

Department of Legislative Services
Maryland General Assembly
 2001 Session

FISCAL NOTE
Revised

Senate Bill 382 (Senator Van Hollen, *et al.*)

Budget and Taxation

Ways and Means

Education - Maryland Educational Buying Consortium

This bill establishes a Maryland Educational Buying Consortium within the Maryland State Department of Education (MSDE). The purpose of the consortium is to enable local boards of education and public and private schools to receive a volume discount on textbooks and educational materials, including supplementary readers, materials of instruction, visual and auditory aids, stationery, and other school supplies. Participation in the consortium is voluntary and has no effect on a school's curriculum. MSDE must adopt regulations by March 1, 2002 for: (1) the staffing of the consortium's central office; (2) the distribution of catalogs and price lists to participating schools; and (3) coordination of the purchase and distribution of textbooks and other educational supplies.

The bill is effective June 1, 2001.

Fiscal Summary

State Effect: General fund expenditures would increase by \$176,300 in FY 2002 to staff the consortium and to pay a contractor to design and implement a web site for the consortium. Future year expenditures reflect annualization, salary increases, and inflation. No effect on revenues.

(in dollars)	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006
Revenues	\$0	\$0	\$0	\$0	\$0
GF Expenditure	176,300	155,700	164,100	173,000	182,600
Net Effect	(\$176,300)	(\$155,700)	(\$164,100)	(\$173,000)	(\$182,600)

Note:() = decrease; GF = general funds; FF = federal funds; SF = special funds; - = indeterminate effect

Local Effect: Assuming a 10% savings on textbooks and school supplies, and all school systems participate in the consortium, local school expenditures could decrease by \$14 million annually.

Small Business Effect: Potential meaningful. Private schools could realize a cost savings on textbooks and supplies in the amount of \$2.2 million.

Analysis

Current Law: There is no Maryland Educational Buying Consortium. Local school systems and private schools are responsible for purchasing textbooks and other educational supplies.

Background: The establishment of the Maryland Educational Buying Consortium has been touted as a way to reduce the cost of school supplies for both public and private schools, thereby aiding private schools without providing direct State funding while simultaneously helping public schools. The Governor's proposed fiscal 2002 budget includes approximately \$2.6 billion for local school systems and \$8 million for textbooks at private schools. Last year the General Assembly approved \$6 million in funding for private school textbooks, the first time the State has provided public money for this purpose.

Some school districts and local governments in Maryland have established cooperative purchasing consortiums to attain volume discounts. For example, the Baltimore Regional Cooperative Purchasing Committee includes school systems and local governments from Baltimore City; the City of Annapolis; and Anne Arundel, Baltimore, Carroll, Harford, and Howard counties. School systems in the committee have not begun to acquire school supplies through the cooperative, but the committee is currently soliciting bids for the provision of instructional materials. The committee advises that it is not necessarily expecting to purchase textbooks through the cooperative because of the different curriculums among the participating school systems. However, a savings of about 20% is anticipated for other classroom instructional materials.

State Expenditures: MSDE would have to hire three additional individuals to administer the consortium: an education specialist to organize, implement, and operate the consortium; an agency procurement specialist to obtain catalogs, identify products, solicit bids, and negotiate discounts; and an office secretary to provide support for the consortium. Accordingly, general fund expenditures would increase by an estimated \$176,276 in fiscal 2002, which accounts for a 120-day start-up delay period. The estimate includes salaries, fringe benefits, one-time start-up costs for office equipment, ongoing operating expenses, and a one-time cost to contract for the development of a consortium web site.

Salaries and Fringe Benefits	\$111,150
One-time Cost for Web Site Development	50,000
Start-up Costs and Operating Expenses	<u>15,126</u>
Total FY 2002 State Expenditures	\$176,276

Future year expenditures reflect: (1) full salaries with a 6.5% increase in fiscal 2003 and a 4.5% increase each year thereafter, with 3% employee turnover; and (2) 1% annual increase in ongoing operating expenses.

MSDE could establish and adopt regulations for the consortium with existing budgeted resources.

Local Expenditures: Local school systems spent \$140.9 million on textbooks and instructional supplies in fiscal 1999. At this time, the level of savings that could be achieved through volume discounts is unknown. The technology consortium, which buys technology equipment for students with special needs, realizes an estimated 32% reduction in technology expenditures. However, because each local school system has its own curriculum and uses different instructional materials, a lesser savings would be expected for the Maryland Educational Buying Consortium. Assuming a 10% volume discount, local school expenditures for textbooks and instructional materials could decrease by approximately \$14 million. **Exhibit 1** shows the fiscal 1999 expenditures for textbooks and supplies by local school system and also displays the savings each system could expect if a 5%, 10%, or 15% volume discount is realized.

Small Business Effect: There are 1,144 private schools in Maryland, of which 468 serve only prekindergarten and kindergarten students, 385 serve elementary students, 11 serve middle school students, 79 serve high school students, and 201 serve students in combined schools. Assuming that private schools spend on average the same amount per student on textbooks and supplies as public schools (\$185 in fiscal 1999), private schools' expenditures would total approximately \$22.3 million annually. If private schools realize a 10% reduction in textbook costs through the consortium, expenditures would decrease by \$2.2 million. A 5% reduction in costs would generate an expenditure savings of \$1.1 million, and a 15% reduction would generate an expenditure savings of \$3.3 million.

Potential minimal or meaningful impact if a small business is contracted for the development of a web site for the consortium.

Additional Information

Prior Introductions: None.

Cross File: HB 251 (Delegate Morhaim, *et al.*) – Ways and Means.

Information Source(s): Maryland State Department of Education, Maryland Association of Boards of Education, Department of Legislative Services

Fiscal Note History: First Reader – February 19, 2001
jm/hlb Revised - Senate Third Reader – March 21, 2001

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Exhibit 1
Local School Expenditures on Textbooks and Instructional Materials
Fiscal 1999

School System	Total Amount	<u>Volume Discount Savings Level</u>		
		5%	10%	15%
Allegany	\$1,331,197	\$66,560	\$133,120	\$199,679
Anne Arundel	7,359,371	367,969	735,937	1,103,906
Baltimore City	23,624,606	1,181,230	2,362,461	3,543,691
Baltimore	16,897,416	844,871	1,689,742	2,534,612
Calvert	2,275,741	113,787	227,574	341,361
Caroline	766,231	38,312	76,623	114,935
Carroll	3,881,700	194,085	388,170	582,255
Cecil	2,450,174	122,509	245,017	367,526
Charles	3,110,333	155,517	311,033	466,550
Dorchester	745,509	37,275	74,551	111,826
Frederick	5,424,898	271,245	542,490	813,735
Garrett	748,506	37,425	74,851	112,276
Harford	5,853,347	292,667	585,335	878,002
Howard	7,236,233	361,812	723,623	1,085,435
Kent	532,033	26,602	53,203	79,805
Montgomery	22,654,617	1,132,731	2,265,462	3,398,193
Prince George's	23,592,002	1,179,600	2,359,200	3,538,800
Queen Anne's	1,715,506	85,775	171,551	257,326
St. Mary's	2,774,884	138,744	277,488	416,233
Somerset	823,277	41,164	82,328	123,492
Talbot	664,971	33,249	66,497	99,746
Washington	2,849,459	142,473	284,946	427,419
Wicomico	2,252,061	112,603	225,206	337,809
Worcester	1,317,122	65,856	131,712	197,568
State	\$140,881,194	\$7,044,060	\$14,088,119	\$21,132,179

Source: Maryland State Department of Education