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Muni Bonds Could be Bolstered by Interesting Revenue Stream.

Amid fears, plenty of which are being realized, that the coronavirus pandemic will punish state revenue intake, previously steady municipals are taking some lumps this year. For example, the VanEck Vectors High-Yield Municipal ETF (CBOE: HYD) is lower by 7.62% year-to-date.

Due to the economic shutdown, which led to a spike in unemployment rates across the country, plenty of states are facing budget woes. Some of those with the worst shortfalls are among the largest issuers of municipal bonds, meaning they're also among the biggest weights in this category's ETFs.

"Potential methods for long-term revenue growth are likely to be discussed by legislators to enable new revenue streams, such as sin taxes," said Jim Colby of VanEck in a recent note. "For states such as New York, which according to The New York State Division of the Budget, projects a \$13.3 billion shortfall in revenue in FY21 and a \$61 billion decline in revenues through FY24, any potential sources of revenue growth deserve discussion. States that have not yet exhausted the maximum potential of their sin tax revenues may have more opportunities for new long-term revenue streams to mitigate, to some degree, the financial impact of the COVID-19 pandemic."

Colby notes a prime avenue for states looking to plug budget gaps is sin taxes. Specifically, casinos and sports betting.

Sin Is In for Tax Collectors

Given the robust growth forecasts associated with sports betting, the activity is a sensible one for cash-strapped states to consider in the wake of COVID-19.

During the multi-month shutdown forced by the virus, states' collection of gas, sales, and gaming taxes were in trouble. Now coffers are running light, prompting some analysts to say more states will approve internet casinos and/or sports betting as avenues for generating revenue.

iGaming and sports wagering are in the early innings of growth, and as such, there will be some bumps in the road. Estimates run as high as \$20 billion apiece for the respective market sizes of online casinos and sports betting over the next several years, assuming more than 30 states come online.

"Nationwide, only 12 states are realizing tax revenues from legal sports betting's \$22.2 billion handle, totaling \$210.3 million in sports betting tax revenues from June 1, 2018, to June 29, 2020, according to Legal Sports Report, notes Colby. "However, an indicator of the sizeable nationwide appetite for sports betting is visible in the estimated handle of bets placed through bookies and legal offshore sportsbooks, totaling \$150 billion annually, according to the American Gaming Association."

Today, the number of states where sports betting is permitted and operational is 18 (some states joined the fray during the coronavirus shutdown) and that rising number could provide some ballast

to municipal bonds and HYD in the future.

ETF TRENDS

by TOM LYDON on JULY 13, 2020

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