

**LEGISLATIVE BUDGET BOARD**  
**Austin, Texas**

**FISCAL NOTE, 79TH LEGISLATURE 3rd CALLED SESSION - 2006**

**May 11, 2006**

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

**FROM:** John S. O'Brien, Deputy Director, Legislative Budget Board

**IN RE: HB36** by Hochberg ( Relating to the use of credits for textbooks or other instructional materials in a school district or open-enrollment charter school.), **Committee Report 1st House, Substituted**

**Estimated Two-year Net Impact to General Revenue Related Funds** for HB36, Committee Report 1st House, Substituted: an impact of \$0 through the biennium ending August 31, 2007.

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
2007	\$0
2008	\$6,435,000
2009	\$5,275,000
2010	\$6,750,000
2011	\$6,750,000

**All Funds, Five-Year Impact:**

Fiscal Year	Probable Savings/(Cost) from <i>STATE TEXTBOOK FUND</i> 3
2007	\$0
2008	\$6,435,000
2009	\$5,275,000
2010	\$6,750,000
2011	\$6,750,000

**Fiscal Analysis**

The bill would direct 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. The bill would require the Commissioner to prepare a report on this program to the 81st Legislature.

**Methodology**

The bill would allow any school district to participate in a textbook credit pilot project, which could reduce state textbook costs. 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 initial pilot project indicates that, when the 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 may foster competition between textbook publishers, providing an incentive to lower prices in order to capture market share. Pilot program data indicate 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 offer such textbooks. It is assumed for the purpose of this fiscal note that, starting with the 2007-08 textbook purchase, at least one publisher will offer a price 10% below the maximum cost for every course.

Because publishers have already submitted materials and districts have already placed their order for the 2006-07 school year, no savings are expected for fiscal year 2007. For the 2007-08 school year, there are \$143 million new books scheduled for purchase. If districts select a less expensive book 90% of the time (i.e. on \$128.7 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 \$12,870,000. Split evenly between districts and the state yields a state savings in fiscal year 2008 of \$6,435,000.

For fiscal year 2009, the Texas Education Agency expects to spend \$117 million for new textbooks. Using these same assumptions, the state savings for that year would be an estimated \$5.3 million. Assuming textbook purchases in 2010 and beyond would average between \$150 and \$175 million annually, savings would be estimated to be between \$6.8 and \$7.9 million each year. 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.

## **Technology**

It is anticipated that minor modification of the electronic textbook ordering system would be needed. Costs for such modifications are not anticipated to be significant.

## **Local Government Impact**

School districts choosing to order textbooks below the maximum price would receive credits that could be applied to the purchase of textbooks and other instructional materials and equipment. On a statewide basis, local credits of about \$6.4 million would be estimated in fiscal year 2008.

**Source Agencies:** 701 Central Education Agency

**LBB Staff:** JOB, CT, UP, JSp, JGM