

# Fiscal Note

**BILL #** HB 2221

**TITLE:** law enforcement; defunding; prohibition

**SPONSOR:** Marshall

**STATUS:** As Introduced

**PREPARED BY:** Destin Moss

## Description

The bill would prohibit Arizona's municipalities (cities and towns) from reducing a police department's annual operating budget below the previous year's funding level in most circumstances. If a municipality does reduce funding to its police department, the bill would require that the State Treasurer withhold a portion of that municipality's Urban Revenue Sharing (URS) and Transaction Privilege Tax (TPT) disbursements in an amount equal to the budget reduction until the funding is restored.

## Estimated Impact

We are unable to estimate the fiscal impact of the bill in advance. Any impact would depend on the frequency with which municipalities reduce their police department annual operating budget relative to the prior year and the amount of that reduction. If a municipality does not restore funding to law enforcement, the revenue withheld from the city or town would remain in the state General Fund.

## Analysis

Under current statute, there are two primary mechanisms by which Arizona's municipalities receive revenue from the state. First, incorporated cities and towns receive 18% of individual and corporate income tax collections from 2 years prior from the Urban Revenue Sharing Fund established by A.R.S. § 43-206. Second, a portion of transaction privilege and severance taxes is designated for distribution to cities and towns pursuant to A.R.S. § 42-5029(D).

The bill would require a municipality to notify the State Treasurer if it reduces the annual operating budget for its police department below the prior year's funding. Upon receiving this notice, the bill would require the State Treasurer to withhold a portion of the municipality's share of URS or TPT in an amount equal to the reduction. The bill would require the Treasurer to continue to withhold the revenue until the municipality notifies the Treasurer that the police department's funding has been restored.

The bill would not require municipalities to report a police department budget reduction if the municipality:

1. Lacks sufficient revenue to maintain police funding at the same level as the previous year and first reduces all other agency or department annual operating budgets.
2. The annual operating budgets of other agencies or departments are reduced by the same or greater amount as that of the police department.
3. The municipality has not experienced population growth.
4. The reduction is the result of removing funding for one-time expenses or capital outlay.

## Local Government Impact

The bill could reduce the amount of shared state revenues distributed to cities and towns if police department budgets are reduced relative to the prior year. We are unable to estimate this impact in advance.

1/31/25

