LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 78TH LEGISLATIVE REGULAR SESSION
Revision 2

April 4, 2003

TO: Honorable David Swinford, Chair, House Committee on Government Reform

FROM: John Keel, Director, Legislative Budget Board

IN RE: **HB1409** by Hardcastle (Relating to the state textbook depository and distribution and handling of textbooks.), **As Introduced**

Estimated Two-year Net Impact to General Revenue Related Funds for HB1409, As Introduced: a negative impact of ($242,000) 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	$0
2005	($242,000)
2006	$112,000
2007	$112,000
2008	$112,000

All Funds, Five-Year Impact:

Fiscal Year	Probable Savings from *FOUNDATION SCHOOL FUND* 193	Change in Number of State Employees from FY 2003
2004	$0	0.0
2005	($242,000)	(9.0)
2006	$112,000	(9.0)
2007	$112,000	(9.0)
2008	$112,000	(9.0)

Fiscal Analysis

The Bill would implement recommendation ED-10 from the Comptroller's *e*-Texas report, *Limited Government, Unlimited Opportunity*.

Sections of the bill with fiscal implications for the state are described below:

Section 1 of the bill would require the state to rely on the Internet and a statewide textbook management system in lieu of state depositories to manage textbook distribution. The Texas Education Agency (TEA) states that the current textbook management system, EMAT, cannot satisfy the requirements of the bill without software modifications.

Section 4 would allow districts to exchange used materials with another district or open-enrollment charter school. It is assumed that in practice districts would need to use the Internet-based textbook management system required by section 1 to provide information about excess inventories available in other districts. Such a system would need to maintain updated textbook counts and enrollment figures for every subject in every district in order to account for excess materials across the state.

This section also has the potential to reduce state income from districts who pay to replace lost textbooks. If districts can make arrangements with other districts instead of the state to find replacements for lost books, replacement requests and accompanying payments to the state may decrease.

Section 5 would require school districts or open enrollment charter schools to provide for storage and disposition of surplus textbooks, entailing local costs, as districts and charters would need to acquire facilities for storage. However, the section gives the commissioner rule-making authority to require school districts to return surplus books to the textbook publishers or the publisher's designated textbook depository. It is assumed that the state would require publishers to accept these books as a condition of the original purchase. As a result, publishers would incur warehousing costs which it is assumed they would try to recover from the state through higher textbook costs.

Section 7 abolishes the state textbook depository, which would yield an operations cost savings to the state.

The bill would be effective as of September 1, 2004.

Methodology

Sections 1 and 4: To implement this section, the current textbook management system, EMAT, would require modifications such that it could catalog and continually track textbook materials in every subject at each district across the state. Districts would need access to report textbook supplies and needs, identify districts that can fulfill particular needs, and arrange and execute exchanges. This entails a redesign of the requisitions, orders, inventory, distribution, shipments, freight, and returns components of EMAT. TEA estimates the project would require the equivalent of 2 additional contract FTEs and costing, with project management built it, an estimated $354,000 in fiscal year 2005. It is assumed that the agency can absorb the costs associated with instructing districts on how to use the modified EMAT system within its current resources.

Currently, the state receives payments of about $2.7 million annually from districts wishing to replace lost textbooks. Under the bill, districts would have an additional option to locate replacement textbooks by arranging exchanges with other school districts. Since textbooks remain the property of the state, for the purposes of this fiscal note it is assumed that the state would continue to charge districts the cost of replacements. However, as a practical matter the state may encounter difficulty securing payments from districts that are exchanging textbooks with each other and not the state, thus potentially decreasing state revenue.

Section 5: It is assumed that there will be additional costs in the price of textbooks due to new storage requirements for publishers. Publishers either could (1) raise the overall price of textbooks which generally are quite close, but not quite at, the maximum cost allowed or (2) charge a fee to handle surplus books. Either option is estimated to have an annual cost of $650,000.

For the purposes of this fiscal note it is assumed that districts would bear the costs of district-to-district and district-to-publisher shipping of textbooks. Relatedly, there is the potential for reduced state freight costs due to the elimination of textbook shipments from the depository. However, because these district freight costs could be significant, it is assumed that districts would not utilize district-to-district exchange extensively, preferring instead to request replacement books from the publisher. As a result, the state would not see a significant decrease in freight costs. If the Texas Education Agency were to bear these district freight charges in order to encourage district-to-district exchange, the agency estimates that state costs could increase by $3-4 million annually. This is because the state would lose its bulk shipping discount associated with the current textbook depository, and the array of scattered district-to-district shipments would represent higher freight costs than the depository model.

Section 7, abolishing the state textbook depository, would result in annual savings to the state of $762,000 in operating costs and 9 FTEs.

Local Government Impact

The requirements to store, manage, and ship textbooks represent added costs to local school districts. There may be a need for more staff time at local districts to manage the redistribution of surplus books and the ordering of replacements if districts choose to order from other school districts.

The agency currently contracts for freight transportation for all districts and depositories and employs the consulting services of a professional freight management consultant for advice on the complexities involved in shipping instructional materials throughout the state. Under the provisions of the bill, districts would potentially be moving materials in piecemeal fashion and would not receive these discounts currently provided to the state by publishing and transportation companies. If districts were expected to use district-to-district exchange fully, the agency estimates the cost to districts of implementing this provision to be approximately $5.3 million annually. However, it is assumed that these local costs would not materialize due to the additional freight costs providing a disincentive to do district-to-district textbook exchanges.

The provisions of the bill would require the school districts to be responsible for out-of-adoption instructional materials. It would also require the school district or open enrollment charter school to distribute an out-of-adoption list to all local adult education programs or nonprofit organizations and, on request, to a student. It is estimated that annual costs to district to have collections of out-of-adoption textbooks would be $1.7 million annually for school districts statewide.

Source Agencies: 304 Comptroller of Public Accounts, 701 Central Education Agency
LBB Staff: JK, CT, JO, GO, UP, JGM