Securing Tennessee's Future

CHANGING LIVES: Supporting Opportunity in Tennessee Higher Education

TICUA
TENNESSEE INDEPENDENT COLLEGES AND UNIVERSITIES ASSOCIATION
CHANGING LIVES:
Supporting Opportunity in Tennessee Higher Education

Tennessee Independent Colleges and Universities Association

July 2005
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Changing Lives: Supporting Opportunity in Tennessee Higher Education is an important contribution to the on-going discussion about education lottery and need-based programs, and how these programs affect choice and opportunity for college students in Tennessee. The implementation of the Tennessee Education Lottery Scholarship (TELS) program brought these issues to the forefront of the policy debate about the importance of college access.

This report highlights what we know about other state lottery programs, and which students benefit from these programs in comparison to programs focused primarily on financial need. This paper is based on a session at the Tennessee Independent Colleges and Universities Association’s annual meeting in February of 2005.

The Tennessee Independent Colleges and Universities Association (TICUA) would like to thank the authors of this report: Dr. William R. Doyle, Assistant Professor of Higher Education at Vanderbilt University and Dr. Donald E. Heller, Associate Professor and Senior Research Associate at the Center for the Study of Higher Education at Pennsylvania State University. TICUA would also like to thank Jacqueline Fellows, the local host of Morning Edition on WPLN, for moderating the question and answer session at the annual meeting.

Special thanks also go to the Tennessee Higher Education Commission for co-sponsoring this session with TICUA, with special thanks to Dr. Richard Rhoda, Executive Director and Lovella Carter, Executive Secretary at the Tennessee Higher Education Commission.

We are pleased to provide this publication as a resource for policy makers to facilitate the discussion of the future of the Tennessee Education Lottery Scholarship program. We especially hope this report proves useful to state public policy leaders as they grapple with these essential issues and move forward with decisions on the future of the lottery program and need-based program - programs that determine not only the choices and opportunities of students to go to college but also the economic and social well-being of all Tennesseans.

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**Introduction**

Tennessee is among the most recent states to adopt a lottery-funded merit scholarship program. At this point we have nearly a decade of experience from other states to draw on in looking at the effects of lottery scholarships on students. We also have a similar length of time to investigate the long-term financial viability of lotteries as funding sources for these scholarship programs. This paper has two parts: In the first part, I review the state of our knowledge about the impact of lottery scholarships on students. In the second part, I look at states where financial aid programs are funded via lotteries and review the financial issues associated with funding a scholarship program with lottery funds.

**The Impact of Lottery Scholarships**

This section reviews the state of our knowledge regarding lottery scholarships’ effects on students. Probably the most important intended effect of lottery scholarships is to increase student’s attendance in higher education. These scholarship programs are also often intended to increase the number of students staying in-state to attend college. A related intended outcome of this policy is to ensure a more highly qualified workforce in the state. Last, these programs are also intended by many to increase the rates of persistence within higher education and eventual completion of degree objectives. Along with a review of these effects, I also review some of the unintended consequences of these programs.

**The Impact of Lottery Scholarships on Students**

The most studied aspect of lottery funded merit scholarships has been their effect on enrollment. The preponderance of evidence in this area suggests that these scholarships do have a positive impact on enrollment. While scholars differ about the size of the impact and the cost-effectiveness of these programs as a means for facilitating enrollment, there is widespread agreement on the positive influence of lottery scholarships in getting students into college.

While scholars differ about the size of the impact and the cost-effectiveness of these programs as a means for facilitating enrollment, there is widespread agreement on the positive impact of lottery scholarships in getting students into college.

Professor Susan Dynarski describes one of the best-specified studies of the impact of Georgia's HOPE (Helping Outstanding Pupils Educationally) scholarships. Dynarski compared enrollment rates of youths living in Georgia with those of students living in other states. She found that after the introduction of the HOPE scholarship, enrollment among these youths increased by about 7 percentage points. Other explanations for this increase seem unlikely, leading to the conclusion that Georgia's HOPE scholarship had been effective in increasing enrollment in the state. Dynarski's findings are qualified somewhat by other findings. In particular, she found that Georgia's HOPE scholarship had the effect of widening the gap in college attendance between blacks and whites and between those from low and high income families” (Dynarski, 2000).

Using a different data set that begins with institutional data, Cornwell and Mustard (2003) also find that the HOPE scholarship increased enrollment in the state. Their findings echoed Dynarski in finding a 7 percentage point increase in the freshmen enrollment rate in Georgia's institutions.

Other authors, however, have not found results that speak so directly to the positive effect of these programs. For instance, Binder and Ganderton (2001) find that the New Mexico Lottery Success scholarship did not have a measurable impact on enrollment rates. Instead, they found that the scholarship program had the effect of shifting enrollment from two-year to four-year institutions.
Migration of Students to Out-of-State Institutions

Among the most often heard reasons for adopting a lottery scholarship program is to limit the number of students who are leaving the state to attend higher education. This problem is often referred to as “brain drain:” the flight of highly qualified students to other states. Lottery scholarships are thought to solve this problem by providing financial incentives for individuals to stay in-state to complete their degrees. The evidence on this aspect of lottery scholarships is also quite clear. In states where these programs have been implemented, migration of students to out-of-state institutions has decreased.

These results are presented by Dynarski in her work. She found that enrollment of out-of-state students in border states declined after the implementation of the HOPE scholarship. It is not clear at this point whether these programs are successful in ensuring that the most qualified students remain in the state to attend higher education-only that migration out-of-state seems to go down after creating such a program (Dynarski, 2000).

Increasing Educational Attainment of the Workforce

In addition to the “brain drain” problem, state policymakers are also quite worried about the issue of ensuring a highly-educated workforce in the state. Many have suggested that with the creation of a lottery scholarship program, more students will stay in state, graduate from institutions in the state, then remain to live and work in the state. At this point, there is little evidence to suggest that this is in fact what happens. Instead, the state of our knowledge on this topic suggests only that more highly-educated people are more mobile than their counterparts (Groen, 2003; Rogers & Heller, 2003).

Persistence and Completion

The evidence on the effect of lottery scholarships on students staying in college and completing their degrees is decidedly mixed. In New Mexico, Binder and Ganderton (2001) find that students with a New Mexico Lottery Success scholarship were more likely to drop out of higher education. In a very well specified study, Henry et al. (2004) find that students with Georgia’s HOPE scholarship were more likely to have higher GPAs and were less likely to drop out than their peers (Henry, Rubenstein, & Bugler, 2004). Dynarski also finds some evidence that persistence and completion both improved after the creation of the HOPE scholarship (Dynarski, 2000, 2002).

Unintended Consequences

Not all of the consequences of lottery scholarships have been expected. Bradbury and Campbell (2003) find that Georgia’s HOPE scholarship may have induced some grade inflation at the high school level, as schools and districts used grades to ensure that their students received funding from the program. Looking at students in New Mexico, Binder and Ganderton (2001) find that students with a lottery scholarship were more likely to take fewer credit hours than their counterparts. Long (2003) finds that private institutions in Georgia increased prices after the creation of the HOPE program in order to capture more of the program's funding (Long, 2004). There is even some evidence to suggest that the creation of the HOPE scholarship program in Georgia created additional funds in family budgets that allowed them to purchase cars (Cornwell & Mustard, 2005).

The Use of Lotteries as a Funding Device for Scholarships

While lotteries have been used to fund colleges from the very beginning of higher education in the United States (Thelin, 2004) the use of lotteries to fund broad-based scholarship programs is a relatively recent phenomenon. Lotteries are particularly uncertain sources of revenue, since, unlike taxes, they depend on voluntary participation from the population. This section highlights the trends in funding for lotteries in the other states with large, lottery-funded scholarship programs. This review should illuminate some of the lessons learned, particularly from the first years of implementation of these programs. The states included in this review are:

- Florida
- New Mexico
- Georgia
- South Carolina
- Kentucky
- West Virginia

Table 1: Characteristics of Selected Lottery Scholarship Programs

<table>
<thead>
<tr>
<th>State</th>
<th>Award Criteria</th>
<th>Award Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Florida: Bright Futures</td>
<td>GPA and SAT/ACT</td>
<td>Full tuition at public institution plus $300</td>
</tr>
<tr>
<td>Georgia: HOPE</td>
<td>GPA</td>
<td>Full tuition at public institution plus $300</td>
</tr>
<tr>
<td>Kentucky: KEES</td>
<td>GPA and SAT/ACT</td>
<td>$1,000 per year</td>
</tr>
<tr>
<td>New Mexico: Lottery Success</td>
<td>College GPA</td>
<td>Full tuition and fees, public institutions only</td>
</tr>
<tr>
<td>South Carolina: HOPE and Lottery Tuition Assistance</td>
<td>GPA, SAT/ACT and class rank</td>
<td>$2,500 plus $150 books, or cost of tuition</td>
</tr>
<tr>
<td>West Virginia: Promise</td>
<td>GPA and SAT/ACT</td>
<td>Full tuition at public institutions</td>
</tr>
</tbody>
</table>

Source: Heller and Martin (2002).
Florida

In Florida, the Bright Futures scholarship program has been funded out the state's lottery since the beginning of the grant program. As figure 1 shows, lottery revenues per capita have been on a steady downward trend in the state. This funding source is not increasing over time, yet the obligations for the program have continued to increase rapidly. As figures 2 and 3 show, the number of recipients of a Bright Futures scholarship and the overall amount of funding required to maintain the program have both been increasing rapidly over time (Council for Educational Policy Research and Improvement, 2003).

Georgia

In Georgia, the amount of money collected through the lottery increased rapidly in each of the first four years of the program. However, after this initial surge in spending on the lottery, revenues have remained fairly stable over time. The HOPE scholarship, on the other hand, has continued to increase quite rapidly over time. The number of recipients of a HOPE award in 1993 was 42,807. By 2002, that number had increased to 219,938. Similarly, the size of the program grew from $21 million in its first year to $360 million in 2002 (Georgia Student Finance Commission, 2003). Like Florida, it is not certain whether the lottery will continue to be an adequate source of revenues for such a popular and rapidly growing program.

Kentucky

In Kentucky, the KEES scholarship has also proved to be quite popular. The number of recipients of this program grew from 18,620 in 1999 to 60,450 in 2002. This increase has led to a total of $72 million awarded in 2002 (Kentucky Higher Education Assistance Authority, 1999, 2000, 2001, 2002, 2003, 2004). The funding for this program comes from a lottery whose proceeds have remained essentially unchanged over time, increasing from just over $20 per person to about $40 per person.

Table 2: Characteristics of the Tennessee Education Lottery Scholarship Program

<table>
<thead>
<tr>
<th></th>
<th>HOPE (Base)</th>
<th>General Assembly Merit</th>
<th>HOPE w/ Need</th>
<th>HOPE Access</th>
</tr>
</thead>
<tbody>
<tr>
<td>Amount (4-yr)</td>
<td>$3,000</td>
<td>$4,000</td>
<td>$4,000</td>
<td>$2,000</td>
</tr>
<tr>
<td>Amount (2-yr)</td>
<td>$1,500</td>
<td>$2,500</td>
<td>$2,500</td>
<td>$1,250</td>
</tr>
<tr>
<td>High School GPA</td>
<td>3.0</td>
<td>3.75</td>
<td>3.0</td>
<td>2.75</td>
</tr>
<tr>
<td>ACT</td>
<td>Or 19</td>
<td>And 29</td>
<td>Or 19</td>
<td>And 18</td>
</tr>
<tr>
<td>AGI</td>
<td>N/A</td>
<td>N/A</td>
<td>$36,000 or less</td>
<td>$36,000 or less</td>
</tr>
</tbody>
</table>


Figure 1: Lottery revenues per capita in Florida, 1992-2002


Figure 2: Florida: Bright Futures Recipients


Figure 3: Florida: Bright Futures Awards


Figure 4: Lottery revenues per capita in Georgia, 1992-2002

The lottery in New Mexico has thus far not been successful in generating large amounts of revenues per capita. As Figure 10 shows, revenues per capita from New Mexico’s lottery have not exceeded $20 per person (United States Bureau of the Census, 1992, 1993, 1994, 1995, 1996, 1997, 1998, 1999, 2000, 2001, 2002). The state will most likely struggle to meet its commitments to this program given how little funding the lottery has been able to generate.

South Carolina

In South Carolina, the first two years of its lottery scholarship have seen enormous growth, from 23,790 recipients in the first year to 36,831 in the second year. The amount of awards has increased during that same time from $23.6 million to $37.2 million (South Carolina Commission on Higher Education, 2002, 2003, 2004). This same kind of growth has been seen in per capita revenues from the state’s lottery. Like Tennessee, more time is needed to understand how the state’s revenues from the lottery will match up with its obligations under the conditions of the program.

Last, using the lottery as a source of revenue means that these scholarship programs will have seen a great deal of volatility in funding from year to year, with the possibility of declining funding if people do not continue to utilize the lottery at previous rates.
West Virginia

In West Virginia, revenues are generated not from a statewide lottery but from a tax on what are known as “gray machines,” mostly video poker machines, which are accessible in many businesses (Heller & Marin, 2002). As Figure 12 shows, the amount of revenue generated on a per capita basis from these gray machines has increased in every year. In 2002, this amount was $100 for every man, woman and child in the state (United States Bureau of the Census, 2002). The continued strong growth of revenues from this tax has meant that there are sufficient revenues to cover the obligations of the Promise scholarship, but there are concerns in the state about how much gambling might be too much.

From examining the experiences of other states, I draw several conclusions. First, in no state were the first years of the program remotely indicative of the eventual status of the program. Second, rapid growth in both the number of recipients and the amount awarded has been the norm for other lottery scholarship programs. Last, using the lottery as a source of revenue means that these scholarship programs will have seen a great deal of volatility in funding from year to year, with the possibility of declining funding if people do not continue to utilize the lottery at previous rates.

Lessons Learned

After ten years, a few conclusions can be drawn about broad-based lottery scholarship programs. The following lists some of the most important findings from the research and policy literature:

✔ Lottery scholarships have increased higher education participation in states where they have been implemented.

✔ There is mixed evidence on the effectiveness of lottery scholarships in increasing student retention and completion.

✔ There is no evidence one way or the other on the effectiveness of these programs in increasing the educational attainment of the population.

✔ These programs have some unintended consequences, including grade inflation and alternative consumption.

✔ The first years of a lottery scholarship program are not representative of its future states, either in terms of revenues or expenditure obligations.

Questions for Policy Makers

The following are some suggested questions that policy makers and institutional leaders may want to consider during the next few years of the Tennessee Education Lottery Program (TELS).

◆ What do we expect the future demand for the TELS program to be?

◆ What can the state reasonably expect from the lottery as a source of revenue?

◆ Will lottery revenues be sufficient to meet expected TELS revenue demands?

◆ Can the program be adjusted to ensure that it helps students to achieve their educational goals?
References


Introduction

Today I am going to discuss merit-based scholarships. I will also compare these scholarships with need-based aid and show you some data about recipients of both types of aid programs. This report will include national trends on merit aid scholarships, talking specifically about what’s going on in Tennessee and other lottery scholarship states. I will begin my discussion by providing a bit of context about why we worry about college access in our country.

So after three decades, and literally hundreds of billions of dollars in financial aid and other programs that have tried to close the gap of participation, we haven’t done much to close the gap.

Barriers to College Access: Financial and Academic

Figure 1 illustrates data from the College Board study, Trends in College Pricing, and to me says as much about the issue of college access and the challenges we face in this country as does any single set of data. What this graph shows is in the last three decades or so, the rates at which traditional age college students (students between the ages of 18 and 24 years of age) attend college across the nation. This graph includes four income groups; these are roughly four income quartiles. The bottom is the lowest income quartile, followed by the lower middle, then upper middle, and the top line is the upper income quartile.

In the year 2000, the bottom quartile represented students with families of an income level below $33,000 per year and the top income quartile represented a family income of more than $81,000 or $82,000 a year. There are a couple of messages that I take from this graph; the first message is good news and the good news is all four of these income groups in the last three decades increased their college participation rate. We’ve done a good job getting more students to go on to college.

The bad news, however, is the gap between that bottom line and that top line. Back in 1971, there was about a 30 percent difference between the top and bottom line, and that gap is pretty consistent-up and down a little bit over time—but we are still at about a 30 percentage point difference today. So after three decades, and literally hundreds of billions of dollars in financial aid and other programs that have tried to close the gap of participation, we haven’t done much to close the gap. So that is a challenge that is still facing this country—trying to find ways to close that gap and serve the students with the greatest financial need.

When we study college access, what we find is that students generally face two types of barriers—financial and academic. I just finished talking about the financial barriers. In terms of the academic barriers, what we know is that low-income students usually face lower quality K-12 schooling, they don’t tend to get the same kind of support from their families, and they don’t have family members that have been to college.
What we find is that those academic and social barriers affect students, as well as the price of college or availability of financial aid. So a couple of years ago the Advisory Committee on Student Financial Assistance issued a report called Empty Promises. In this report, the committee looked at students who graduated high school in 1992. In order to try to isolate the impact of the financial barriers versus the academic barriers, what they did is they divided students who graduated from high school that year into four groups on two dimensions. One dimension was on the students’ scores on tests that were administered to them when they were in high school. The other dimension was socioeconomic status, which was a composite of the income of the students’ family and the educational attainment of their parents.

Table 1 shows the rates at which students enrolled in college within two years of their high school graduation in 1992. The rates are shown for the lowest and highest quartiles on the two dimensions of test score and socioeconomic status. For example, for students from the poorest families who scored in the lowest 25 percent on the tests, only 36 percent went on to college. In comparison, students from the top 25 percent of families in terms of socioeconomic status, and who scored in the top 25 percent on the tests, 97 percent of those students went on to college.

Now the interesting comparison here is to look at the students from the poorest families and who scored in the 25 percent of the tests. Only 78 percent of those students went on to college, as compared to 97 percent of their wealthier peers. This is the key indicator that tells us that finances are still a barrier for the poorest students. Because even though these students scored roughly as well as their wealthier peers, there was a 20 percentage point gap in the rate at which they enrolled in college.

The other interesting comparison is to look at the point of origin in Table 1 that contains the wealthiest 25 percent of students who scored in the bottom quartile on the tests. The same percentage of these students, who I have labeled the “not-so-smart rich kids,” went to college as did the “smart poor kids.”

These data tell us that there are still financial barriers to college for those students in the highest test score quartile, but from poor families. If these students were able to overcome the financial barriers and reach the ideals for higher education, we should see much more congruence between the rate at which they enroll in college with the rate at which wealthier students enroll.

### Trends in Federal and State Aid Programs

Financial aid is most influential on college entry decisions of low-income students. It is very difficult to get high-income students to go to college by giving them financial aid because most of them are going to go anyway; they have the financial resources to get there. What we have seen is that financial aid has been influential on the college choice of higher income students, and we’re seeing that in the issue of brain-drain (high academic performing students leaving the state to attend college). The Georgia HOPE scholarship, for example, has been successful at getting higher income Georgians to stay in the state to go to college. The other thing that’s important here is that grants are much more influential than loans in terms of college access, particularly for low-income students.

Figure 2 illustrates a couple of trends that I think are important in federal and state financial aid. At the top of figure 2 you will find the maximum federal Pell grant, which now is $4,050, as a percentage of the average public four-year tuition, fees, room and board; pretty much close to the cost of going to college. Back in the early 1980s, a Pell grant would cover about 70 percent of the average public four-year institution cost; it’s now down to less than 40 percent. At a private institution, this grant covered about one-third of the cost in 1980, and in the last two decades it’s eroded down to about 15 percent of the cost. The purchasing power of the Pell grant in both cases has just about been cut in half.

The other trend that’s important is the percentage of state aid that’s awarded based on academic performance (merit) without considering the financial need of the student. If you go back to the early 1990s, about 9 percent, of the financial aid money was awarded using merit criteria and no financial need assessment. Now we’re up to over a quarter (25 percent), approaching a third of all state dollars are being awarded without any financial needs assessment of the student.

To take a look at some of the more recent trends, if we go back to 2001, federal Pell grants have increased $350 (from $3,750 up to $4,050), which is

<table>
<thead>
<tr>
<th>Quartile</th>
<th>Percentage of 1992 High School Graduates Attending College by 1994</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lowest</td>
<td>36% Not-so-smart rich kids</td>
</tr>
<tr>
<td>Highest</td>
<td>78% Smart poor kids</td>
</tr>
<tr>
<td>Tested</td>
<td></td>
</tr>
<tr>
<td>Lowest</td>
<td>77%</td>
</tr>
<tr>
<td>Highest</td>
<td>97%</td>
</tr>
</tbody>
</table>

Source: Advisory Committee on Student Financial Assistance, “Access Denied”.

Table 1: Academic barriers vs. Financial barriers
about a 9 percent increase. Most state need-based grants have been capped because of the fiscal crisis facing most states. So in most states, you see very little, if any, increase in the need-based grant award given to students. However, in those states that award full tuition merit scholarships, as tuition has gone up for public institutions, the merit scholarships like the Florida Bright Futures program or Georgia’s HOPE, have increased at the same pace. So students who have gotten merit grants have been protected against tuition increases, unlike those students who are getting need-based awards. There’s been no increase, as we all know, in subsidized loan limits since 2001. Congress is likely to have a very spirited discussion about whether to increase loan limits when they debate the reauthorization of the Higher Education Act this year.

During this period, tuition, on the other hand, has gone up about $2,700 or 16 percent at the average private four-year institution. For public four-year colleges and universities tuition has increased by $1,300 almost $1,400, up by about a third, while community college tuition has increased nearly 29 percent, almost $500. So the students who depend on aid based on financial need (need-based), whether it’s the Pell grant and/or state aid, they have gotten almost no protection from those tuition increases. These students face big increases no matter what type of institution that they are attending.

Next year, if you look ahead to 2005-2006, I’m pretty confident in saying we’re going to see little or no increase in the Pell grant; if the President is successful with what he has sent to Congress, we may see a $100 increase in the Pell but it’s unclear yet whether the House or Senate will buy off on that, but the maximum we’ll see will be a $100 increase. In terms of need-based grant aid, there’s going to be little, if any, increase in most programs in the state. Most states are still recovering from a fiscal crisis in the early part of this decade, and we are not going to see much willingness to increase the maximum amount of those grants. Any increase in funding in most states is going to expand the awards to more students because of the increased need of those students. We may see a small increase in the first or second year borrowing limits, again, if Congress goes along with what the President has proposed.

Who Receives Financial Aid

What I want to do now is give you a picture of who receives different types of financial aid in this country. Last Thursday the Department of Education released for public use, the results of the data from the National Postsecondary Student Aid Study (NPSAS). This is a study that’s conducted every three or four years for the Department of Education; it’s a nationally representative study of how students finance their college educations. We are very fortunate to have these data; they’re current as of last year, so these are data from the 2003-2004 academic year. I was able to conduct a fairly quick analysis so that we have a current picture of who receives financial aid.

For this discussion, I am going to focus on traditional-aged college students who attend college full-time at four-year institutions. My reason for focusing on this population is because these are the recipients of much of the financial

Figure 3: The proportion of students receiving grants by income group (Dependent, full-time in 4-year institutions)
aid, these are traditional college students (ages 18 to 24), and these are the students that most state programs as well as most institutional aid programs focus on. [I would like to mention that Pell Grants are the exception here.]

What I am going to do is show you who receives the financial awards in three different income groups. Figure 3 shows students who attended college last year by income quartile. If you look across all college students last year, and you break them up into quartiles by the parents’ income: the bottom quartile came from families of an income of below about $33,000; the two middle quartiles are the middle 50 percent (we call them the middle income students) that came from families with incomes of about $33,000 to about $92,000 per year; and the top 25 percent of students came from families with incomes above $92,000 a year. Then again, keep in mind that these are national figures; obviously in a state like Tennessee, the average income is lower.

Figure 3 displays the proportion of each of these populations who receive these different kinds of grants. If you look at Pell grants, for example, roughly three quarters of these students received a Pell grant if they were in the lower income group. So if you come from a family with an income below $33,000 per year, about 73 percent of those students receive a Pell grant. In the middle income group, however, only 14 percent receive this grant because Pell grants cap out at a family income of about $50,000 a year. It is very difficult to qualify for a Pell grant if you have a family income above $50,000 a year and obviously, no one in the highest quartile receives a Pell grant. Pell grants are very heavily targeted to lower income families.

State need-based grants, like the Pell grants, are targeted to low-income families. Figure 3 illustrates about 41 percent of all students from the lower-income quartile (bottom 25 percent) receive state need-based grants; about 1 in 5 middle-income students receive this grant, and there are some students in some states, believe it or not, that come from families with incomes above $92,000 a year who receive need-based grants. If you take a look at state merit grants (grants given to students based on academic performance), there are obviously many fewer of these; they are concentrated largely in the South with a few other exceptions. About equal percentages of students, only about 7 percent or 6 percent of students in each of these income groups receive merit grants from states.

Institutional need-based grants are again targeted more at lower-income students, but as you can see in figure 3, there is much more going to the middle- and upper-income groups compared to Pell grants and state need-based aid grants. About 15 percent of students with family incomes above $92,000 a year receive an institutional need-based grant. Now remember that institutions can determine need however they want. Many institutions use the federal methodology, other institutions use The College Board methodology, but institutions can hand out need-based grants any way they want. About 1 in 4 of middle-income students and almost a third of lower-income students receive a need-based grant from an institution. In contrast, about 1 in 4 students in each of these income groups received a merit-based grant from an institution. These merit-based grants, by the way, are not need-based, so there’s no means-testing.

If we look at the distribution of grant dollars by income group in figure 4, we see a little different pattern. About 82 percent of all the Pell grant dollars go to the lower-income students. Again, Pell grants are very well targeted at financially needy students; about 18 percent go to the middle-income students, and upper-income students see very little. State need-based grants are just about split evenly between the lower income group and middle-income students. For state merit-based grants, about 50 percent go to the middle-income group, which is about what we expect. Nearly 20 percent of grant dollars go to lower-income students, and the distribution is skewed toward upper income students. We would expect this result given the merit criteria that we use and given the correlation between many of those criteria, for example, standardized test scores, and socioeconomic status.

For institutional need-based grants, we have a very similar pattern, little over half of the money is going to those 50 percent of the students in the middle group, and again it is skewed toward the lower-income students as you would expect because of the needs-
testing done. For institutional merit-based grants much more of that money proportionally is going to students in the upper-income quartile; even though that upper income group represents 25 percent of students, they receive 31 percent of the merit aid.

It is important to note that institutional aid dwarfs both state and federal Pell grants for the upper-income group of students. Institutions across the country, using their own financial resources, are handing out about $10 billion dollars in financial aid to traditional age students. In comparison, about $3 billion of state aid and less than $3 billion of Pell grants are available to these students. What happens in institutions is critical in terms of decisions about who is going to receive financial aid.

I would like to focus the discussion now on institutional grant dollars. One thing I was able to do was look at what the growth rate has been in institutional grants focusing on the $10 billion that’s being distributed by institutions (adjusted for inflation). In figure 5, from 1992 to 1999, these are the annualized rates of increase in institutional grants, both need and merit combined. During that seven-year period, for the top income quartile, the amount of money they received went up about 17 percent a year. In contrast, for the poorer students, it went up only about 10 percent a year. In the last four years, from 1999-2003, the annualized rate of increase has slowed down a bit. Probably some of this is related to what’s happening fiscally to the universities, particularly the public universities. In that early time period, the 1990s, many public four-year institutions got into the institutional aid business. Prior to the 1990s, very few public four-year institutions had any of their own financial aid. During that decade, we saw big increases in financial aid being granted by public institutions. So the slow down in the last four years is probably more at the public institutions than the private institutions. Again, I think that the important piece of data here is that still the upper income group is seeing the largest increase in that financial aid money we’re seeing throughout institutions.

One thing on merit aid I wanted to point out is what we found on Georgia; this is the study again, done by a couple of economists at the University of Georgia, Chris Burlow and David Mustard. What that study found was that 93 percent of the expenditures on HOPE went to students that would have gone to college anyway. What that means is that Georgia, through the Georgia HOPE Scholarship program, spent $9 to get $1 worth of additional college access. So they had to give an extra $1 to 9 students who would have gone to college anyway, in order to get one additional student to go to college. This situation raises questions about the efficiency and effectiveness of the use of state money in Georgia.

![Figure 5: Annual change in institutional grant dollars](image)

![Figure 6: Students qualifying for state merit scholarships](image)
Other State Merit Scholarship Programs

What I want to do now is take a look at four different states that have merit scholarship programs: 1) Florida; 2) Michigan (which is not funded by lottery, it’s funded by the state share of the tobacco settlement money and the Michigan program uses the state standardized tests to award their scholarships); and 3) Massachusetts (which now has the most recent state scholarship program, it’s not even in place yet, but will be awarded for the first time next fall and it, too, is using a state curricular frameworks test that students have to pass to graduate from high school). Prior to discussing other state programs, let me briefly talk about Tennessee’s lottery program. Since we just have the first cohort of students in college this fall, we are not able to get actual data on these students, so what we did is use some data that we received a couple of years ago from ACT, which is the American College Testing program. I worked with the Tennessee Higher Education Commission (THEC) to do some simulations based on how students scored on the ACT test along with their GPAs, and what we could do was simulate how many students would qualify for the Tennessee Education Lottery scholarships.

I will preface this discussion by saying that the Tennessee numbers I’m going to show you take into account the new criteria that the Legislature passed last spring requiring an ACT score of 21. So if they tightened up the eligibility criteria, the criteria for students coming in next fall would be a little bit higher than this first cohort of students. The other thing I want to mention about the data is that the numbers I am going to show you are probably skewed because they are based on students that took the ACT test. Students who took the ACT test are already obviously thinking about college, are likely to be college bound, so they’re going to be the higher achieving students in general. I think that it’s probably fair to say that the numbers I’ll show you here, especially comparing Tennessee to the other states are still representative, however.

Figure 6 shows the rates for students in different racial groups. The first group are white students, and of course the absolute size of each of these bars is going to be determined by the criteria they are using. In Massachusetts, the state decided to cap the students eligible for this merit scholarship by not allowing more than 25 percent of the students in each district to get these scholarships. What this means is that state wide, the maximum proportion of students that can get these scholarships is 25 percent. In Tennessee, there is no maximum number of students set so the state can hand scholarships out to many more students. In Tennessee for example, about 70 percent of the students will be expected to qualify for the scholarships in comparison to only 25 percent in Massachusetts. But again, the message I want you to take with you is not the absolute size of each state’s class but the comparison among the racial groups.

The next racial group in Figure 6 is Asian-American students; in most states again these students qualify at rates very close to or a little in excess of white students. The following group are African-American students, and you can see there is a huge drop-off between white and Asian-American students on the one hand and African-American students on the other. This is directly related to the kind of criteria we use for handing out the scholarships. Again, interestingly enough, the drop-off is not as large in Tennessee. Last are Hispanic students, and in most of the states there is a large drop-off in the number of students qualifying in this group.

In figure 6 the numbers represent the ratio of the African-American and Latinos in the state and the rate at which they qualify for state merit scholarships as a proportion of the rate at which white students qualify. Now the reason why this is important is because courts have used a test of comparing the rate at which a minority group qualifies for some kind of public benefit. The test is called the 80 percent rule, and if the rate at which a minority qualifies for a benefit is less than 80 percent of the majority group, in most cases whites, then it becomes suspect in the eyes of the court. In most of these situations the rate at which African-American students and Latino students qualify is below that 80 percent cut off. The exception obviously is the few Latino students here in Tennessee. But again, even among

![Figure 7: Students qualifying for state merit scholarships](attachment:image.png)

* Simulation based on state test data  **Simulation based on GPA/ACT data
African-American students, even though they fall below that 80 percent cutoff, they’re much closer to the rate at which whites are projected to qualify here in Tennessee than they are in any of the other states. I think that this is directly related to the decisions of the Tennessee Legislature to allow students to qualify with either a grade point average in high school or standardized test scores, the ACT and SAT.

In figure 7 we have the same comparison but we’ve divided students by income. Now we don’t have data on the actual income of students, what we do know is the community that those students come from. So we’re able to use as a proxy things like the percentage of students in each district that qualify for free or reduced lunch or the average income of families in that district from census data. The exception here is Tennessee where we did have an income range for those students. First is the highest income group, these are the students in each of these states that come from the wealthiest communities.

In the case of Tennessee, these are the students that come from families with incomes above $100,000 a year. So if you’re a student from a family in Tennessee with an income above $100,000 a year, you’ve got about an eighty percent chance of qualifying based on the ACT data. The next group drops off a little bit in Tennessee and in the other states drops off further as you get to the middle and then the fourth group drops off a little more. Tennessee, looking at the bottom line, is families with incomes below $36,000, which is just about the median in Tennessee. The numbers shown are the ratio of that bottom group to the top group.

A number of institutions, both public and private, over the last couple of years have created new financial aid programs that have targeted the financial neediest of students, based on how they define “needy” students. For example, the University of Maryland uses zero EFC (expected family income) students to define need; these are students that are not expected to contribute anything to their education. The University of North Carolina was the first public institution to do this; they are making a commitment to their students to say, “we will guarantee you will graduate debt free.”

There are similar programs at private institutions, and I want to point out that Princeton University was the first private institution to make this call. Princeton made the decision to replace loans with grants for all of their students who are financially needy students by their definition. Now at Princeton over 40 percent of these students are from families with an income above $100,000 a year. This is the example that I talked about how institutions can define need in any way they want. I will be the first one to admit if you’re somebody that comes from a family making $100,000 a year, if you have two kids at Princeton or one at Princeton and one at Vanderbilt, or Penn State for that matter, it could be very difficult to pay their tuition on an income of $100,000 a year. But the question that I would raise with people is I agree this family might need help paying for college, but is it unreasonable to expect that family to take out a subsidized loan for $2,625 in their freshman year to help pay for their education? Then again, the message here is to be a little bit wary when you hear about the definitions of financial need.

**Future Challenges**

Here are some of the future challenges facing the country. President Constantine W. (Deno) Curris, of the American Association of State Colleges and Universities, a lobbying organization in Washington, has labeled this “the perfect storm,” borrowing from the very popular book and movie from a few years ago. We’re going to be seeing increasing demand nationally for higher education and particularly in the public sector, to a lesser extent in the private sector, lagging resources and willingness to pay for higher education. I think another challenge is convincing policy makers, as well as institutional leaders, to make sure that we are using money wisely, whether it’s public money or institutional funds. We simply don’t know what impact the No Child Left Behind Act is going to have on preparation, demand, and participation in college. We don’t know if No Child Left Behind is going to be successful in getting more students both prepared for and interested in college.

The Western Interstate Commission on Higher Education prepares a report every few years on projections of high school graduates. These projections are for a 12-year period going back to the actual numbers from 2002. Nationally, we expect to see about a 5 percent increase in the number of high school graduates and of course that’s going to vary quite a bit across the country. The number of white students is actually expected to decline, while over half of this increase, about 660,000 students, will be Latino students across the country. Tennessee is actually expected to see a small decrease of about 2,000 in the number of high school graduates between now and 2012 to 2015; then it will rebound a little bit for the next six years.

Another set of data I would like to talk about are the NAEP (National Assessment of Educational Progress) scores of nine-year-olds. This is something that I like to think of as a leading indicator of preparation. These scores include math, reading, and science scores and what we have seen is that during the decade of the 1990s, with all of the concerns of the quality of K-12 schooling, is that NAEP scores for nine-year-olds were actually fairly level. There wasn’t much of a drop off in NAEP scores. Those students that took the NAEP test in 1998 will be the college freshman knocking on our doors in the year 2007. Those students are at least as well prepared as earlier cohorts of students. So if anybody thinks that future students are just not going to be prepared to go to college, this leading indicator says they actually are.

This chapter was based on a transcript of Dr. Donald Heller’s presentation at the TICUA annual meeting last February. Slight modifications have been made to the text to maintain consistency and clarity.
CHAPTER 3

Question and Answer Session

Moderated by Ms. Jacqueline Fellows

QUESTION # 1.
I have read your literature, Dr. Heller and other recent work on the impact of having the 21 ACT or 3.0 grade point average (GPA) requirements for this program and from what I read, or my interpretation of what I read, the big issue with a program like the lottery is in years to come the expenses will be much higher. My question is at some point the program must be adjusted and when it's adjusted, it impacts the minority students more than anyone. I didn't know if there are any models of other states on how it's adjusted. Could you discuss your thoughts on this issue, and also the impact this issue has on our border states?

ANSWER BY DR. HELLER:
Good point and good question. The 14 states that have merit scholarships structured into the lottery scholarships as well as Tennessee, Tennessee is the only one I'm aware of that's given a need-based supplement to the base award amount of $3,000. That's an important characteristic of the scholarship program, in addition to interest. Interest raised about this discussion over how students qualify by a GPA or an SAT or ACT score. The decision by the legislature, a lot of support involving the higher education commission, to ultimately allow students to qualify with either one of those criteria is in my view, based on data, the reason why the scholarship has been, will be, so successful in reaching populations of students that would possibly leave for other states. In both grades, as well as in test scores, there's got to be a severely strong correlation between grades, for example, as well as income. However, that correlation is stronger when using standardized test scores. In other words, standardized test scores are more highly predicted by someone's race, income of their parents, and whether their parents have gone to college themselves. So by allowing students to qualify only via the GPA, that's opening the door to scholarships for many students who probably never would have crossed the threshold. I think that a decision by the legislature to go from a 19 to 21 based on my reading of data, is not going to have a huge impact on the structure of this program, and its ability to reach populations that simply aren't being reached in our states.

ANSWER BY DR. DOYLE:
I would like to add that any program, any financial aid program that you will find, is a balanced infrastructure between equity and excellence. The Tennessee Education Lottery Scholarship (TELS) program, I think, does a nice job in balancing those two.

QUESTION # 2:
This question is a follow-up to the GPA issue. One thing that this GPA requirement has done in Tennessee is it has caused the Department of Education to take a look at uniform grading systems. I was curious as to whether or not, through your research, you have seen how states handle the issue of grade inflation, not only in terms of qualifying for the scholarships but also in terms of renewal criteria for the scholarships.

ANSWER BY DR. HELLER:
Obviously, when you base a program on the GPA, like the student lottery, there's no question that there's going to be grade inflation. When you think about a student who's in their senior year and they have about a 2.97 GPA and they come down to that last course--that last grade is going to make a difference between a 3.0 and 2.95. There's an awful lot of pressure on that teacher. I haven't seen any data from Georgia about whether there is any kind of grade inflation going on; it's a very difficult thing to measure. The one way you can try to measure when grade inflation is occurring is to look at the change in time over average grades in the state, in the district for that matter, and compare that to the change in time over standardized test scores. Presumably, the standardized test scores are not subject to inflation by pressure from parents. In Georgia, there has been a larger increase in grades since the HOPE scholarship came in, than there has been in the SAT scores. Some have pointed to that as evidence that the existence of the HOPE scholarship has influenced grade inflation. The other piece of information has pointed to the fact that a huge percent, the latest figures I saw, are that over half of all HOPE recipients who go to college lose the scholarship after their first year because they are not able to maintain a 3.0 grade point average in college. As far as the issue of standardized grading practices, one thing Georgia did last year was put in place a more standard method of calculating a 3.0 GPA. Basically, it's easier to get a B average than a 3.0 GPA. So Georgia did tighten up on grading in that way, and they did come up with a standardized method of calculating a student's final GPA as a way of trying to control the cost, and how many students qualify for the scholarship. I think that's the issue with every state that's using the GPA, because you're going to get plenty of people that say it isn't fair, that the grading standards are easier in Memphis than they are in Knoxville and vice versa.
QUESTION # 3:
I just want to follow up on a comment on the grade inflation issue with the GPA. One, there’s tremendous grade inflation throughout the academy which has been documented. Match this grade inflation up with the increase in GRE scores, for example, or any other entrance score or proficiency score, and what we see is for that same period of time, there is a sharper rise in GPA’s in college not matched up by increases in standardized scores. The second thing that I would also like to add on this issue is that we shouldn’t be so pessimistic not to think that there is an actual effect in the motivation and the performance of that last year in high school as students try and get better grades. If we are getting a real increase in motivation, focus and achievement then it’s probably worth the trade. I wonder, have you taken a look at gender at all as a factor for qualifying for these scholarships in Georgia, can we say anything yet about Tennessee?

ANSWER BY DR. HELLER:
I haven’t looked at the gender issue in detail, but the data I have seen shows relatively small gaps between men and women and the qualifications. There are gaps by gender as there are with any other demographics. There are obviously gaps in college numbers, but as far as gaps in qualifying for the scholarships, the numbers I have seen haven’t shown a huge difference between men and women at all.

QUESTION # 4:
When there’s a few years’ data in Tennessee, it’ll be interesting to see. There’s a subpopulation that is picking up the significant high test scores, matched up with low GPAs–male students. It seems to be a more pronounced effect than with female students. This might turn out to be a significant advantage from the ability to be able to qualify for the HOPE scholarship with test scores or grade point average.

ANSWER BY DR. HELLER:
Ok, I am going to take a few minutes to address the motivational aspect of the lottery programs. This has certainly been something that a lot of the states use to try to sell these programs–this lottery scholarship will provide an incentive for students to work harder in high school. However, there hasn’t been any research evidence that this really has occurred, that student’s are actually working harder in high school because of the HOPE scholarship. There has actually been research done on high school graduation testing. States, for example, like Massachusetts, require students to pass a test to graduate from high school. There is a lot of the same philosophy that by trying to raise standards and trying to motivate students to work harder by telling them they have to pass this test to get a high school diploma, however what the research is finding is that these tests interrupt the motivational pattern. The research shows that these tests are actually a disincentive substance, particularly for the worse performing students. The worse performing high school students are more likely to drop out than similar performing seniors who do not have to take a test to graduate from high school. This is the flip side of this; particularly in Georgia, which is putting $360 million now it’s closer to $400 million in the HOPE scholarship, and they have $4 million in the need-based grant program. So if you’re a student that can’t get a HOPE scholarship, in other words you can’t achieve a 3.0 GPA upon graduation, you’re going to get almost no assistance from the state of Georgia. So the disincentive there is the students who feel like they can’t get that 3.0, and who are going to look at it and say “there’s no way I can go to college, why should I bother working hard?”
So I think that based on that evidence from research on high school exit exams, there’s actually a potential to have a disincentive effect holding that carrot out there; some students are going to be more discouraged about not being able to get any kind of financial aid to go to college. Now again, to defend the state of Tennessee, you have a relatively well funded and healthy need-based grant program, in addition to the access grant, the situation in this state is very different. But in states that are putting all their eggs in the basket of merit-based scholarships, I think it’s a real possibility to be discouraging to the financially neediest students.

ANSWER BY DR. DOYLE:
The only thing I can add to this conversation is that we do know one of the big problems in financial aid is that students are not very aware of what’s going on. The process to qualify for the federal Pell grant, state grant, is enormously complex, very difficult to navigate through. Whereas with these programs, usually the criteria are fairly clear and transparent to most students. Researchers have found that on a qualitative basis, when we go and talk to people at these schools, the awareness is much broader than it typically is, compared with the other lottery programs.

QUESTION # 5:
There are a lot of presidents here in this room that have worked very hard to get the lottery scholarships. We’re pleased with what has occurred here and I’m really happy that you are too, structurally. Looking forward, I’m personally thirsty for information on the future growth of the eligibility pool of students–mainly the extraordinary expansion on the number of recipients in Georgia. We’ve all raised money for endowment scholarships and we have to warn donors that there are four years involved, and there’s somebody that comes along in each class and we have to prepare for them. I was wondering if there were some perfect little political design issues in Georgia affecting the lottery scholarship program?

ANSWER BY DR. DOYLE:
Yes, there are several things going on at the same time. Increasing professional preparation among the population is going to be at least part of the picture. Second, it does appear that Georgia had historically low participating rates, particularly among the middle-income students, when compared to other states. Also confirming that the group that was competitive among the scholarships is also not participating as well as they could have. A lot of people did begin to take advantage of ways to get
into college that might not otherwise have gone. The migration question, people who would have gone out of state to go to college, are now staying in the state and that begins to build up over time as more and more people start to take advantage of the HOPE scholarship. Last, I would think that the possibility of providing more incentives for that group of students to change their behavior prior to college, prior to their college decision and provide for those students to move forward in high school and go on to college when they otherwise may not have done so. These are some of the things I have been told. The migration question and the incentive question are both the kinds of things we could expect to see here--fewer students going out of state. In-state options are becoming more attractive and also, generally the number of students who otherwise might not go to college deciding to go, and also students in the pipeline becoming aware of the program. The program is well advertised here, it does seem to put out the awareness so students may be able to change their behavior in terms of preparing for college. If this happens, then your going to see overall interest increase in the program.

**QUESTION # 6:**

Let me ask another question. In terms of the application process--the difficulty, especially for low-income families--of finding out what financial aid is available and how to move through the process. In Tennessee, the primary way to apply for the state aid program is through the Free Application for Federal Student Aid (also known as the FASFA). The data seem to indicate that the number of applicants increased exponentially because that is the only way to apply for aid. The data also indicate that the financially neediest of families increased exponentially as well in the need-based aid program. Consequently, we're setting here now, and with a fairly robust need-based aid program of about $47 million, but we're announcing, based on the recent application process, that we currently serve less than half of all eligible students of this program. One of the intended consequences was to move more lower-income families into that need-based aid program so that the state has a better understanding of what the true need of our students is out there. On the other side, there is a lot of resistance from upper, middle, and high-income families in completing the FASFA application. Could you give us some thoughts on that application process?

**ANSWER BY DR. HELLER:**

We make poor families fill out the application, and if they can manage to fill one out to get a Tennessee Student Assistance Corporation need-based grant or a federal Pell grant--I just can't have a lot of sympathy for those who aren't willing to fill one of these applications out to get a $3,000 or $4,000 scholarship. The bigger issue of this application process is the complexity of completing the FASFA. The Advisory Committee for Student Financial Assistance just released a very interesting report to Congress with recommendations for simplifying the federal student aid system through the FASFA process. Of course that would simplify the application process for many states because most states also use the FASFA for state-based aid programs.

I think a lot of good recommendations from the report are worth considering. For example, the report discusses what is called a zero Expected Family Contribution (EFC) level, if you have an income below $15,000, it's very simple, you only need to fill out about four or five questions and you stop there. While one of the recommendations would lift that up to $25,000, that would make the process much simpler for many low-income students. But there are other recommendations that would improve the process, making it easier, simply because there is no question that the barrier of having to fill out a FASFA, even knowing about it and how to qualify for federal aid and in-state aid is a barrier, particularly for poorer students who think they can't overcome that barrier. The good news about requiring students to fill out the FASFA in order to qualify for this lottery scholarship is that you're going to be capturing more federal aid in Tennessee also.

You're going to get some people who didn't even know they were eligible for aid who now are going to get a federal Pell grant instead of federal student loans. The bad news is a lot of those students are also going to be eligible for a Tennessee Student Assistance Corporation grant. Now the state's going to have to be saying to more students, "sorry, we've run out of money, we can't fund you." It's not an easy thing, particularly for the people who work in the business of giving out financial aid. So I think the state is going to have to wrestle with this issue of discovering that we've got many more people with financial need, and how can we serve them if they're able to qualify for a lottery scholarship. As far as making the process easier for upper-income people by saying you don't have to fill out a FASFA, I just can't buy it.

**QUESTION # 7:**

My question is concerning the budget proposals President Bush has set forth with the Perkins loan program, the TRIO program. What impact do you think this proposal is going to have on the enrollment of lower-income students?

**ANSWER BY DR. HELLER:**

I'm very discouraged. I spend a lot of time working with people who run TRIO programs. It's incredibly discouraging when you talk with these people who are on the ground on a daily basis having face-to-face interactions with students who use these services, plus students in high school and again in the four-year institutions. The stories they tell you about students who they know would never have made it to a four-year college; who never would've gotten a degree, are not the ones that are balancing the budget. We're just starting to reap the results of that program. To have the President just zero those programs out, in fact eliminate them, to balance the budget is incredibly discouraging. As far as the Perkins loan, I don't get quite as upset about that, certain people in financial aid offices do, but I think eliminating the early preparation programs and support programs for students to go to college is absolutely the wrong direction to take. We're pulling out the rug from them.
financially by not giving them the money in student aid programs and now we’re going to pull it out from the academic and social support side too. We’ve got barriers left and right that keep students from going on to college. But as Senator Cohen said, I get to live in the ivory tower not in the dirty world of politics. It’s easier for me to sit here and say that but I also recognize the difficulty of facing a $400 billion budget deficit, and Congress has obviously made up its mind to solve that expense problem with those cuts.

QUESTION # 8:
As you look at the landscape of Tennessee, what recommendations do you have for us, three, four, five years down the road as we start to see the potential tension between expenditures and revenues?

ANSWER BY DR. HELLER:
Having spent a number of years working down here I have learned a lot about the politics in Tennessee, and I realized that the lottery is the only way that this program is going to be funded. What this state, and other states with lottery programs, is doing is marrying one public policy that insists you get a degree in the population of the state with another public policy of getting people to go to college that’s trying to address the issue of leaving the state. Instead of trying to encourage you to buy lottery tickets and throw them away, I don’t have a lot of real answers for you. You know, as well as anybody does, that this program is going to just absolutely take off in terms of the money it brings. We’ve got a huge number of students that qualify; we’ve made the ability to keep the scholarship once they’re in college easier than most other states, and of course most students will retain the scholarship at least for the first year. From everything I’ve seen, the Tennessee Student Assistance Corporation is doing a wonderful job on getting the word out there as Will mentioned, about publicity and letting students know about it. So there’s going to be skyrocketing demand for this program and as I understand it, as many of the institutions here, unlike other states, are willing to increase their enrollment; at least the public institutions are willing to increase enrollment to accommodate more demand which means more money coming into this program, so costs are going to skyrocket. I could give you some solutions to try and control those costs; one obviously would be to tighten up on the academic requirements, but the risk of doing that is not moving forward like the other states and the gap in enrollment where people are going to the border states. The other obvious solution that no other state has been willing to do is to impose needs testing. We’ve certainly talked about this, and you could cut the cost of the program in half by simply putting in an income cap and saying that any one above an income of whatever the number is, don’t qualify for a scholarship. Is that going to be feasible? Probably not, but that’s one way to cut, capping the cost of it.

ANSWER BY DR. DOYLE:
Don, what would you think of a combination of calculating the needs testing, a way for the students to be tested, and then a merit supplement if the aid is good enough?

ANSWER BY DR. HELLER:
That’s fine, and that’s in essence what we’re saying now; the $1,000 need supplement. I run into this a lot, when I go around the country talking about merit scholarships. Everybody says, why do you hate merit scholarships? How can you be against merit? I try to explain that I’m not against merit; I don’t have any problems with using merit criteria for financial aid, with a few caveats, the merit criteria would have to be reasonable. They have to be reasonable objectives that can be reached by broad groups across your state, and I think you’ve achieved that with what you’ve got here in Tennessee. Yes, there are still gaps between racial majority and racial minority students, but let me tell you, they’re a heck of a lot better than every other state. The other thing that you need to do is you need to be able to ensure that the process is easy enough. As I said before, we’re telling people that they qualify for the Pell grant; you have to fill out a FASFA and I think it’s fair to say that they have to fill out a FASFA for the lottery scholarship but I don’t have any problem with combining merit criteria with needs testing. My problem is with those states who throw needs testing out the window and give money to students who very obviously don’t need it to go to college. Not all the students getting the HOPE scholarships in Georgia need the scholarship to go to college. But the students driving the SUVs, to be perfectly honest, would’ve gone to college, would’ve gotten a great college education it might not have been in Georgia, it might have been in a flagship institution–Duke, Harvard—but they still would’ve gotten a college education anyway and yet the citizens of Georgia, the lottery players of Georgia, are the ones who are funding their college education. That, with respect to public policy and equity, is where I have the problem.

ANSWER BY DR. DOYLE:
You’re right. I would be extremely reluctant to permanently divert any of the revenues away from this program before knowing what the program is going to look like, and the revenues it will bring. Any of those changes, I think, would be dangerous.

ANSWER BY DR. HELLER:
If the legislature or the Tennessee Student Assistance Corporation twiddles with this program every year and adjusts the criteria, you’re going to lose the value of the transparency of the understanding of this program. I’ve encouraged states to avoid that as much as possible; let the program be for a few years, look and see what the revenues look like, what the expenses look like; let students get to understand and know the program. If you have any hope that this can be a motivational factor, then you’ve got to keep the program fairly static so students understand it and it’s predictable. If you twiddle with it every year, students are going to look at it and say “I don’t believe it’s going to be there by the time I graduate from high school, why should I worry about it?”
QUESTION #9:
I’d like to ask either of you to comment on the long-range impact that tuition discounting is having on higher education, or institutional discounting in the form of scholarships.

ANSWER BY DR. DOYLE:
We have a difficult time knowing what’s going on with tuition discounting. As we track it, it looks as though there’s been a drift, overall, in institutional-based policy toward the need-based grants that have a merit component. It seems as though merit-based grants are expanding and going to all groups, and the strong need-line concept is drifting away. We are finding this in public institutions who didn’t get into this game until late, but there’s not nearly as much money as with the private institutions. Even there, a lot of that grant money is not going out based on financial need, it’s going out to carry highly qualified students. There are a lot of reasons why we might suspect that’s the case, to increase the institution’s academic competitiveness. The sense that I get from the data and the literature is that we’re drifting and the direction we’re going is away from a need-blind system.

QUESTION # 10:
How would you describe the impact of the HOPE scholarship for the University of Georgia for the last 10 years? And what we can expect for the University of Tennessee?

ANSWER BY DR. DOYLE:
The University of Georgia’s objective for the program is to make sure the highly qualified students stay in state, and so those that stay and get the HOPE would go to a flagship-style institution. So the University of Georgia has become, according to the rankings in the U.S. News and World Report and others, more competitive, more able to increase the institutional prestige at least in part by virtual scholarships. The other thing we know is that particularly the publics, on the room and board side, have increased their classes, their room and board costs are up, and they’ve captured part of that HOPE scholarship for the institution itself instead of it being something that’s just there for students. This program has increased the prestige of the institution’s more highly qualified student body and boosts the institution’s revenues as well.

ANSWER BY DR. HELLER:
This effect that we’re seeing at the University of Georgia of increasing prestige, increasing selectivity, increasing SAT scores are due in part to the Georgia HOPE program but also in part to what is happening across the nation. Almost every public flagship is seeing exactly the same thing in the last 10 or 15 years; they’re becoming more selective, applications are up, they’re accepting proportionally fewer students, and SAT scores are up. What we are seeing is as tuition continues to go up in the public and private sector, more and more families, lower-class families are seeing a flagship as a very reasonable alternative. Will said this earlier–there’s no question the Georgia’s HOPE scholarship has been extremely successful at getting students to stay in state to go to college. Every state is trying to chase after the best and brightest students to get them to go to their colleges; nobody wants the worse and dumbest students. Everybody wants the best and brightest students, it is a zero sum game. If the best student is going to the University of Georgia, he’s not going to Vanderbilt; if the best student is going to Georgia Tech, he’s not going to the University of Chicago. There’s only so many best and brightest students out there to chase after and, as Will said, there is zero evidence so far that merit scholarships have had a width of value of keeping students in the state after they get their bachelor’s degree. That’s the only advantage to the states economy is that the students stay in the state after graduation. There’s no evidence that any of the states’ merit scholarships are successful at increasing that state’s retention of those best and brightest students. If they’re not successful doing that then Georgia is better off letting that student go to Vanderbilt and getting educated at Vanderbilt’s expense or his own expense than having taxpayers subsidizing through appropriation and through the HOPE scholarship in Georgia. Yet, Georgia has not been able to present a shred of evidence that their ability to keep highly trained people graduating in their institutions has increased in the last decade. Without that evidence, you have to question whether you really are successful at lessening brain-drain by using scholarships.

QUESTION #11:
We’re the ones that administer the TELS scholarship program; we’re also the ones that take telephone calls from parents who are upset about the requirements for the scholarship. Will changing the eligibility–ACT scores from 19 to 21–mean that those students have a better chance of achieving a 3.0 GPA in their first year, is there any correlation in that?

ANSWER BY DR. HELLER:
I’m not as familiar with research on ACT scores, but the research on the correlation between the SAT scores and first year grades in college shows that SAT scores are a pretty good predictor of first-year grades. I think it’s fair to conclude that it’s the same for ACT scores; their structures are pretty similar. To increase the threshold for the ACT score required for that scholarship, I would expect to see an increase in the retention rate of those students in their first and second year. So yes, I would expect to see that retention rate increase. So the question is, do we shut some students out by raising the level to 21 but you’re also going to have more retention by having higher scoring students getting the scholarships; one will offset the other when you consider the total cost of the program. I don’t know, I think that’s the wildcard.

ANSWER BY DR. DOYLE:
I think this may be the reason we don’t know that much about the effect on persistence and completion. The differences among states eligibility criteria; even in taking different students, the effects will be very different.

This section was based on a transcript from the question and answer session at the TICUA annual meeting last February. Slight modifications have been made to the text to maintain consistency and clarity.
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William R. Doyle is an assistant professor of higher education at Vanderbilt University. His research is concerned with the political antecedents of higher education policy. Prior to joining the faculty at Vanderbilt, he was a Senior Policy Analyst at the National Center for Public Policy and Higher Education, where his research centered on higher education finance, public opinion and governance. Doyle served as project manager for the first release of Measuring Up: The State-by State Report Card for Higher Education. He holds a Ph.D. in higher education and an M.A. in political science from Stanford University.

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July 2005
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