LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 80TH LEGISLATIVE REGULAR SESSION

May 17, 2007

TO: Honorable Tom Craddick, Speaker of the House, House of Representatives

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

IN RE: **HB188** by Hochberg (Relating to the adoption of textbooks and the use of credits for textbooks or other instructional materials in a school district or open-enrollment charter school.), **As Passed 2nd House**

Estimated Two-year Net Impact to General Revenue Related Funds for HB188, As Passed 2nd House: a positive impact of $4,387,500 through the biennium ending August 31, 2009.

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
2008	$0
2009	$4,387,500
2010	$5,600,000
2011	$5,600,000
2012	$5,600,000

All Funds, Five-Year Impact:

Fiscal Year	Probable Savings/(Cost) from *STATE TEXTBOOK FUND* 3	Probable Revenue Gain/(Loss) from *STATE TEXTBOOK FUND* 3	Change in Number of State Employees from FY 2007
2008	($728,415)	$728,415	10.0
2009	$3,659,085	$728,415	10.0
2010	$4,871,585	$728,415	10.0
2011	$4,871,585	$728,415	10.0
2012	$4,871,585	$728,415	10.0

Fiscal Analysis

Section 3 of the bill would direct the State Board of Education (SBOE) to create a midcycle review and adoption process for textbooks not currently under review by the Board. Publishers would be required to pay a fee to cover the cost of the review and adoption.

Section 4 would require the limit the estimated cost of future textbook purchasing cycles to anticipated available funds.

Section 5 would allow for the review, adoption and purchase of supplemental textbooks.

Section 6 of the bill would entitle any school district or open-enrollment charter school to receive a credit for selecting textbooks priced lower than the state maximum cost, which may be used to purchase additional textbooks or related materials or technology. The bill would apply beginning with the 2007-08 school year.

Methodology

Sections 3-5: The Texas Education Agency estimates that the creation of a midcycle review and adoption process, which would include standard and supplemental textbooks, would require 10 additional full-time equivalents: four to recruit panelists, secure contractors, provide orientation and coordinate evaluations, and six to provide a review of curriculum content. Salary and related administrative costs associated with these positions is estimated at $728,415 annually, paid from the State Textbook Fund. The bill would require that publishers pay a fee to cover this cost, so it is estimated that there would be an accompanying revenue gain to the State Textbook Fund in the same amount, resulting in no net state cost.

Section 6: A district would receive a credit for selecting a textbook priced lower than the state maximum cost, in the amount of half the cost difference between the two. The other half of the savings would accrue to the state. Due to this financial incentive, it is assumed that district behavior in selecting which textbooks to order would be strongly influenced by price. Based on data and survey responses from an initial textbook credit pilot project, it is assumed that when districts were given a choice between textbooks with a significantly different price, districts would choose the less expensive book approximately 75% of the time.

Creating a statewide textbook credit system 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. Additionally, over 70 percent of the publishers surveyed during the pilot responded that they would consider lowering textbook prices if the credit program were expanded statewide. It is assumed for the purpose of this fiscal note that, starting with the 2008-09 textbook purchase, at least one publisher will offer a price 10% below the maximum cost for every course.

Because publishers have already submitted materials for the 2007-08 school year and prices are on average very close to maximum cost thresholds, no significant savings are expected for fiscal year 2008. For the 2008-09 school year, there are $117 million in new books scheduled for purchase. If districts select a less expensive book 75% of the time (i.e. on $87.8 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 $8,775,000. Split evenly between districts and the state yields a state savings in fiscal year 2009 of $4,387,500.

Using these same assumptions, and assuming textbook purchases in 2010 and beyond would average $150 million annually, savings would estimated to be approximately $5.6 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 approximately $4.4 million would be estimated in fiscal year 2009, and approximately $5.6 million each year thereafter.

Source Agencies: 701 Central Education Agency

LBB Staff: JOB, SD, JSp, UP, JGM