuance; refinancing, recollateralization, or other action sought;

      b. A statement indicating the amount of funding required for the project and a description of the purpose for which such funding will be used;

      c. A description of any proposed financing arrangement for the project (e.g., loan agreement, or City to own the project and lease to applicant);

d. A statement of the public purpose to be served by the issuance of 501(c)(3) revenue bonds for the project;

e. An anticipated construction schedule and schedule for completing the financing;

f. The name and address of the proposed purchaser of the bonds proposed to be issued, if known;

g. A complete description, with such supporting exhibits as may be appropriate, of the physical aspects of the project, including, but not limited to, the following:

(I) Location of facility

(2) Size of facility (sq. ft.)

(3) Amount of land required by the facility (acres)

(4) Proximity of the facility's location to areas zoned residential

(5) Physical appearance of the facility and landscaping.

(6) Projected number of vehicles entering the facility area per day
    (a) Cars
    (b) Trucks

(7) Ability of the streets to carry additional load
    (a) Access to the facility
    (b) Traffic safety factors

(8) Drainage/storm sewer requirements

(9) Utility requirements
    (a) Gallons of water used per day
    (b) Water and line requirements needed for fire protection
    (c) Sewerage requirements
        (i) Amount/capacity required
        (ii) Type of effluent discharged
    (d) Projected electrical and gas usage
    (e) Need for water main and sewerage line extensions

2. The Applicant

a. Financial Stability

(1) Prospectus, if applicable;

(2) Reports to Board of Directors, if applicable;

(3) Certified copies of audited financial statements of the applicant for five (5) years preceding the date of the filing of the application for bond financing;

(4) A list setting forth the caption, if pending, and a brief description of any and all pending or threatened litigation against the applicant which could have an impact on the existence of the applicant of its business or the financial position of the applicant;

(5) Evidence of ability to repay the debt or other information that might ensure the financial success of the tenant;

b. Description of principal business of applicant

c. Number of employees anticipated at the new facility
(I) Full-time
(2) Part-time
(3) Seasonal

d. Number of years the prospective tenant has been operating as a 501(c)(3) organization.

e. Civic Awareness
(I) Evidence of the applicant's past civic activity
(2) Responsiveness of the applicant to community requests

D. The information submitted by the applicant shall be reviewed by the City's Financial Advisory Board, the Director of Finance, and legal advisors, with recommendations from the Naperville Chamber of Commerce and Naperville Development Partnership. An evaluation thereof and the recommendation of the Financial Advisory Board shall be presented to the City Council as promptly as practicable thereafter.

E. The City Council shall consider the report presented to them by the Financial Advisory Board and City staff as promptly as practicable after receipt thereof and shall take one of the following actions:

1. Inform the applicant in writing that the City will not consider issuance or re-issuance of bonds for financing its commercial or industrial project as proposed or the re-issuance of recollateralization of previously issued bonds; provided that in so informing such applicant the City Council may suggest modifications to such proposal which might be acceptable to the City.

2. Inform the applicant in writing of the interest of the City in considering issuance or re-issuance of bonds for financing its commercial or industrial project as proposed or the re-issuance or recollateralization of previously issued bonds; provided, that in so informing such applicant, the Council may request additional information, as it may deem necessary.

F. In making its determination under paragraph E hereof, the City Council may consider such factors as it may deem appropriate. Such factors may include, but shall not be limited to, the following:

I. The extent to which the project will contribute to the strength and diversity of the City's economic base.

2. Whether or not the project will enable the City to retain or expand an existing business.

3. The reasonable expectations of continued operations of the project by the applicant during the term of the financing.

4. The availability of bonding authority for the project. The amount of bonding authority remaining available to the City, should the project be pursued, and a Memorandum of Agreement be executed, for other potential projects in the subject calendar year.

5. The City Council reserves the right to determine, in its sole discretion, the merits of each written proposal considered.

G. If the City Council determines, on the basis of the information provided pursuant to paragraph B or C, hereof, whichever is applicable, and such other information as may be presented to the Council, that the City is interested in considering issuance of bonds for financing the project as proposed, the Council may require that a study of the economic viability of the project be completed by the financial advisor for the City. In addition, the City may retain the services of qualified legal counsel to act as special counsel. The applicant shall be responsible for all fees listed under I. to cover the City's costs.

H. If a resolution of intent is adopted by the City Council, the financing, refinancing, or recollateralization may proceed pursuant to the provisions of this policy.

Fees For Issuance of Conduit Financings

There is an application fee of $500, which will be offset by fees for issuance of bonds if the project is chosen.

Private Activity Bond/Economic Development Bond			Fee
$500,000	to	$3,000,000	$5,000
$3,000,001	to	$6,000,000	$10,000
$6,000,001	to	$I0,000,000	$15,000
>$10,000,000			$20,000

501 (c)(3) Bonds			Fee
$500,000	to	$1,000,000	$2,500
$1,000,001	to	$5,000,000	$5,000
$5,000,001	to	$10,000,000	$7,500
>$10,000,000			$10,000

VI. SEPARATE PROVISIONS OF POLICY AND CONFLICTS WITH LAWS

The above policies shall remain in full force and effect until revoked by the City Council. If, after adoption of this policy, there are any conflicts between this policy and laws and/or statutes of the United States of America or the State of Illinois, current law shall dictate.

GLOSSARY OF TERMS

Ad Valorem Tax - A direct tax based "according to value" of property.

Advanced Refunding Bonds - Bonds issued to refund an outstanding bond issue prior to the date on which the outstanding bonds become due or callable. Proceeds of the advanced refunding bonds are deposited in escrow with a fiduciary, invested in United States Treasury Bonds or other authorized securities, and used to redeem the underlying bonds at maturity or call date.

Amortization - the process of paying the principal amount of an issue of bonds by periodic payments either directly to bondholders or to a sinking fund for the benefit of bondholders.

Arbitrage - Usually refers to the difference between the interest paid on the tax-exempt securities and the interest earned by investing the proceeds in higher yielding taxable securities. Internal Revenue Service regulations govern arbitrage (reference I.R.S. Reg. I.I 03-13 through I.I 03-15).

Arbitrage Bonds - Bonds which are deemed by the I.R.S. to violate federal arbitrage regulations. The interest on such bonds becomes taxable and the bondholders must include this interest as part of gross income for federal income tax purposes (I.R.S. Reg. l.103-13 through 1.103-15).

Assessed Value - An annual determination of the just or full market value of property for purposes of ad valorem taxation.

Basis Point - l/100 of one percent.

Bond - Written evidence of the issuer's obligation to repay a specified principal amount on a date certain, together with interest at a stated rate, or according to a formula for determining that rate.

Bond Anticipation Notes (BANS) - Short-term interest-bearing notes issued by a government in anticipation of bonds to be issued at a later date. The notes are retired from proceeds of the bond issue to which they are related.

Bond Counsel - An attorney retained by the City to render a legal opinion whether the City is authorized to issue the proposed bonds, has met all legal requirements necessary for issuance, and whether interest on the bonds is, or is not, exempt from federal and state income taxation.

Bonded Debt - The portion of an issuer's total indebtedness represented by outstanding bonds.

Direct Debt or Gross Bonded Debt - The sum of the total bonded debt and any unfunded debt of the issuer.

Net Direct Debt or Net Bonded Debt - Direct debt less sinking fund accumulations and all self-supporting debt.*Total Overall Debt* - Net direct debt plus the issuer's applicable share of the direct debt of all overlapping jurisdictions.

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Overlapping Debt - The issuer's proportionate share of the debt of other local governmental units that either overlap or underlie it.

Callable Bond - A bond which permits or requires the issuer to redeem the obligation before the stated maturity date at a specified price, the call price, usually at or above par value.

Capital Appreciation Bonds (CAB) - A long-term security on which the investment return is reinvested at a stated compound rate until maturity. The investor receives a single payment at maturity representing both the principal and investment return.

Capital Improvement Program (CIP) - A five-year capital plan that outlines capital projects greater than $25,000. Prepared by the City Manager, and approved by the City Council, shall determine the City's capital needs.

Certificates of Participation - Documents, in fully registered form, that act like bonds. However, security for the certificates is the government's intent to make annual appropriations during the term of a lease agreement. No pledge of full faith and credit of the government is made. Consequently, the obligation of the government to make basic rental payments does not constitute an indebtedness of the government.

Commercial Paper - Very short-term, unsecured promissory notes issued in either registered or bearer form, and usually backed by a line of credit with a bank.

Coupon Rate - The annual rate of interest payable on a coupon bond (a bearer bond or bond registered as to principal only, carrying coupons evidencing future interest payments), expressed as a percentage of the principal amount.

Debt Limit - The maximum amount of debt which an issuer is permitted to incur under constitutional, statutory or charter provision.

Debt Service - The amount of money necessary to pay interest on an outstanding debt, the serial maturities of principal for serial bonds, and the required contributions to an amortization or sinking fund for term bonds.

Demand Notes (Variable Rate) - A short-term security that is subject to a frequently available put option feature under which the holder may put the security back to the issuer after giving specified notice. Many of these securities are floating or variable rate, with the put option exercisable on dates on which the floating rate changes.

Enterprise Funds - Funds that are financed and operated in a manner similar to private business, in that goods and services provided are financed primarily through user charges.

General Obligation Bond - A bond for whose payment the full faith and credit of the issuer has been pledged. More commonly, but not necessarily, general obligation bonds are payable from ad valorem property taxes and other general revenues.

Industrial Revenue Bonds- Bonds that are designed to promote economic development. The proceeds from the bond sale are loaned to businesses to pay for buildings or other capital investment projects. The bonds must be paid back by the company; the government gives its name to the bond issue, but not its credit rating. Typically, these bonds are tax-exempt.

Lease Purchase Agreement (Capital Lease) - A contractual agreement whereby the government borrows funds from a financial institution or a vendor to pay for capital acquisition. The title to the asset(s) normally belongs to the government with the lessor acquiring security interest or appropriate lien therein.

Letter of Credit - A commitment, usually made by a commercial bank, to honor demands for payment of a debt upon compliance with conditions and/or the occurrence of certain events specified under the terms of the commitment.

Level Debt Service - An arrangement of serial maturities in which the amount of principal maturing increases at approximately the same rate as the amount of interest declines.

Long-Term Debt - Long-term debt is defined as any debt incurred whose final maturity is more than three years.

Maturity - The date upon which the principal of a municipal bond becomes due and payable to bondholders.

Net Interest Cost (NIC) - The traditional method of calculating bids for new issues of municipal securities. The total dollar amount of interest over the life of the bonds is adjusted by the amount of premium or discount bid, and then reduced to an average annual rate. The other method is known as the true interest cost (see "true interest cost").

Negotiated Sale - Situation in which the terms of an offering are determined by negotiation between the issuer and the underwriter rather than through competitive bidding by underwriting groups.

Offering Circular - Usually a preliminary and final document prepared to describe or disclose to investors and dealers information about an issue of securities expected to be offered in the primary market. As a part of the offering circular, an official statement shall be prepared by the City describing the debt and other pertinent financial and demographic data used to market the bonds to potential buyers.

Other Contractual Debt - Purchase contracts and other contractual debt other than bonds and notes. Other contractual debt does not affect annual debt limitation and is not a part of indebtedness within the meaning of any constitution or statutory debt limitation or restriction.

Par Value or Face Amount - In the case of bonds, the amount of principal that must be paid at maturity.

Parity Bonds - Two or more issues of bonds which have the same priority of claim or lien against pledged revenues or the issuer's full faith and credit pledge.

Principal - The face amount or par value of a bond or issue of bonds payable on stated dates of maturity.

Private Activity Bonds - One of two categories of bonds established under the Tax Reform Act of 1986, both of which are subject to certain tests and State volume caps to preserve tax exemption.

Ratings - Evaluations of the credit quality of notes and bonds, usually made by independent rating services, which generally measure the probability of the timely repayment of principal and interest on municipal bonds.

Refunding Bonds - Bonds issued to retire bonds already outstanding.

Registered Bond - A bond listed with the registrar as to ownership, which cannot be sold or exchanged without a change of registration.

Reserve Fund - A fund that may be used to pay debt service if the sources of the pledged revenues do not generate sufficient funds to satisfy the debt service requirements.

Revenue Bond - A municipal bond that is secured by the income expected to be generated by the project financed by the bond, as opposed to a general obligation bond that is secured by the government's taxing authority.

Self-Supporting or Self-Liquidating Debt - Debt that is to be repaid from proceeds derived exclusively from the enterprise activity for which the debt was issued.

Short-Term Debt - Short-term debt is defined as any debt incurred whose final maturity is three years or less.

Spread - The income earned by the underwriting syndicate as a result of differences in the price paid to the issuer for a new issue of municipal bonds, and the prices at which the bonds are sold to the investing public, usually expressed in points or fractions thereof.

Special Assessment Bonds -A special type of municipal bond used to fund a development project. Interest owed to lenders is paid by taxes levied on the community benefiting from the particular bond-funded project

Tax-Exempt Bonds - For municipal bonds issued by the City, tax-exempt means interest on the bonds is not included in gross income for federal income tax purposes; the bonds are not items of tax preference for purposes of the federal, alternative minimum income tax imposed on individuals and corporations; and the bonds are exempt from taxation by the State of Illinois.

Tax Increment Bonds - Bonds secured by the incremental property tax revenues generated from a redevelopment project area.

Term Bonds - Bonds coming due in a single maturity.

True Interest Cost (TIC) - A rate which, when used to discount each amount of debt service payable in a bond issue, will produce a present value precisely equal to the amount of money received by the issuer in exchange for the bonds. The TIC method considers the time value of money, while the net interest cost (NIC) method does not.

Yield to Maturity - The rate of return to the investor earned from payments of principal and interest, with interest compounded semiannually and assuming that interest paid is reinvested at the same rate.

Zero Coupon Bond - A bond that pays no interest, but is issued at a deep discount from par, appreciating to its full value at maturity.