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Fitch: California Can Withstand Income Tax Collections Drop-Off

Fitch Ratings-New York-04 May 2020: Fitch Ratings believes that the state of California has sufficient liquidity to absorb the significant drop in personal income tax (PIT) collections being reported by the state Controller for the month of April, an impact of deferring the income tax filing date from April to July. The governor's budget proposal for fiscal 2021, which was published in January and will be revised in May, assumed the state would collect \$18.4 billion in April, or approximately 18% of annual collections. This includes both regular withholding and final 2019 tax payments. According to the Controller's daily informal tally of PIT collections, as of April 29, the state has collected \$5.1 billion, \$13.3 billion below target. PIT collections are down \$8.6 billion year-to-date as compared to last year, having started the month \$5.8 billion ahead of last year's collections. Some portion of this shortfall will be made up by July 15, the new deadline for PIT payments, but a portion will be lost entirely given the significant economic dislocation driven by the coronavirus pandemic.

Fitch believes the state has sufficient internal liquidity to absorb the expected delay and drop in collections between now and the new income tax filing date of July 15, including from borrowable resources, which were \$42.8 billion as of the end of February and are expected to be reduced to approximately \$8.7 billion by the end of the fiscal year. With enhanced cash tools developed both during and after the Great Recession, a strong cash position entering this crisis and the receipt of federal aid, the state does not expect it will need to access external liquidity.

As in California, April revenue data for states across the country is likely to reflect the effect of widespread stay-at-home orders. Fitch is monitoring revenue collections as it is made available.

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