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Playing the Odds (Lottery Scholarship)

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Playing the Odds:
A Critical Analysis of the Tennessee Education Lottery Scholarship Program

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The University of Tennessee, Knoxville

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Abstract

In 2002, voters in Tennessee elected to amend our constitution to allow for a state lottery to benefit education. First-year students in the fall semester of 2004 became the first to receive scholarships out of the resulting profits. Now, a full year later, we examine the results of our grand experiment; its successes; its failures.

The Tennessee Education Lottery Scholarship program was modeled after the notably thriving HOPE Scholarship provided by the Georgia state lottery. As such, we will consider the progress of that forerunner since its inception in 1993, problems it has occurred (of which Tennessee should ostensibly beware), as well as its relative successes and failures at the end of its first 365 days.

No less than forty states, including the District of Columbia, have adopted lotteries to raise funds for various and sundry causes. We would do well to keep the wealth of their experiences in mind, too.

Finally we must take into account the questions raised by the existence of a Tennessee lottery and by the results of its first year growth. What do we wish to accomplish? How are we going to do it? Where do we want to go from here? The Tennessee Education Lottery is underway, and the numbers are in.
Introduction

Tennessee Senator Steve Cohen, whom one might call the man who made the lottery happen, wrote in the spring of 2002\(^1\) that without the subsequent passage of the lottery bill that "the future for Tennessee look[ed] dim indeed." What exactly did he mean, and was he right? Any thorough analysis of the Tennessee Education Lottery ought to begin, as it were, at the beginning.

State of Affairs

According to research presented in 2003\(^2\), the state of affairs in education in Tennessee clearly left something to be desired. Less than sixty percent of high schoolers graduated on time with a degree, and only 14 out of every 100 ninth graders went on to graduate from a college. Furthermore, in 2000 Tennessee boasted a mere 19.6% of adults over the age of 25 with a Bachelor's degree—below the national average.

In 75 of our state's 95 counties, 15% or less of the population aged 25 or older held a college degree. In 41 counties the number was less than 10%, and in still 30 of the counties, not even 65% of the 25+ population had attained a high school diploma.

It seems the motivation or incentive simply was not there for students to apply themselves toward higher education. This was an important gap to bridge, because countless studies directly link a people's collective intellectual attainment to social and economic benefits, both to the public good and the private citizen\(^3\). The reverse, by the same token, is also true. Poverty plagues thousands of Tennesseans; per 2001 reports, our median household income was just over $36,000 (considerably below the
U.S. average of almost $43,000, especially when one takes into account that only nine counties in Tennessee enjoy median incomes at even the state average).

Within the three highest-growth industries in Tennessee (passenger transit, social services, and transportation services, respectively), 21.5% of jobs require a college degree. In the border state of Georgia, 21.8% of jobs in its highest-growth industries (computer engineering, systems analysis, business sales, respectively) require degrees. As these fields grow in our state and those around us, more Tennesseans will presumably need to be college-educated in order to keep up with progress—that is, if progress is in fact to be our goal.

**Tuition on the Rise**

The almost hauntingly poetic Catch-22 of the higher education dilemma, of course, is that rising college tuitions are costing attendees more and more each year. In this, Tennessee is not alone; a 2002 report shows that over the past decade, tuition and fees in the university sector rose faster than family income in 41 states. The same report reveals that in 1996, in-state tuition for Tennessee came to 6% of the median household income (MHI). In 2001, it was 8%.

When these averages are broken down into the raw data, the numbers are even more staggering. Consider the discrepancy between Tennessee counties: in Williamson county, the total cost of attending college (in 2001) was estimated at 12.5% of MHI, whereas in Hancock county, the same cost was a whopping 40.3% of MHI.

What's more, not only are tuitions rising faster than household incomes, but financial aid also lags behind. In 1976, the maximum Pell Grant award covered 84%
of tuition costs; in 2000 it covered only 39%. In this regard, Tennessee still falls far behind the rest of the country. According the NASGAP 2000-2001 Annual Survey, the national average aid dollars per Undergraduate was $367, while the Tennessee average was only $164. Moreover, Tennessee students received just 2.3% of their total financial aid via state assistance (the regional average, adjusting for the Georgia HOPE program, was 3.7%).

From 1993 to 2000, by the way, the average debt burden upon graduating increased from $9,188 to $16,928.5

What we have created, then, is a society with increasing demands for a more highly-educated populace, schools that are less and less affordable, and a state budget that, strained as it is, cannot provide the necessary monies to fund education initiatives.

Budget Woes

The important thing about a state lottery, proponents and opponents alike are quick to point out, is that it is not a “cure-all” solution. Indeed, the newly available merit-based scholarships have caught the attention of families across Tennessee and has increased freshman enrollment nearly 24% from last year alone at several schools, like the University of Tennessee and Austin Peay State University. But there is still the matter at hand of the cost of educating all those now able and encouraged to attend college—faculty to teach them, for instance, as well as dormitories to house them. These scholarship dollars, which UT interim vice-president Robert Levy compares—and aptly so—to “manna from heaven” simply cannot change the fact that the state’s university system is looking at budget cuts for the second year in a row.
Even though the lottery profit is able to cover a considerable portion (sometimes the entirety) of tuition costs, it does not at present put any additional money into the schools themselves. It is, then, a boon for prospective students, but does little to help Tennessee’s education funding crisis. Stanley Chervin, an economist and former state revenue official, told *The Tennessean* in 2002 that a lottery “doesn’t take the pressure off,” and the widely-held belief that a state lottery is a budget answer is merely a “false perception.”

House Representative Steve McDaniel’s response to constituents who seek a solution to budget woes in the lottery? “It won’t.”

**Pitfalls, Perils, and a Promise**

We have seen the need for change in our state. We know where we have fallen short in the past, and where the future can take us if we can only catch up with it. Granted, the Education Lottery has its limitations; given its restrictions, can it still do what we need it to do? Perhaps it will not alone change the trends in Tennessee higher education, but might it do its part in the campaign? For insight, we turn to other state lotteries—programs that have reached a maturity of sorts—for a sample glimpse of what we can expect in times to come.

The Tennessee Education Lottery was based upon its sister program in Georgia, hoping to follow in the footsteps of the nigh-universal success of its HOPE Scholarship program. To date, over $2 billion in financial aid has helped more than 850,000 recipients attend Georgia colleges. Between 1993 and 2000, over $1.6 billion was given to public schools for technology purchases, on top of roughly $600 million for education construction. That’s not all; Georgia’s lottery administrative costs are
nearly 2.5 percentage points lower than those in other states\(^9\), and sales are still growing in this, its twelfth year. Last year’s third quarter, in fact, was the strongest ever\(^10\).

Considering the above, HOPE seems like a dream come true. Even beyond financial data, the academic results of Georgia’s program are, at a glance, remarkable. We spoke earlier of the desire to increase motivation and incentive in high schools; the number of graduates meeting HOPE eligibility requirements rocketed from 46.8% to 59.5% in just the first five years. Average SAT scores of HOPE scholars have risen, and more students enrolling in university institutions have college prep diplomas (fewer, by the way, are in need of remedial work since HOPE started)\(^11\).

Joseph McCrary and Stephen Condrey\(^12\) reminded us that “as other states explore lotteries, there are positive lessons as well as warnings to be garnered from the Georgia experience.”

**Too Good To Be True?**

No one can deny the unbridled success of Georgia’s education lottery, especially in relation to all others, but it is easy to get caught up in the face-value numbers and paint a perfectly rosy picture of an imperfect reality.

Despite continued growth, the Georgia Lottery Corporation finds itself struggling for funds. New games and statewide promotions are in effect for the pure and simple reason that otherwise, sales would be (and were, quite recently) down\(^13\). Legislation passed last year provides for a system of cuts in case the lottery surplus should drop off. Although sales are better than ever thanks to the aforementioned promotions, the sheer necessity of them indicates that all is not well in Wonderland.
The problem, ironically, is the flipside to the program’s most appealing feature: its simplicity. Any lottery scholarship venture assumes that it will be assisting students who would already have qualified otherwise and just couldn’t afford college. The naivety there is in the notion that the number of qualified students won’t increase; it will, and it has. Unfortunately, higher motivation and incentive to achieve in high school—which is a fine and admirable goal—inevitably will get kids to raise their grades, especially those near the eligibility cutoff\textsuperscript{14}. If you make it free to go to college, more kids are going to try to go to college.

Currently, a proposal is before the Georgia state legislature to limit HOPE scholarships to covering 127 credit hours, even if a certain degree demanded more\textsuperscript{15}. The question we must again ask ourselves is, “Why do we want students to go to college?” No matter what particular reason one comes up with, the general interest is always served by encouraging students to higher and higher intellectual self-improvement. How, then, can we justify limiting the assistance they can receive in doing so? Then again, how can we weigh whose education is more important, if we are to give money to graduate students that could have gone to first-time college freshmen? Is the number of students affected by this cost-cutting strategy even great enough to argue over?

These are only a few of the difficult questions raised when lofty goals meet the harsh law of diminishing returns.

**Losing HOPE**

In addition, we must consider whether the objective is to help students pay for college, or just to get them there. A 1999 article in the Atlanta Journal Constitution
pointed out that forty-three percent of HOPE scholars lost their scholarship after two years, and seventy-three percent had lost it by their fourth year. That means that three out of four could not maintain a B average throughout, and only 4% of those are able to regain it later.

Not a stellar endorsement, but keep in mind that well over half of those who lose the scholarship remain in school. They stay, they graduate, but without state aid. Who is winning? Is the PR department at the Lottery Corporation getting away with clever deception? Even if they are, isn’t it for the best to just let them? Or is it?

Steps Toward Diversity

One of the biggest ambitions of a state education lottery is to provide minorities who suffer from low socio-economic status (SES) with the same opportunities as everyone else; to level the playing field, so to speak. However, Georgia has not quite seen the dramatic results the world expected (and still awaits). In 1999, residents in the highest SES counties received 16.4% more HOPE assistance than counterparts in the lowest SES categories.

According to the same policy report, 27% of freshmen in the University System of Georgia were African-American, but African-Americans represented only 21% of HOPE beneficiaries. The disparity was even more pronounced among college seniors, of whom 74% are White—84% of seniors receiving HOPE scholarships were White, 9% are African-American.

Interesting to note is the fact that African-American students are the most likely to lose their HOPE scholarships, but less likely than White students to, having lost it, leave college.
So is it working? In Georgia, more African-Americans and low SES students in general are attending college since 1993, but still the success rate is disproportionately high for white, middle class kids. At the University of Georgia and Georgia Tech, 1999 African-American enrollment increased from 8-9%, which is a gain, but a considerably lower one than the system-wide increase of 22%. Data forces admission that growing numbers of eligible students creates an atmosphere of healthy competition for admission to better state schools, which may very well reduce access for students from “traditionally underrepresented” groups. Overall enrollment across all minorities, however, has eclipsed that of White students.

Regardless, those African-American students with HOPE have higher college GPAs, more college credits, and are less likely to drop out of college than African Americans without the scholarship. They are also more likely to attend four-year state and regional universities.

Kentucky [sic] and Other Tales

In the interest of fairness, Georgia is not the only state with troublesome lottery issues. In New Mexico, “has had the desired effect” of keeping top students instate for college, but Terry Babbitt, director of the University of New Mexico’s Recruitment Services Office, calls it a double-edged sword. Failure rates, he says, are up in introductory classes. Many of the recipients of lottery scholarships to UNM are newly decided on college, and grossly unprepared. A second study found that while the New Mexico lottery scholarships did raise minority enrollment in absolute numbers, it was not a cost-effective method of
increasing diversity. Half of beneficiaries were not minorities, and 70% were higher income\textsuperscript{21}. Sound familiar?

In South Carolina, LIFE scholarship amounts have not been able to keep pace with tuition increases at certain highly competitive schools, like Clemson. The discrepancy between its increase and those at other schools creates an imbalance in the usefulness of a standard, across-the-board award amount\textsuperscript{22}. In Kentucky, strong lottery sales have been undercut by a rare lucky streak among players. By March of this year alone, $7.6 million in winnings had been dispersed, whereas only $670,000 in tickets had been sold\textsuperscript{23}.

This, of course, raises the question of what happens to our castles in the clouds when statistical anomalies strike.

In New York state, tempers flare over the trend toward more merit-based than need-based financial aid\textsuperscript{24}. In 2003, the Lumina Foundation found that since 1995 scholarship aid to students from families making $40,000 or less increased 22 percent, while at the same time, aid to students from families making $100,000 or more increased 145 percent. “If the private colleges don't refocus more dollars on students with high-level needs,” Sandy Baum—professor of economics at Skidmore College in Sarasota Springs—warns, “they are going to become places that are totally closed to low-income students.” A study titled \textit{The Enrollment Effects of Merit-Based Financial Aid} reported that students from higher SES families accounted for most of the enrollment gains attributed to merit-based lottery scholarships in Alabama, Georgia, and Florida, and that those gains actually came at the expense of traditionally Black colleges and universities\textsuperscript{25}. 
Researchers speculate that so far only five percent of the money has gone to students who would not have otherwise gone to college\textsuperscript{26}.

\textbf{TELS Report Card}

For all their relative ups and downs, state lotteries have sent a lot of kids to college across the country and continue to increase those numbers year by year, and the voters of Tennessee ultimately have decided to try their hand as well. Our fledgling program has just completed its first year of operation, and the numbers—which are still coming in at the time of writing—show promise. Around $246 million dollars was given to education, sending over 36,000 students to college. Profits were high enough to ensure that every single student who qualified received a scholarship\textsuperscript{27}. In addition, $25 million was earmarked for the first major expansion of the state pre-kindergarten program next year. The Wilder-Naifeh skills grants, awarded through lottery funds, encouraged so many new students to apply to technical schools that the state’s twenty-seven Tennessee Technology Centers had a waiting list of nearly 8,400 applicants. David Esa, TTC of Knoxville director, told the Knoxville News-Sentinel that the lottery monies should persuade those who might typically only realize they needed a degree after their late twenties and thirties to pursue higher education right out of high school\textsuperscript{28}.

\textbf{Too Much Good?}

The dilemma, though, is how to deal with the influx. According to a Tennessee Higher Education Committee report, 10.7\% more students are attending four-year institutions than in 2004. While this is indeed a vast improvement and an achievement to be praised, The University of Tennessee at Knoxville finally had to admit that there
just isn’t enough on-campus housing available anymore. Middle Tennessee State University is resorting to something it never has before: capping its freshman class.

Tennessee Board of Regents vice chancellor James King divulged, with some remorse, that “sometimes it’s hard to be happy about something so good.”

Also distressing, but typical compared to other states like Georgia, are the large numbers of students who lost their scholarship at the end of the year. Across the board, at Tennessee Board of Regents schools, 55% of freshmen finished 24 credit hours and maintained their 2.75 grade point average. That amount ranges from 57% at MTSU to 46% at Pellissippi State Technical Community College, but mostly hovered around or above the 50% mark. As noted before, Georgia’s average of first-year students who keep up their HOPE scholarship requirements for a second year is around 57%; but back in 1994, after that program’s opening 365 days, was a mere 50% across the state. This explains the current overcrowding issue a bit, as no one could have expected our program to so significantly outperform the precedent. “We may see further losses in the end,” says TBR Chancellor Charles Manning, in an attempt to ease worries, but for now HOPE recipients don’t seem to be going anywhere.

Besides, research has already been addressed that just because students lose the lottery scholarship doesn’t mean they will leave the school. Even with around 1,600 freshmen stripped of their aid, the numbers keep growing. When it comes to lottery dollars, “if some…don’t value the gift, the state will find others who do.” And plenty of others, at that.
Finally, unavoidable tuition increases may very well devalue the scholarships, currently set at $3000. Only a year into the experience, already there are talks among congressional leaders of increasing the award amount. This should send a red flag up in the mind of any attentive reader, in light of the current funding quandaries in Georgia and Kentucky. If we start giving out even more money, to even more students, eventually we will hit critical mass—we must be wary for the future and not get the cart too far ahead of our proverbial horse. Senator Steve Cohen has argued recently that the qualifying ACT score of 19 is too low, and that at the current rate the Tennessee HOPE scholarship program could be in the red by just next year.

Conclusions

Let this be a cautionary tale. If the state wishes to devote more lottery funds to more endeavors and more scholarships, then let it be so; but we need to ensure that safeguards are in place to protect us in case the bubble bursts. We have seen how fragile it can be, and with the educational future of an entire population riding on this, our leaders need to be extra careful throwing their collective weight around.

Besides the danger of insufficient funds, Tennessee needs to get its budget in order before any more major changes are effected. Although the scholarships are sending lots more students to college, and our best and brightest are staying in-state, the institutions they are attending simply don’t have the manpower to give them the quality education they deserve. Adjustments must be made.

Things are not perfect here. The lottery hasn’t fixed our problems, but it wasn’t meant to. If we can keep that in mind, we are in a unique and fortunate position. Our state education lottery is yet new. There are mistakes waiting to be
made around every bend in the road, but we don't have to make them—we can learn from our neighbors who have decades of experience to offer. The important thing for the Tennessee legislature, and for the voting public, is to keep our eyes open and not get so caught up in the future we neglect the past.
Notes

1 Cohen, Business Perspectives.
4 THEC, Losing Ground.
5 THEC, Losing Ground.
7 Kenner, “Money Grab.”
9 McCrary and Condrey.
10 Salzer, “Robust Growth.”
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