

No. 20-0309

In The Supreme Court Of Texas

City of Baytown
Petitioner,

v.

Alan Schrock
Respondent.

**On Petition for Review from the First Court of Appeals at Houston, Texas
Cause No. 01-17-00442-CV**

RESPONSE TO PETITION FOR REVIEW

Respectfully submitted,

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¹ Respondent’s trial and appellate counsel, Mr. David Sedegh, filed a motion for extension of time to respond to the Petition for Review. Subsequently, Mr. Sedegh filed a motion for withdrawal, which was granted by this Court on October 7, 2020.

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RESPONSE TO PETITION FOR REVIEW

TO THE HONORABLE JUSTICES OF THE SUPREME COURT OF TEXAS:

Respondent, Alan Schrock, (hereafter “Schrock” or “Respondent”) submits this Response to the Petition for Review filed by Petitioner, City of Baytown, (hereafter “City” or “Petitioner”) in accordance with rule 53 of the Texas Rules of Appellate Procedure. In opposition to the City’s Petition for Review, the Respondent respectfully submits as follows:

STATEMENT OF THE CASE

This is an inverse condemnation case brought by Alan Schrock to recover damages claiming the City had “taken” his property without just compensation in violation of Article I, Section 17 of the Texas Constitution, and The Fifth Amendment of the United States Constitution (the Takings Clause). This is the second appeal involving these parties.

Schrock has maintained that the City’s refusal to provide city water services to one of Schrock’s rental properties (unless Schrock paid the debts owed to the City by some of Schrock’s former tenants) was a proximate cause to his loss of rental income and other damages, amounting to an unlawful “taking” without just compensation.

After Schrock presented evidence and rested his case, the trial court directed verdict in favor of the City, and Schrock appealed. The First Court of Appeals reversed the trial court’s directed verdict regarding Schrock’s “takings” claim, but affirmed the portion of the trial court’s decision to direct verdict against Schrock on his claim for declaratory judgment and attorneys fees.

STATEMENT OF ISSUES PRESENTED

1. The court of appeals was correct to reverse the trial court's directed verdict against Schrock's inverse condemnation claims because the evidence admitted not only raised a material fact on Schrock's regulatory taking claim, but the evidence also supports a regulatory taking as a matter of law.
2. The court of appeals was correct to remand the case for a new trial on Schrock's regulatory claims, where the jury can decide just compensation (damages).

SUMMARY OF THE ARGUMENT

“There would be no difficulty in securing the rights of the people and the liberties of Texas if men would march to their duty and not fly like recreants from danger. Texas must be defended and liberty maintained.”

-- Sam Houston

Alan Schrock has been fighting the City of Baytown since 2009 for what he believes to be an unlawful regulatory scheme and attempted government overreach related to uncollected utility bills owed to the City by some of Schrock's former tenants. Schrock owns 19 low income rental properties within the city limits of Baytown, Texas. (II R.R. at 88). Rather than acquiesce to an extortionate demand that he pay the City for delinquent utility bills he did not personally incur (or else he would be denied the most basic of essential city services --water to his property) Schrock chose instead to stand up for his rights and directly challenge the abusive power of City Hall. (PX-10; II R.R. at 57-59). In response, the City put a lien on Schrock's property. (PX-4) The City has continued to vigorously defend its improper conduct in the courts, having not only appealed twice (seeking rehearing *en banc* both times), but also seeking removal of the controversy to federal court based upon Schrock's claims under the Fifth and Fourteenth Amendments to the United States Constitution.

The City has acted in bad faith, but frames the dispute as “minor” because the amount it eventually attempted to extort from Schrock was “only” \$1,500. (Petition for Review at page 7). Indeed, it appears the City would have this Court establish a new rule in the state’s takings jurisprudence – namely, that there is no violation of a citizen’s constitutional rights unless the government believes from its subjective perspective alone, *ipse dixit*, that the amount of alleged damage is significant (enough) to seek redress in the courts. Nonsense. There is no jurisdictional threshold for which compensation may be sought from an unlawful taking. The Constitution of Texas states in pertinent part as follows: “[n]o person’s property shall be taken, damaged, or destroyed for or applied to public use without adequate compensation being made, unless by the consent of such person . . .” *TEX. CONST. ART. 1, § 17(a)*. The word “property” as used in this section means “not only the thing owned, but also every right which accompanies ownership and is its incident.” *Gulf, C. & S.F. Ry. Co. v. Fuller*, 63 Tex. 467, 469 (1885). The word “damages” is meant to include “every loss or diminution of what is a man’s own, occasioned by the fault of another.” *Fuller*, 63 Tex. at 470. More important, this Court has also made clear, “[t]he protection of one’s right to own property is said to be one of the most important purposes of government. That right has been described as fundamental, natural, inherent, inalienable, not derived from the legislature and

as pre-existing even constitutions.” *Eggemeyer v. Eggemeyer*, 554 S.W.2d 137, 140 (Tex. 1977); *Pennsylvania Coal Co. v. Mahon*, 260 U.S. 393 (1922).

The record in this case clearly demonstrates the City demanded payment from Schrock for payment of delinquent utility bills owed by third parties, and when Schrock refused, the City denied his tenant access to water at the property. (II R.R. at 73-76) As a direct and proximate consequence of the City’s actions, Schrock lost rents, and over time, diminution to the value of his real property. Justice compels the City to compensate Schrock for his damages because the City’s actions created an impermissible taking under the law. *Pennsylvania Coal Co. v. Mahon*, 260 U.S. 393, 415 (1922); *Penn Cent. Transp. Co. v. City of New York*, 438 U.S. 104, 123 (1978); *Loretto v. Teleprompter Manhattan CATV Corp.*, 458 U.S. 419, 435 (1982); *Hearts Bluff Game Ranch, Inc. v. State*, 381 SW.3d 468, 477 (Tex. 2012). For more than ten years, Schrock has not shied away from fighting to protect his rights and liberties against the overreach of his local government. Unfortunately, the trial court committed a reversible error by taking the case away from the jury before it could determine the value of just compensation owed to Schrock for the City’s wrongful conduct. The court of appeals corrected that error, and has given Schrock the chance to fight again another day. This Court should deny the City’s Petition.

ARGUMENT AND AUTHORITIES

I. The trial court erred in directing verdict against Schrock’s inverse condemnation claims, and the court of appeals was correct to reverse.

In Texas, the ownership of private property is a fundamental right. *Eggemeyer*, 554 S.W.2d 137 at 140. Further, it is well settled that any taking by the government of private property shall afford the property owner with a claim for just compensation under the Fifth Amendment of the United States Constitution, which provides in pertinent part: “private property shall not be taken for public use, without just compensation.” U.S. CONST. AMEND V. This protection is afforded through the *Fourteenth Amendment* to apply to the individual states. *Hearts Bluff Game Ranch, Inc. v. State*, 381 SW.3d 468, 477 n. 19 (Tex. 2012). Moreover, the Texas Constitution provides similar protection: “[n]o person’s property shall be taken, damaged, or destroyed for or applied to public use without adequate compensation being made, unless by the consent of such person . . .” TEX. CONST. ART. 1, § 17(A). This court has recognized that our takings case law is consistent with federal jurisprudence. *Mayhew v. Town of Sunnyvale*, 964 S.W.2d 922, 933-34 (Tex. 1998).

a. The evidence admitted in trial established a regulatory taking by the City as a matter of law.

In his Second Amended Original Petition, (the live pleading before the trial court), Schrock contends that when the City refused to provide water service

to his tenant[s] unless Schrock paid outstanding utility bills owed to the City by several former tenants, and thereafter the City encumbered Schrock's property for a debt he did not owe, the City unlawfully "took" Schrock's property in violation of the Texas and United States Constitutions. (C.R. 5-24) Moreover, the means by which the City exercised its police power in this case is breathtaking, especially when one considers the city ordinance used to justify the City's collection efforts and to place an encumbrance on Schrock's property was directly contrary to state law at that time. See Baytown, Texas, Code of Ordinances, ch. 98, art. III, §98 – 65 (g) (1967) (amended 1991); cf. TEX. LOC. GOV'T CODE ANN. §552.0025. It is noteworthy that after Schrock filed suit, the City amended its ordinances to comply with state law, and eventually released the lien on Schrock's property, some four years after the lien was originally filed. (PX -4; DX-10, 12)

b. No disputed facts – just disagreement on the power of the state to exact unconstitutional demands.

During her opening statement in the trial court, counsel for the City told the jury "the City of Baytown and Mr. Schrock don't have a big dispute as to the sequence of events that happened in this case." (II R.R. at 32) The City also admitted to the jury:

"[a] number of different circumstances, *including possibly the interactions with Mr. Schrock*, led the city to realize that there were some

problems with the way that they were handling liens and dealing with delinquent water bills. And as a result of that, the city made changes to not only its policies, but to its ordinances. *The city recognized it made a mistake and it sought to correct it.*”

(II R.R. 36) (emphasis added). Then again, during argument before the trial court on their motion for directed verdict, the City suggested the material facts in the case (that it refused to provide water to Schrock’s property unless the bills of former tenants were paid) are not in dispute, (III R.R. at 127) and that the only question of fact relates to damages. (III R.R. at 130).

Then why is this case on appeal? The answer lies deep in the Serbonian Bog.² The City’s motion for directed verdict was not based on a solid legal analysis, and consequently, the trial court followed the City aimlessly into the lake and sank. Takings jurisprudence is fact specific, and the courts have been unable to find a specific formula to determine fairness or justice related to the economic injuries imposed on a property owner as a result of a takings action by the government. *Penn Cent. Transp. Co.*, 438 U.S. 104 at 124 (1978). The court of appeals reviewed the record in this case and found the evidence raised a material fact issue on Schrock’s regulatory takings claim. Their opinion is well reasoned and thorough. Accordingly,

² John Milton, *Paradise Lost* (Book II, lines 592–594).

this Court should deny review, or alternatively, decide a regulatory taking occurred as a matter of law, and permit a new trial on damages alone.

c. Physical taking and direct interference or regulatory overreach? Both are compensable takings. Both exist in this record.

The City correctly argues that takings under state and federal law are classified as either physical or regulatory. (Petition for Review at page 10). A compensable taking may occur when the government “physically appropriates or invades the property, or when it unreasonably interferes with the landowner’s right to use and enjoy the property, such as by restricting access or denying a permit for development.” *Westgate, Ltd. v. State*, 843 S.W.2d 448, 452 (Tex. 1992). Further, a permanent physical invasion, however minimal, “eviscerates” the owner’s right to exclude others from entering and using property. See *Dolan v. City of Tigard*, 512 U.S. 374, 384 (1994).

The City contends that “[a] regulatory taking is a condition of use so onerous that its effect is tantamount to a direct appropriation or ouster,” “Id” [sic] purportedly quoting *Lingle v. Chevron U.S.A. Inc.*, 544 U.S. 528 (2005) (Petition for Review at page 10-11). However, the City’s citation and reliance on *Lingle* are misplaced. The *Lingle* Court did not stand for such a proposition. Rather, the *Lingle* Court distinguished between the typical takings case which requires compensation

for a direct government appropriation or physical invasion of private property, and remarked that beginning with Justice Holmes's opinion in *Pennsylvania Coal Co. v. Mahon*, 260 U.S. 393 (1922) the jurisprudence had evolved to recognize that "government regulation of private property *may*, in some instances, be so onerous that its effect is tantamount to a direct appropriation or ouster ---and that such 'regulatory takings' may be compensable under the Fifth Amendment." *Lingle*, 544 U.S. 528 at 537 (emphasis added). That government regulations *may* be so onerous as to effect an ouster is not equivalent to a standard *requiring* the regulations to actually do so in order for a regulatory taking to occur.³ For example, in *Lucas v. South Carolina Coastal Council*, 505 U.S. 1003, 1014 (1992) the Court reasoned that regulatory takings which completely deprive an owner of "all economically beneficial use[s] of her property, would be a *per se* regulatory taking. *Lucas*, 505 U.S. 1003 at 1014. The *Lucas* Court also reasoned that if a physical appropriation of private property was to be meaningfully enforced "the government's power to redefine the range of interests included in the ownership of property was necessarily constrained by constitutional limits." *Id.*

³ Of course, even in this case, there was a physical ouster when Schrock's tenant terminated the lease and vacated for lack of city services at the property. (II R.R. at 74-76, 80-81).

The trial court’s difficulty in application of law to the “undisputed” facts stems from the character of the City’s conduct in this case. The City’s actions are not only a physical interference with Schrock’s property interest by denying utility services, but the City’s wrongful conduct also falls under the category of an unconstitutional conditions exaction takings case. *See Nollan v. California Coastal Comm’n*, 483 U.S. 825 (1987); *Dolan v. City of Tigard*, 512 U.S. 374 (1994); *Town of Flower Mound v. Stafford Estates Ltd. P’ship*, 135 S.W.3d 620 (Tex. 2004).

In the trial court, the City argued that its right to a directed verdict was based upon the *Penn Central* factors. (III R.R. at 105). Those factors include:

1. the regulation’s economic impact on the claimant;
2. the character of the government action; and
3. the extent to which the regulation interferes with the distinct investment backed expectations of the claimant.

Penn Cent., 438 U.S. at 128. But, the City presented the trial court with a flawed analysis of the law as applied to the facts, and does so here in its Petition too. The City concedes Schrock purchased the property for investment backed purposes. (III R.R. at 106) The City also conceded to the trial court that the City had no legitimate public purpose in a lien that was contrary to state law. (III R.R. at 107-08) The City then argues the “regulatory burden imposed by the City is probably the primary

criteria.” (III R.R. at 107). (It appears counsel for the City is referencing the first of the three *Penn Central* factors, the economic impact on the claimant). If so, then the City’s argument is without merit. When the City refused to provide basic essential services, such as water, wastewater and garbage collection to the tenants wanting to lease Schrock’s property, the City caused Schrock to suffer lost profits and a diminution in the value of his investment property. *Sheffield Dev. Co., Inc. v. City of Glenn Heights*, 140 S.W3d 660, 667-68 (Tex. 2004). The particular rental property in this case is a single family residential rental unit. The record reflects that Schrock’s clear intention when he purposed the property in 1993 was for rental, and that with a few exceptions, the property had been successfully leased until the City condemned it by refusing city services. It is disingenuous for the City to argue that without access to water, the property was either habitable or capable of any other economically viable use. Thus, under the *Penn Central* factors, on this record, the court of appeals was correct to reverse the trial court.

d. Using water as a carrot, while beating Schrock with a stick to pay someone else’s debts, is a compensable taking.

It would be absurd for a city to refuse police or fire protection to a homeowner who was delinquent on their ad valorem taxes, but still living at the property. Similarly, it would be unheard of for a city to refuse water and wastewater services to a resident who was actually current and in good standing on their utility account.

Cities provide services to their constituents. It's what they do. However, it is without dispute that Schrock was denied water services at his property because former residents left owing the City on unpaid utility bills. When the City leveraged its basic purpose and duty of providing city services to Schrock to collect a debt owed by someone else, the City became responsible to Schrock for a compensable taking based upon a *Nollan/Dolan* theory of recovery, as adopted and expanded to include an "essential nexus/rough proportionality" test by this Court in *Stafford Estates*, 135 S.W.3d 620 at 642. While *Nollan* dealt with a city's conditional demand for a beach easement in exchange for the granting of a building permit; and the *Dolan* Court addressed a city's conditional grant of land use variance in exchange for the dedicated greenbelt set aside by the property owner, this Court found the exactions analysis among the cases be the same in determining whether there has been a compensable taking. 135 S.W.3d at 635. In *Stafford Estates*, this Court found that the city's requirement a property owner privately pay for improvement to nearby public streets in exchange for subdivision development approval was improper, finding that governmental approval of a development of property on some exaction is a compensable taking unless (1) there is an essential nexus between the exaction (the pre-condition) and the government's substantial advancement of some legitimate public interest; (2) and the pre-condition is roughly proportional to the projected

impact of the proposed development.” *Id.*, at 634. Thus, the question of law that appears to have sent the trial court unwittingly into the Lake of Serbonis is this: to what extent can a government exact an extortionate demand from a property owner in exchange for a valuable government benefit? Schrock contends the analysis is connected to a finding on the character of the government’s actions, and the extent to which the regulation interfered with the investment backed expectations of the claimant. *Penn Cent.*, 438 U.S. at 128.

In the case at bar, the City of Baytown refused to provide essential public services unless Schrock paid off the debts of third parties. The City lacked authority under state law to impose a lien of encumbrance on Schrock’s property on the facts in this record, and thus, it had no legitimate public interest in doing so. The result of the City’s conduct was immediate and clear, as Schrock’s rental property became -- and remained uninhabitable. Under any reasonable standard, the City’s conduct was wrong and thwarted Schrock’s investment backed expectations. Indeed, even the City admits it made a mistake. (II R.R. 36).

II. Because Schrock alleges a regulatory taking claim, and not a violation of procedural due process, the opinion of the court of appeals is sound.

The City worries that without intervention from this Court, the opinion of the appellate court will create “an unwarranted expansion of regulatory taking law” and create “a new kind of regulatory taking where a minor inconvenience to a property

owner and simple utility bill dispute can overcome governmental immunity.” (Petition for Review at 12). The City argues the appellate court’s reversal and remand of Schrock’s regulatory claim is contrary to this Court’s decision in *City of Houston v. Carlson*, 451 S.W3d 828 (Tex. 2014). However, the City is wrong and its reliance on *Carlson* is misplaced for several significant reasons.

a. The facts in *Carlson* are distinguishable

First, the facts in *Carlson* are strikingly distinguishable from the case at bar. For example, in *Carlson*, the City of Houston had serious and verifiable safety concerns over alleged violations of the City’s building codes regarding the structural, electrical and plumbing integrity of a 108 unit condominium complex. *Carlson*, 451 S.W.3d at 829. In the furtherance of a legitimate public purpose, the City of Houston ordered residents to vacate pursuant to an ordinance granting such power where a structure posed “a serious and immediate hazard.” 451. S.W3d. at 830. The complex was eventually sold for redevelopment, and the property owners brought suit alleging they had been denied due process to address or resist the alleged code violations. *Id.*

However, in contrast, Schrock was told a City ordinance compelled him to pay the City for delinquent utility bills that Schrock did not personally incur or even legally owe – and that disobedience would result in an encumbrance being filed

against the title to his property. The City ordinance was not in compliance with state law and the City is excluded from claiming any legitimate state interest in connection with the enforcement, willful or not, of the improper regulation. *Bolton v. Sparks*, 362, S.W.2d 946, 950 (Tex. 1962); *City of Lorena v. BMTP Holdings, L.P.*, 409 S.W.3d 634 (Tex. 2013). Thus, on these facts, the City cannot stand shoulder to shoulder with the City of Houston to argue that the City's attempt to collect a delinquent utility bill under a sham lien ordinance rises to a serious and immediate hazard requiring government action. Indeed, the City is puzzled by Schrock's refusal to pay \$1,500 (a trivial amount according to the city) and suggests that this court condemn Schrock for taking a stand against the City's unilateral demand, arguing that Schrock himself is responsible for his damages, and labeling Schrock's actions as "irrational." (Petition for Review at 18). The problem with the City's position, of course, is that Schrock was not delinquent on his own utility bills, and he did not owe the City for the debts of his former tenants -- some people find it disturbing when the government comes knocking on the door asking for money.

b. The due process claims in *Carlson* are dissimilar to Schrock's claim for a *per se* regulatory taking.

The opinion of the court of appeals is not inconsistent with this Court's analysis and decision in *Carlson* where this Court held a civil-enforcement procedure alone cannot serve as the basis of a regulatory takings claim. *Carlson*, 451 S.W.3d at

832. This court found that a due process violation, in the context of a plea to the jurisdiction, would not be sufficient to waive governmental immunity. *Id.*

However, in the case at bar, Schrock does not complain of the process implemented by the City to review the disputed utility billing accounts and provide him with an opportunity to be heard. Rather, Schrock complains of a direct regulatory taking by virtue of the City's extortionate demands upon him, and he justly seeks compensation for the impact he suffered due to the City's wrongful conduct. The opinion of the court of appeals correctly reasoned that the City's conduct was an impermissible taking under the *Penn Central* factors and this Court's holding in *Mayhew v. Town of Sunnyvale*, 964 S.W.2d 922 (Tex. 1998). On this record, and against these precedents, the court of appeals was correct to reverse the trial court's granting of directed verdict on Schrock's regulatory takings claim. And, in the alternative, Schrock contends his regulatory takings claim is supported by the *Nollan/Dolan* unconstitutional conditions doctrine as adopted by this Court in *Stafford Estates*, 135 S.W.3d 620.

c. Schrock didn't cause his own damages. But if he did, it's for the jury to decide.

In its second issue presented, the City contends the court of appeals has permitted Schrock to unfairly claim damages for a regulatory taking despite Schrock's "unilateral" actions which the City believes is the cause of his actual

damages. (Petition for Review at 16). Notwithstanding the fact the City's improper lien was created on April 24, 2009 and not released until four years later on June 13, 2013 (DX-11) during which time, Schrock was denied the full use and economic benefits of his property, the City's complaint is one of comparative causation or otherwise a question of fact for the jury to consider regarding an amount of just compensation, if any, to be awarded. Accordingly, the court of appeals correctly reversed the trial court and on remand, the City's argument will surely be advanced to the trier of fact.

CONCLUSION AND PRAYER

Someone at city hall had the idea one day that delinquent utility bills were becoming a problem. So, rather than seek collection only from the customers who actually owed the bill, they devised a plan to exact payment from the deep pockets of a small number of landlords who the City thought might be susceptible to an extortionate demand. Shrock almost gave in to the comfort of his checkbook as a means to clear himself of the City's nuisance, until he realized the threat of a lien on one of his rental properties opened the door to the City's demand for payment on them all. (II R.R. at 83, 87). He stood his ground and has been fighting city hall ever since. The City's position in this case is untenable. The ordinance they seek to uphold as a shield against liability has been amended to comply with state law, likely

due to Schrock's resilience. (II R.R. at 36). The court of appeals reviewed the record and reversed the trial court because the evidence raised a material fact issue on Shrock's claim seeking just compensation for an unconstitutional regulatory taking. Their decision and opinion are correct. The City has presented no argument or legitimate reason for this Court to exercise jurisdiction to disturb those rulings.

THEREFORE, Respondent, Alan Schrock, respectfully requests that this Court deny Petitioner's petition for review, or if the Court grants the petition, affirm the court of appeals' judgment. Respondent requests all such other and further relief, general or special, at law or in equity, to which he may be justly entitled to receive.


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CERTIFICATE OF COMPLIANCE


I hereby certify that this Response to Petition for Review was prepared using Microsoft Word 2010, which indicates the total work count (exclusive of those items listed in rule 9.4 (i)(1) of the Texas Rules of Appellate Procedure, as amended) is 4,028 words.

By: 
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CERTIFICATE OF SERVICE

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