

LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 78TH LEGISLATIVE REGULAR SESSION

April 8, 2003

TO: Honorable Kent Grusendorf, Chair, House Committee on Public Education

FROM: John Keel, Director, Legislative Budget Board

IN RE: HB451 by Hochberg (Relating to the selection and purchase of certain textbooks by a school district or open-enrollment charter school and to a program to study the use of credits for textbooks.), **Committee Report 1st House, Substituted**

Estimated Two-year Net Impact to General Revenue Related Funds for HB451, Committee Report 1st House, Substituted: a positive impact of \$20,000 through the biennium ending August 31, 2005.

The bill would make no appropriation but could provide the legal basis for an appropriation of funds to implement the provisions of the bill.

General Revenue-Related Funds, Five-Year Impact:

Fiscal Year	Probable Net Positive/(Negative) Impact to General Revenue Related Funds
2004	(\$8,000,000)
2005	\$8,020,000
2006	\$17,200,000
2007	(\$8,000,000)
2008	\$17,200,000

All Funds, Five-Year Impact:

Fiscal Year	Probable Savings/(Cost) from STATE TEXTBOOK FUND 3
2004	(\$8,000,000)
2005	\$8,020,000
2006	\$17,200,000
2007	(\$8,000,000)
2008	\$17,200,000

Fiscal Analysis

The bill would amend current law to eliminate the waiver process required for Texas Education Agency reimbursements to school districts for purchases of non-adopted textbooks used in Advanced Placement (AP), International Baccalaureate (IB), and dual high school-college credit classes. Under the provisions of the bill, if a school selects a textbook in a course for which the State Board of Education (SBOE) has adopted a similar textbook, the state pays the district the lesser cost of the two textbooks. If a school selects a textbook in a course for which there is no similar textbook adopted, the state pays the district the actual cost of the textbook. The bill allows districts to select college-level textbooks for its AP, IB, and dual credit courses.

The bill also directs the Commissioner to allow any school district or open-enrollment charter school to participate in the current law textbook credit pilot project, in which districts that select textbooks priced lower than the state maximum cost split the savings evenly with the state.

Methodology

During the 2001-02 school year, there were approximately 240,000 enrollments in either AP or IB courses. For 94,000 of these enrollments, the SBOE has adopted an AP-specific textbook (e.g. English Literature and English Language Arts) and the state currently is paying the cost of providing them, at roughly \$4 million per year. It is assumed that for these courses, districts will continue to select the already-adopted AP textbooks which are fully paid by the state.

Of the remaining 146,000 enrollments, approximately 100,000 are in courses for which the SBOE has adopted a similar non-AP/IB textbook (e.g. US Government, US History). According to the bill, the state pays the district the lesser cost of the Board-adopted book or the book selected by the district. For the purposes of this fiscal note, it is assumed that the Board-adopted books will be less expensive given that districts would be allowed by the bill to select more expensive, college-level textbooks. At an average of \$60 per book, these enrollments will have an initial cost of \$6 million, to be incurred in 2004.

The final 46,000 enrollments are in courses for which there is no similar textbook adopted (e.g. music theory, statistics), in which case the state must pay the actual cost of the books selected by the district. Since the bill permits districts to select college-level books, it is assumed that college-level books are selected for all of these 46,000 enrollments. TEA estimates these books to be slightly more expensive, averaging approximately \$75 per book, making the cost for these enrollments \$3.5 million for 2004.

Total initial costs therefore are \$9.5 million. TEA currently provides reimbursements for AP/IB textbook costs not covered by the Board-adopted list for districts that apply, at an annual cost of \$1.5 million. Therefore the net impact of the bill in 2004 is \$8 million. TEA states that AP and IB curriculum changes occur every three years, causing these textbooks to go out of date more rapidly than standard books. Therefore a three-year cycle is assumed for the purposes of this fiscal note. Finally, it is assumed that there will be additional costs in the years between the cyclical purchase of the textbooks for enrollment growth in AP/IB courses and replacements for lost or damaged books. These costs are estimated to be approximately 10% of the 2004 purchase total, or \$800,000 per year in 2005, 2006 and 2008.

Section 2 of the bill allowing districts to participate in the existing textbook credit pilot project could reduce state textbook costs significantly. Given the financial incentives for districts, it is assumed that nearly every district in the state would choose to participate. For the same reason it is also assumed that district behavior in selecting which textbooks to order would be strongly influenced by price. Data from the first year of the pilot project indicates that, when the 10 participating districts were given a choice between textbooks with a significantly different price (greater than 5%), districts chose the less expensive book approximately 90% of the time.

Expanding the textbook credit program to many districts in the state would likely foster competition between textbook publishers, providing a strong incentive to lower prices in order to capture market share. Pilot program data from the first year indicates that, although textbook offerings for several courses were all close to the maximum price, for a number of courses there was at least one textbook option that was between 6-15% lower than the maximum price, even though there were few incentives for publishers to do so. It is assumed for the purposes of this fiscal note that, for the 2004-05 textbook purchase, at least one publisher will offer a price 10% below the maximum cost for every course.

Because almost all textbooks submitted for purchase for the 2003-04 school year were very near or at the state maximum cost, and because districts will be placing orders for these books this Spring, no savings are expected for fiscal year 2004. For the 2004-05 school year, there are \$196

million new books scheduled for purchase, and each course area has more than one publisher offering materials. If districts select a less expensive book 90% of the time (i.e. on \$176.4 million of the purchase), and at least one publisher offers a price 10% below the state maximum in each course area, the savings to districts and the state would be \$17,640,000. Split evenly between districts and the state yields a state savings in fiscal year 2005 of \$8,820,000. Note that these savings would be significantly less under the Initial General Revenue building blocks submitted by the Texas Education Agency.

For fiscal year 2006, the agency expects to spend \$400 million for new textbooks. Using the same assumptions, the state savings for that year would be an estimated \$18 million. The agency does not expect a textbook purchase in fiscal year 2007. Assuming textbook purchases resume in 2008 at approximately \$400 million, savings again would be an estimated \$18 million.

It should be noted that it is difficult to predict future district and textbook publisher behavior under a statewide textbook credit program. If the broad assumptions made for the purposes of the fiscal note do not materialize, actual state savings could differ significantly.

Local Government Impact

Local school districts would realize cost savings as a result of the bill. The bill shifts the burden of paying for a majority of textbook costs for AP/IB and dual credit programs from districts to the state. Actual district savings would depend on the cost of the textbooks selected by the district. It is assumed that statewide district savings would resemble the cost estimates for the state: \$8 million for each purchase cycle year (2004 and 2007) and \$800,000 in the intervening years. Additionally, districts would realize savings through participation in the textbook credit pilot program in amounts equal to those estimated for the state (\$8.82 million in fiscal year 2005, and \$18 million in fiscal years 2006 and 2008).

Source Agencies: 701 Central Education Agency

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