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PPHA 32530

3/16/2021

Execution Analysis for UG GO Bond Issuance

Mr. Bach,

As per your request, I have completed an extensive analysis of the Unified Government (UG) of Wyandotte County/Kansas City’s most recent general obligation bond sale and its outcomes. To provide as robust a comparison as possible, I have calculated outcomes based on various metrics for St. Louis Park, Davenport, Naperville, and the UG, which are listed below in Appendix. In the following paragraphs, I will briefly describe patterns relating to issuance maturities and trades in the secondary market, the percent change of average spread relative to date of issuance and time of trade in the secondary market, how the UG bonds traded in the secondary market, as well as a comparison of bond issuance trading across a selection of cities’ issuances.

To begin, in each table of the Appendix the Unified Government is bolded and listed as “UG.” Table A in the Appendix below quantifies the percentage of maturities that have a 10 or greater basis point change from sale date to trade date. The second column of Table A looks at bonds that mature less than or equal to ten years, while the third column looks at bonds that mature in greater than ten years. As is immediately apparent, the only trades for UG that occurred in the secondary market, contingent on the conditions listed, were for issuances that matured in more than ten years. Relative to the other cities, as well as the average across all cities, this reveals that UG is a distinct outlier in this category. Moreover, UG is the only city that did not have less than or equal to ten-year maturities that were traded in the secondary market.

In Table B, one can see how the sale date has likely affected the narrow spreads in the secondary market for UG. While the percentage of next day trades and later trades (i.e., bonds that were not sold the day after the initial sale date) are relatively similar across cities, UG finds itself once again as an outlier. Of the average percent change in spreads for next day trades and later trades, UG has the narrowest spread by a significant amount, except for later trades made for Naperville. Below Table B is a possible explanation for Naperville’s later trade spreads.

Lastly, Table C in the Appendix lists the percent change in the average spread in the secondary market per city. As can be seen in the table, UG had the greatest average spread change, and it also had the largest percentage of trades that had a greater basis point change from initial sale to secondary market sale. In other words, UG had the narrowest spread, which is a result of the willingness for buyers in the secondary market to pay a higher price for an issue relative to its initial selling price. In summation, UG is the outlier among all cities for all measures analyzed. Based on this fact, the results from the tables below, and the UG bonds’ narrow spread in the secondary market, it is clear that UG did not get a good deal on its bond issuance.

**Appendix A**

**Table A: Maturities**

|  |  |  |
| --- | --- | --- |
| City Name | Percent of Maturities < 10 years with > 10 basis pt. change from sale to trade date | Percent of Maturities > 10 years with > 10 basis pt. change from sale to trade date |
| St. Louis Park | 5.9% | 0% |
| Davenport | 13.3% | 11.1% |
| Naperville | 8.3% | 27.1% |
| **UG** | **0%** | **44.0%** |
| All Cities | 6.88% | 20.55% |

**Table B: Average Percent Change in Spread Relative to Date of Trade**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| City Name | Sale Date | Percent of next day trades | Average percent change in spread of next day trades | Percent of later trades | Average percent change in spread of later trades |
| St. Louis Park | 10/26/2020 | 71.4% | 0.005% | 28.6% | .005% |
| Davenport | 10/28/2020 | 71.8% | -0.011% | 28.2% | -0.038% |
| Naperville | 10/29/2020 | 40.9% | -0.014% | 59.1% | -0.092% |
| **UG** | **2/25/2021** | **63.7%** | **-0.074%** | **36.3%** | **-0.100%** |
| All Cities | N/A | 61.9% | -0.024% | 38.1% | -0.056% |

**Note**: One explanation for Naperville’s average percent change in spread of later trades is the scale of the change in spreads for a few issues. For instance, of Naperville’s later trades in November, only one reaches a -0.2% change in spread. However, of Naperville’s later trades in January and February 2021, three in January have less than a -0.4% change in spread, and one in February has a less than -0.5% spread.

**Table C: Spreads in Secondary Market**

|  |  |  |  |
| --- | --- | --- | --- |
| City Name | Percent Change of Average Spread | Percent of issues with > 10 basis pt. change from sale to trade date | Percent of issues with > 9 basis pt. change from sale to trade date |
| St. Louis Park | 0.005% | 2.9% | 2.9% |
| Davenport | -0.019% | 12.9% | 15.4% |
| Naperville | -0.060% | 21.7% | 27.7% |
| **UG** | **-0.084%** | **36.3%** | **51%** |
| All Cities | -0.054% | 18.5% | 24.5% |