Ohio Legislative Service Commission

Mary Morris and other LSC staff

Fiscal Note & Local Impact Statement

Bill: Am. H.B. 472 of the 128th G.A.

Date: May 18, 2010

Status: As Introduced

Sponsor: Reps. Lundy and Patten

Local Impact Statement Procedure Required: Yes

Contents: Textbook Affordability Act to change the sale and distribution of college textbooks

State Fiscal Highlights

STATE FUND	FY 2011	FY 2012	FUTURE YEARS
General Revenue Fund			
Revenues	Potential loss between $19.2 million and $23.3 million	Potential loss between $19.2 million and $23.3 million	Potential loss between $19.2 million and $23.3 million
Expenditures	- 0 -	- 0 -	- 0 -
General Revenue Fund – Board of Regents			
Revenues	- 0 -	- 0 -	- 0 -
Expenditures	Potential increase for the creation and implementation of three plans to establish alternative textbook purchasing options		- 0 -
Local Funds of state institutions of higher education			
Revenues	Potential loss of some profits generated from textbook sales for institutions with a financial interest in campus bookstores		
Expenditures	Potential increase to create an annual report detailing the cost of required college textbooks		

Note: The state fiscal year is July 1 through June 30. For example, FY 2010 is July 1, 2009 – June 30, 2010.

- The bill exempts sales of required textbooks and written supplemental materials from the sales and use tax. Thus, the bill reduces the sales and use tax base and will reduce state tax revenues. Under permanent law, 94.1% of state tax revenue is distributed to the GRF. (In the current biennium, distributions to the GRF are increased to 94.35%.)
- The Chancellor of the Board of Regents (BOR) is required to develop and negotiate implementation of a college textbook bulk purchasing plan, an electronic textbook publishing plan, and a textbook rental pilot program. The development and implementation of these plans could increase expenses for BOR.
- The bill requires that campus bookstores make changes to the way textbooks required for courses are sold. These changes may result in a loss of revenue for state institutions of higher education that own or have a financial interest in campus bookstores.

- Each state-assisted institution of higher education may incur expenses to compile an annual report that includes the cost of each book required for all of the institution's courses.

Local Fiscal Highlights

LOCAL GOVERNMENT	FY 2010	FY 2011	FUTURE YEARS
Counties, municipalities, townships, public libraries, and transit authorities			
Revenues	Potential loss of up to $2.7 million	Potential loss between $5.7 million and $6.9 million	Potential loss between $5.7 million and $6.9 million
Expenditures	- 0 -	- 0 -	- 0 -

- The sales tax exemption will reduce state sales and use tax receipts. Under permanent law, state tax revenue is distributed to the Local Government Fund (LGF, 3.68%) and the Public Library Fund (PLF, 2.22%; in the current biennium, distributions to the PLF are reduced to 1.97%).
- Excluding sales of required textbooks and written supplemental materials from the sales and use tax will also reduce revenues from county permissive and transit authority sales and use taxes.

Detailed Fiscal Analysis

The bill, known as the "Textbook Affordability Act," eliminates sales and use tax on textbooks and other written supplemental materials required for college coursework. The bill also requires changes from Ohio's state-assisted institutions of higher education and the Chancellor of the Board of Regents to reduce the costs of and augment purchasing options for college textbooks and other educational materials.

Sales tax exemption

The bill exempts sales of required textbooks and written supplemental materials from the state sales and use tax. Therefore, the bill reduces the sales and use tax base and state receipts from the tax. The exemption is estimated to reduce state revenues by at least $20.4 million and up to $24.7 million per year. Revenues from the state sales and use tax are distributed to the General Revenue Fund (GRF, 94.1%), the Local Government Fund (LGF, 3.68%), and the Public Library Fund (PLF, 2.22%). Accordingly, the potential revenue loss to the GRF would be between $19.2 million and $23.3 million. The LGF would forego between $0.7 million and $0.9 million in revenues. The PLF would bear a revenue loss of about $0.5 million. The sales tax exemption will also decrease revenues from county permissive and transit authority sales and use taxes (which share the state sales and use tax base). The potential revenue loss for local governments from these local sales taxes would be between $4.5 million and $5.4 million per year. Including reduced distributions from the LGF and the PLF, the total revenue loss to counties and transit authorities would be between $5.7 million and $6.9 million per year.

The potential revenue losses are based on estimated sales of college textbooks and written materials to students in two-year and four-year public and private colleges in Ohio. Ohio taxable sales of college textbooks were calculated using spending estimates from the National Association of College Stores (NACS) and the College Board, and Ohio enrollment of 504,000 FTE students in FY 2007 from the National Center for Education Statistics (United States Department of Education).[1]

Based on information from NACS, which estimates at $693.0 the average per student cost of textbooks in 2009, and inflating this cost by 6%,[2] spending on required textbooks may total $370.4 million in Ohio in 2010. (A number of books may not be "required," but students may find it necessary to purchase them for certain courses. LSC is uncertain how those expenses would be treated for sales tax purposes.) At the state sales tax rate of 5.5%, the potential state revenue loss would be $20.4 million. The College Board estimates student spending of $1,122 for "books and supplies" in FY 2009-

[1] Ohio enrollment for degree granting institutions that participate in Title IV federal financial aid.

[2] United States Government Accountability Office in a 2005 report to Congress on college textbooks found that those costs have increased about 6% a year.

FY 2010. The share of "required textbooks" included in this estimate is not known. Assuming that 75% of those costs would be for required textbooks and written materials, based on enrollment figures and cost inflation, Ohio student spending on textbooks may be as high as $449.8 million in FY 2010-FY 2011. Thus, the potential state revenue loss would be $24.7 million. Revenue loss from county permissive and transit authorities, at about 22% of state revenue loss, would be between $4.5 million and $5.4 million.

Textbooks are purchased through various channels,[3] and most Ohio bookstores have both storefronts and Internet-based sales. Those bookstores will generally collect Ohio sales and use tax from buyers, regardless of the sales channel. However, an increasing number of books are purchased on the Internet through web-only bookstores and book exchange sites that may not charge sales and use taxes to buyers. Although the costs of college textbooks have increased rapidly in previous years, future increases may be reduced by the "unbundling" prescribed by the bill and the increased availability of nonstore channels. Detailed information on sales through those channels is unavailable to LSC. Sales and use taxes may or may not be collected on some of those sales. For sales that currently escape the sales and use tax, the proposed exemption would not create a revenue loss.

Board of Regents and institutions of higher education

The bill requires the board of trustees of each state-assisted institution to assemble a report listing all "required" textbooks and their costs for each institution's courses. Institutions may incur expenses to compile this report annually. The Chancellor and the Board of Regents must meet and review the trustee reports to monitor the progress of textbook affordability in the state. Upon review of the reports, the Chancellor must create and implement a plan for bulk book purchases for the most commonly required books across the state. BOR may incur additional expenses for the review of institutions' reports and implementation of the bulk purchasing plan.

The Chancellor must also work with textbook publishers to establish a plan for each publisher to provide electronic versions of all required textbooks. Electronic textbooks must include at least one version that can be used by students with disabilities and also must maintain the structural integrity of the printed version. Campus bookstores must offer the electronic versions of textbooks provided by publishers. The electronic textbook plan must be implemented within two years of the bill's effective date, but can be subsequently modified. Development, implementation, and enforcement of the electronic textbook plan may increase expenditures for BOR.

The bill also requires the Chancellor to develop pilot textbook rental programs at two or more state institutions by the start of the 2011-2012 academic year. Rental programs must last two years and participating campuses must report annually on the

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[3] Judith Chevalier and Austan Goolsbee, "Are Durable Goods Consumers Forward Looking? Evidence from College Textbooks," National Bureau of Economic Research, Working Paper Number 11421, June 2005.

implementation of the program. Within one year of the pilot programs' completion, the Chancellor must submit a report to the General Assembly that includes implementation strategies for all state-assisted institutions. Likewise, participating institutions must submit an annual progress report on the pilot rental program to the Chancellor and General Assembly. Depending on the Chancellor's plan for implementation, institutions may incur start-up costs to establish textbook rentals. According to a 2007 report by the Federal Advisory Committee on Student Financial Assistance, the average one-time start-up costs for a textbook rental program range from $2.5 million to $10.0 million.[4] However, the bill requires that the textbook rental programs be designed for financial self sustainability.

The bill requires campus bookstores at state-assisted institutions of higher education to make several changes to the way they market and sell textbooks and other educational materials required for college coursework. Many state-assisted institutions own campus bookstores or have contracts through which they receive financial benefits from bookstore sales. The bill's provisions could have an impact on the revenues and expenditures of institutions with such arrangements.

Under the bill, bookstores are required to purchase used books for at least half of the book's original price if the book is repurchased by the bookstore after the academic term the book is used and before the subsequent term. Likewise, bookstores cannot create or renew a contract with any company that requires books to be repurchased for less than half of the original price. Because campus bookstores may incur profit losses due to the pricing floor, these restrictions may reduce the revenue of campus bookstores and local revenues of institutions that own a campus bookstore or receive financial benefit from contracts with bookstores.

Some of the other required changes to textbook sales are extensions of mandates in the federal Higher Education Opportunity Act (HEOA) of 2008. The HEOA textbook provisions encourage transparency in college textbook sales. For example, the bill prohibits bookstores from ordering or selling books that are "bundled" and sold in packages with other books and learning materials, while HEOA requires that all bundled materials must also be available in separately priced parts. HEOA also requires all campus bookstores to post the ISBN (International Standard Book Number) and retail price of required textbooks in the store or on an institution's web site. Under the bill, bookstores must post the wholesale cost of all new textbooks near the register at the store or on the web site of the host institution. Because HEOA requires similar information, wholesale prices may presumably be added to the existing postings at little cost.

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[4] Advisory Committee on Student Financial Assistance, "Turning the Page: Making College Textbooks More Affordable," May 2007, available at http://www.ed.gov/about/bdscomm/list/acsfa/turnthepage.pdf.