

SUBJECT: Providing for disannexation, limiting revenues in cities that defund police

COMMITTEE: State Affairs — committee substitute recommended

VOTE: *After recommitted:*

9 ayes — Paddie, Harless, Hunter, P. King, Metcalf, Raymond, Shaheen, Slawson, Smithee

3 nays — Hernandez, Deshotel, Howard

1 absent — Lucio

WITNESSES: *March 25 public hearing:*

For — Chris Jones, CLEAT; Joell McNew, Safe Horns; (*Registered, but did not testify:* Michelle Davis, Convention of States; Frederick Frazier, Dallas Police Association/State FOP; Jimmy Rodriguez, San Antonio Police Officers Association; Brian Hawthorne and Tom Maddox, Sheriffs Association of Texas; Mia McCord, Texas Conservative Coalition; Johnathan Dallas Reed, Texas Municipal Police Association; and 13 individuals)

Against — Joe Chacon, Austin Police Department; Lee Kleinman, City of Dallas; Ed Heimlich, Informed Citizens; Danielle Reichman, Little Petal Alliance; Emily Gerrick, Texas Fair Defense Project; Austin Graham; Karen Munoz; Bryan Register; David Stout; (*Registered, but did not testify:* Matt Simpson, ACLU of Texas; Joe Hamill, AFSCME Harris County Local 1550, HOPE Local 123, Austin/Travis County Local 1624, San Antonio Local 2021, El Paso Local 59; Chas Moore, Austin Justice Coalition; Melissa Shannon, Bexar County Commissioners Court; Jon Weist, City of Irving; Ricardo Ramirez, City of Sugar Land; Jim Allison, County Judges and Commissioners Association of Texas; Jonathan Lewis, Every Texan; Thamara Narvaez, Harris County Commissioners Court; Patricia Zavala, Jolt Action; Jorge Renaud, LatinoJustice; Karen Munoz, LatinoJustice PRLDEF; Maggie Luna, Statewide Leadership Council; Carisa Lopez and Suseth Munoz, Texas Freedom Network; Cate Graziani, Texas Harm Reduction Alliance; Abigail Avila and Cerena Haefs, Texas

Rising; Julie Wheeler, Travis County Commissioners Court; Stephanie Gharakhanian, Workers Defense Action Fund; and 16 individuals)

On — Sally Bakko, City of Galveston; Adam Haynes, Conference of Urban Counties; Charles Reed, Dallas County Commissioners Court; Steven C. McCraw, Texas Department of Public Safety; Dora Smith; (*Registered, but did not testify*: Karey Barton and Korry Castillo, Comptroller of Public Accounts; Jim Allison, County Judges and Commissioners Association of Texas; Andrew Friedrichs, Office of the Governor, Criminal Justice Division; Monty Wynn, Texas Municipal League)

DIGEST:

CSHB 1900 would provide for the disannexation from and limit certain tax revenues of municipalities that defunded their police departments.

Determination of defunding municipality. A defunding municipality would be a municipality that adopted a budget for a fiscal year that, in comparison to the preceding year, reduced the appropriation to the police department and for which the Office of the Governor's Criminal Justice Division issued a written determination.

The bill would apply only to a municipality with a population over 250,000.

Exceptions. A municipality would not be considered a defunding municipality if the percentage of reduction to the police department did not exceed the percentage of reduction to the total budget.

A municipality would not be a defunding municipality if it applied for and was granted approval from the division for a reduction for capital expenditures related to law enforcement during the preceding fiscal year, the municipality's response to a declared state of disaster, or another reason approved by the division.

The division would have to adopt rules establishing the criteria used to approve reductions.

Termination of determination. A defunding determination would continue until the division issued a written determination finding that the municipality had reversed the reduction, adjusted for inflation.

Disannexation from defunding municipalities. CSHB 1900 would require a defunding municipality to hold a separate election in each area annexed in the preceding 30 years on the question of disannexing the area on the next uniform election date after the Criminal Justice Division determination was made. If favored by the majority of the votes, the defunding municipality would have to immediately disannex the area.

A defunding municipality holding an election on disannexation could not use public funds on informational campaigns relating to the election.

A defunding municipality could not annex an area, including an area previously disannexed from the municipality, beginning on the date the Criminal Justice Division determined the municipality was a defunding municipality and ending 10 years after the division determined that the municipality had reversed the reduction.

Property tax limitations. The bill would decrease the no-new-revenue maintenance and operations rate for a defunding municipality to account for the municipal public safety expenditure adjustment, which would be the amount of money appropriated for public safety in the preceding budget less the money spent on public safety. A defunding municipality would have to provide notice of the decrease.

A defunding municipality could not adopt a tax rate that exceeded the no-new-revenue rate or the voter-approval rate, whichever was less.

For the purposes of determining the unused increment rate, the difference between the defunding municipality's actual tax rate and voter-approval tax rate would be zero.

Sales tax deductions. Before sending a defunding municipality its share of sales and use taxes, the comptroller would have to deduct the amount of

money the state spent in that fiscal year to provide law enforcement services in that municipality. That amount would be credited to the general revenue fund and could be appropriated only to the Department of Public Safety.

Municipally owned utility rates and fees. A municipally owned utility located in a defunding municipality could not charge a customer rates or fees higher than the customer was or would have been charged on January 1 of the year the municipality was determined to be a defunding municipality.

Initial determinations. In making a determination of whether a municipality was a defunding municipality for the fiscal year beginning on or after September 1, 2021, the division would have to compare the year's budget to the budget of the preceding or second preceding fiscal year, whichever was greater.

A municipality determined to be a defunding municipality by a budget adopted for the first fiscal year on or after September 1, 2021, could not adopt a tax rate exceeding the no-new-revenue rate or voter-approval rate for that tax year, the preceding year, or the second preceding year, whichever was least.

Provisions on initial determinations would expire September 1, 2023.

Provisions of the bill on property tax rates would apply beginning with the 2021 tax year.

The bill would take effect September 1, 2021, and would apply to a budget, the distribution of sales tax revenue, and rates established after that date.

SUPPORTERS
SAY:

CSHB 1900 would address the recent trend of cities defunding their police departments by incentivizing those cities to appropriately fund law enforcement.

In 2020, some cities across the country, including in Texas, took steps to defund their police departments. While intended to address local policing issues, the outcome has been that crime rates have increased and public safety has been compromised. It is common sense that when department funding is cut and fewer officers are on patrol, crime increases. Civilians cannot perform the necessary public safety services of police, so shifting funds to civilian agencies does not solve the problem. If a city determines its police department has problems, it would make sense to invest more funds, not less, to fix those issues.

The bill would create a process by which the Criminal Justice Division in the Office of the Governor could make a determination that a city had engaged in a practice that amounted to defunding its local law enforcement. A city that had to adopt across-the-board budget cuts or respond to a disaster would not be affected. The bill also would apply only to larger cities to prevent small cities with tighter budget restrictions from being impacted.

CSHB 1900 would create four corrective solutions to incentivize cities to appropriately fund police. The bill would allow residents of a recently annexed area to vote to disannex themselves, prevent cities from raising property taxes, allow the state to deduct state trooper costs in those cities from sales tax collections, and prohibit cities from recovering funds through electric utilities. These measures would give residents a chance to vote their interests on whether to remain annexed to such cities and would ensure that the city could not simultaneously raise its revenues while risking the public safety of its residents.

**CRITICS
SAY:**

CSHB 1900 would incorrectly label certain cities as "defunding municipalities" and create punitive measures to remove local discretion in budgeting for public safety. It is based on a premise that cities have "defunded" their police departments, when what some have done is restructure budgets based on community needs. For example, a city may redirect some funding from police to a program that sends emergency calls about mental health to a mental health crisis counselor, rather than police. Services would be maintained and may be delivered more

effectively by trained professionals. This would also free law enforcement resources for the dangerous public safety situations that only police are equipped to handle.

CSHB 1900 would penalize a city's discretion in making budget decisions for its community. Cities labeled as defunding municipalities would be subject to reduced property tax rates and further limits on raising rates, withheld sales and use tax revenues, and disannexation, which could lower the tax base and require costly elections. These onerous measures could result in fewer city services, including public safety, which would go against the intent of the bill. Local communities know their own needs, and the state should not penalize cities by removing this local control.

CSHB 1900 would prohibit a municipally owned electric utility in a defunding municipality from recovering the cost of pass-through fees from ERCOT, which manages the state electric grid, or wholesale market prices for power. The effect would be that utilities could not use these fees for securitization to weatherize their facilities. Also, these utilities could not raise rates, which could affect bond indebtedness and credit ratings, making it more expensive to build necessary facilities.

NOTES:

According to the fiscal note, the bill could create an indeterminate increase to general revenue if a municipality was determined to be a defunding municipality and the comptroller deducted its sales and use tax revenues. The bill's restrictions to property tax rates and utility fees could create a cost to or reduce revenues available to those municipalities.