

# A Gamble with Consequences: State Lottery-Funded Scholarship Programs as a Strategy for Boosting College Affordability

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In the wake of the Great Recession, the higher education landscape is primed for policy change. Decreasing state appropriations have led to unreliable funding levels and tenuous budgetary planning at public colleges and universities. In turn, institutions shift more of the financial burden of a college education onto students through increased tuition and fees. Adding to this strain is President Obama's visible and ambitious agenda to drastically improve American postsecondary achievement and completion. Yet in answering his call to meet changing workforce demands and remain internationally competitive, colleges and universities must also address changing national demographics and growing socioeconomic inequality. The pressure to innovate and improve learning outcomes collides with the need to address access and affordability issues. Taken together, these forces have created the context in which political advocates must look for potential—and often alternative—policy solutions.

## An Overview of Lottery-Funded Scholarship Programs

Among the potential policy alternatives for improving college affordability, state-run lotteries with revenues dedicated to education have stood out as a popular

solution. In fact, despite the slow economic recovery after the Great Recession, non-tax revenue sources to support higher education—a category which includes lottery funds—has increased by nearly one-third to \$2.9 billion in 2013 from \$2.2 billion in 2008 (Rivard, 2014). As shown in Table 1, 44 states have established lottery programs, 26 of which have earmarked proceeds for education—either K-12, higher education or both. Only six states (Alabama, Alaska, Hawaii, Mississippi, Nevada and Utah) do not currently operate lotteries, with Wyoming being the most recent to approve legislation in 2013 creating a lottery that commenced in August 2014. Additionally, three of the 2014 gubernatorial candidates in Alabama are running on pro-lottery platforms, so there may be 45 states in the state-run lottery market in the near future.

Beyond the vast popularity of lottery programs, it is notable for what purposes the revenues are utilized. As mentioned above, over half (twenty-six) of the forty-five states designate funds for education, yet they also tend to allocate the bulk of lottery proceeds explicitly toward either K-12 or higher education. Furthermore, while eleven states earmark for higher education (higher education primarily or higher education and K-12 equally), eight states—Arkansas, Florida, Georgia, Kentucky, New Mexico, South

**Table 1: Primary Earmarked Use of State-Run Lottery Program Revenues**

Elementary and Secondary Education	K-12 and Postsecondary Education	Postsecondary Education	Education and Other Specific	General Fund	Other Specific
New Hampshire (1964)	Washington (1982)	S. Carolina (2002)	New Jersey (1970)	Connecticut (1971)	Massachusetts (1971)
New York (1967)	California (1984)	Tennessee (2003)	Oregon (1984)	Maryland (1973)	Pennsylvania (1971)
Michigan (1972)	Florida (1986)	Arkansas (2009)	W. Virginia (1984)	Delaware (1976)	Colorado (1983)
Ohio (1973)	Missouri (1986)		Nebraska (1992)	Rhode Island (1976)	Kansas (1986)
Illinois (1974)	Kentucky (1989)			Iowa (1985)	Indiana (1988)
Vermont (1976)	Georgia (1992)			Montana (1986)	Wisconsin (1988)
Arizona (1980)	New Mexico (1996)			S. Dakota (1986)	
Virginia (1987)	Oklahoma (2005)			Minnesota (1989)	
Idaho (1989)				Louisiana (1990)	
Texas (1991)				Maine (1990)	
N. Carolina (2005)				N. Dakota (2004)	
				Wyoming (2013)	

*Note.* Table template from “Earmarked lottery profits: A good bet for education finance?” by Neva Navarro, 2005, p. 27. Information on dates founded and distribution of funds taken directly from individual state lottery websites. Years represent the passage of legislation or amendments that established the legality of a state-run lottery; the lotteries typically began awarding winners about one year after this date. This table represents the primary usage of funds, though it should be noted that in the states that designated “elementary and secondary education” or “postsecondary education,” excess funds are typically designated for the other education subsection.

Carolina, Tennessee and West Virginia—use the lottery to fund merit-based scholarship programs specifically.

## The Georgia HOPE Scholarship Program Begins a Trend

Most scholars attribute state-run lottery growth in the past two decades to the success of the Georgia HOPE (Helping Outstanding Pupils Educationally) scholarship program. Established in 1993, the Georgia HOPE program initially provided scholarships for students with a minimum high school GPA of 3.0 to cover the full tuition at an in-state public institution or a set amount to be applied to a private college or university in the state. While these award limits changed in 2011, not only has the Georgia HOPE program increased the number of students who stayed in-state for college, it also drastically increased the average competitiveness—or increased ACT/SAT scores and GPAs—of students

attending public institutions in Georgia (Campbell, 2003; THEC, 2012).

Following the success of the Georgia HOPE program, many other states, mainly in the southeastern U.S., subsequently attempted to replicate this program and its benefits; some even went so far as to borrow the HOPE name. Tennessee, for example, has two HOPE programs—GAMS (HOPE with a merit-based supplement) and ASPIRE (HOPE with a need-based supplement). In 2012, the Tennessee Higher Education Commission sought to compare lottery-funded merit-based scholarship programs to investigate differences in eligibility rules, changes to the programs over time, and how the programs are tied to access and competition rates. Table 2, which has been updated from the findings in that report to reflect the most recent data available, compares the eight states with lottery-funded, merit-based scholarship programs.

**Table 2: Overview of State Lottery-Funded Scholarship Programs**

	Arkansas	Florida	Georgia	Kentucky	New Mexico	South Carolina	Tennessee	West Virginia
<b>Year Implemented</b>	2010	1997	1993	1999	1996	1998	2004	2002
<b>Number of Students Served in 2012–2013</b>	33,517	162,980	117,085	68,745	32,388	45,134	65,514	9,954
<b>Total Program Costs in 2012–2013</b>	\$134M	\$312M	\$463M	\$102M	\$61M	\$238M	\$277M	\$48M
<b>Maximum Award (per year, unless otherwise noted)</b>	2012–2013 <sup>3</sup> \$4,500 (4-year) \$2,250 (2-year)	\$2,772 <sup>4</sup>	<b>Public</b> \$74 – \$218 <sup>6</sup> (per-hr-rate) <b>Private</b> \$1,854 (semester) \$1,236 (quarter)	\$1,300 Based on GPA + bonus awards	Tuition only	\$5,000 <sup>8</sup>	\$6,000 (4-year) \$3,000 (2-year) <sup>7</sup>	\$4,750
<b>Average Award<sup>1</sup></b>	\$3,988	\$1,915	\$3,954	\$1,495	\$1,881	\$5,262	\$3,980	\$4,794
<b>Scholarships as a % of Average Public 4-year Tuition &amp; Fees<sup>2</sup></b>	55.1% (\$7,238)	30.2% (\$6,336)	50.5% (\$7,823)	17.2% (\$8,692)	31.4% (\$5,987)	47.2% (\$11,138)	49.5% (\$8,036)	76.7% (\$6,251)
<b>Funds Remedial Courses?</b>	Yes	No	No	Yes	Yes	No	Yes	Yes
<b>Funds Summer Courses?</b>	No	No <sup>5</sup>	Yes	No	No	Yes	Yes	Yes

*Notes.* Table template from “A Comparison of States’ Lottery Scholarship Programs,” by the Tennessee Higher Education Commission, 2012. pp. 9, 17. Figures updated using information found directly from state program websites and state finance annual reports. Year scholarship program was implemented may differ from the year the state lottery was implemented, as denoted in Table 1.

<sup>1</sup>Average Award is a derived variable modeled off the THEEC report, using the number of students and total program costs in most recent year.

<sup>2</sup>The source for average public four-year tuition and fees is The College Board (<http://trends.collegeboard.org/college-pricing/figures-tables/tuition-and-fees-sector-and-state-over-time>).

<sup>3</sup>Starting in 2013–2014, Arkansas now awards \$2,000 per year at a two-year institution, and offers awards that increase each year for students at a four-year institution (\$2,000 [1<sup>st</sup>], \$3,000 [2<sup>nd</sup>], \$4,000 [3<sup>rd</sup>], \$5,000 [4<sup>th</sup>]).

<sup>4</sup>The award amount in Florida is provided on a per credit-hour basis and varies among different types of institutions. This calculation is based upon a four-year institution and 18 credits per semester (<http://www.floridastudentfinancialaid.org/SSFAD/bf/awardamt.htm>).

<sup>5</sup>Florida will fund two semesters per year, typically the fall–spring semesters. If a student enrolls in the new spring–summer model, only spring–summer will be funded.

<sup>6</sup>The exact HOPE award amounts by institution can be found at [http://www.gsfc.org/main/publishing/pdf/2012/hope\\_award\\_amounts.pdf](http://www.gsfc.org/main/publishing/pdf/2012/hope_award_amounts.pdf).

<sup>7</sup>Tennessee divides the maximum award among three semesters if a student chooses to enroll in summer.

<sup>8</sup>In South Carolina, students on LIFE and Palmetto Fellows scholarships in eligible math and science programs are also eligible for additional “Enhancement” funds on top of the maximum scholarship award.

**Table 3: Minimum Initial Eligibility Criteria for Base Lottery Scholarship Programs**

	States that require both ACT/SAT and HSGPA		States that require either ACT/SAT or HSGPA				Other	
	Florida	West Virginia	Georgia	Tennessee	Arkansas	Kentucky	New Mexico	South Carolina <sup>2</sup>
<b>High School GPA</b>	3.0	3.0	3.0	3.0	2.5	2.5 (for base award)		3.0
<b>ACT/SAT</b>	26 ACT/ 1170 SAT	22 ACT/ 1020 SAT	85% or higher on SAT/ACT	21 ACT/ 980 SAT	19 ACT	15 ACT/ 710 SAT (for bonus award)		24 ACT/ 1100 SAT
<b>Core Course Requirements</b>	Yes	Yes			Yes	Yes		
<b>College GPA</b>							2.5	
<b>High School Ranking</b>								Top 30%
<b>Community Service</b>	75 hours required	20 hours encouraged						

*Note.* Table from “A Comparison of States’ Lottery Scholarship Programs,” by the Tennessee Higher Education Commission, 2012. p. 12. Figures updated using information found directly from state program websites and state finance annual reports.

<sup>1</sup>Georgia’s Zell Miller, Florida’s Academic Scholars (FAS), South Carolina’s Palmetto Fellows Scholarship, and Tennessee’s General Assembly Merit Scholarship (GAMS) have higher requirements than their base programs, but also provide additional awards.

<sup>2</sup>South Carolina requires applicants to meet at least two of these three thresholds.

## Comparing Lottery-Funded, Merit-Based Scholarship Programs

Lottery-funded programs range in size and cost from state to state. Florida served the largest number of students (162,980) and spent the second highest amount of any state—\$312 million. Georgia, near the top of the list in terms of both reach and expenditures, served 117,085 students at a cost of \$463 million. On the opposite end, West Virginia has the smallest program, serving 9,954 students at a cost of \$48 million. The average award ranged from \$1,500 (Kentucky) to over \$5,000 (South Carolina), with six of eight lottery-funded scholarship programs covering between one-third and one-half of the average cost of published tuition and fees at that state’s public institutions.

The outliers, Kentucky and West Virginia, had the lowest and highest percentages at 17.2 percent and 76.7 percent, respectively. Given that the average award in Kentucky is also the lowest of any state’s program, the lower proportion of coverage is not surprising. In terms of service to students, half of the programs cover summer courses and half cover remedial courses: Tennessee and West Virginia cover both, while Florida covers neither. Finally, each of these programs also has minimum initial eligibility requirements, which are discussed in Table 3.

## Lottery Proceeds for Education Can Gain Bipartisan Support

Lotteries are politically popular sources of additional state revenue and can be successful

policy solutions that address some of the current challenges on the higher education landscape. For one, as demonstrated by Georgia’s HOPE program, lottery-funded scholarships can act as a lever to encourage the best and brightest students to remain in-state while promoting a college-preparatory curriculum and the high academic achievement necessary to qualify for these programs (Ness & Mistretta, 2009). Furthermore, even in an increasingly partisan political arena, lotteries still manage to rally support from both sides of the aisle. On one hand, when revenues are earmarked for education, lottery programs can act as a symbol for improved access, affordability and opportunity for all students in the state. These ideals are ones that tend to align with the liberal platform. On the other hand, lotteries create a new revenue stream, tapping into dollars previously lost to citizens playing lotteries in neighboring states, while simultaneously “exporting” taxes to external players. When out-of-state individuals participate in a new lottery game, they put dollars into a system from which they do not later benefit—this extra revenue theoretically eliminates the need to tax all residents in favor of collecting revenues from individuals who voluntarily participate in games. Eliminating the need for a broad-based, compulsory tax aligns well with more conservative values. In short, not only do lotteries appear to address the college affordability issues that are currently center stage in the media and in the legislative arena, but, and perhaps more importantly, they are also able to garner enough political traction to gain requisite legislative support to ensure sustained viability.

## Outcomes and Aftermath of State-Run Lottery Scholarship Programs

While lotteries, on the surface, appear to be a positive policy solution to increase revenues and support college access, the literature on the outcomes of state-run lotteries indicates that such programs do not live up to their anticipated benefits on many fronts. Many of these factors are

intertwined and amplify one another. For example, the instability and unpredictability of lottery revenues often leads to more stringent eligibility requirements for scholarships, which in turn can result in more funds being disproportionately distributed to the wealthiest families. Yet, despite the fact that many issues exacerbate one another, repercussions of lottery-funded scholarship programs can be roughly divided into three categories: issues of finance, issues of access, and issues of politics and philosophy. Each is discussed in greater detail below.

### ***Issues of Finance: “New” and “Protected” Revenue Streams***

**While lotteries appear to create a new source of non-tax revenue, actual proceeds rarely match projections.** When a state first establishes a new lottery, it does draw funds previously lost to neighboring states’ lotteries, but these initial gains tend to decay or drop off after about five years (Covert, 2014; Heberling, 2002; Land & Alsikafi, 1999). Part of this trend results from interstate competition for lottery dollars—additional surrounding states each enact their own lottery to join the fray, and states with existing lotteries develop new games to regain the revenues lost to competing states (Tosun & Skidmore, 2004). The largest contributing factor, however, may be the inherently inefficient profit margin of lotteries: after payments to winners, sales commissions to vendors, and lottery administration expenses, only about 34 cents of every dollar generated by lotteries ends up in the state budget (Bowden & Elrod, 2004; Covert, 2014). For comparison purposes, states typically spend less than 1 percent of the amount collected to acquire traditional tax revenues. Moreover, some researchers argue that when considering their high administration costs, lotteries affect state economies *negatively*, not positively, because dollars spent gambling could have otherwise been spent on consumer goods and services and could be subject to less wasteful collection methods of sales tax (Bowden & Elrod, 2004).

**Not only are lottery revenues more expensive to collect than traditional tax revenues, but they also tend to supplant, rather than supplement, general state appropriations for education.** In fact, when lottery funds are earmarked for education, the risk of supplanting over supplementing actually increases. Numerous studies in the past three decades have found that while educational expenditures tend to increase immediately in states that enact lotteries, overall spending tends to decrease over time. States without lotteries, on the other hand, end up spending approximately 10 percent more of their budget on education than states with lottery funds earmarked for education (Covert, 2014; Heberling, 2002). This trend is particularly indicative of the unintended, counterintuitive negative consequences of employing lottery programs to support education.

**Lottery revenues are actually a fairly small revenue stream, generally comprising less than 2 percent of state appropriations to education (Covert, 2014; Land & Alsikafi, 1999).** Despite this low proportion, citizens in lottery states tend to vote against ballot initiatives intended to increase educational expenditures because the lottery proceeds and education are so visibly linked (Heberling, 2002). Legislators, on the other hand, often take advantage of the window created by lottery revenues and the subsequent public satisfaction with the level of educational expenditures by reallocating general education funds to other high-need areas like corrections or healthcare (Heberling, 2002; Land & Alsikafi, 1999; Tollefson, 2009).

### ***Issues of Access: Strategies for Enhancing College Affordability***

**Lottery-funded scholarships are typically last-dollar programs, which means awards cover tuition and fees once Pell grants and other financial aid (except loans) have been exhausted.** Many of the programs listed in Table 2, above, require students to submit a Free Application for

Federal Student Aid (FAFSA) in order to be eligible for the state's program. Pell grants are inversely related to scholarship dollars because most programs cap potential funding at a set amount or the cost of tuition, whichever is lesser. Therefore, if two students have the same tuition bill, but one qualifies for Pell and the other does not, the result is that the state will spend more award funds on the wealthier student with no federally recognized financial need than the student who qualifies for the maximum Pell grant. Moreover, because scholarship dollars only cover outstanding tuition and fees once all other financial aid has been accounted for, low-income students do not receive grant or scholarship dollars above and beyond tuition costs, leaving them to struggle to pay for books, transportation, housing, childcare, and other non-tuition expenses involved in pursuing a postsecondary education. In short, last-dollar tuition scholarships do not correct inequity in college access and affordability across socioeconomic brackets; in fact, when the scholarships are merit-based instead of need-based, these programs tend to increase inequity instead of alleviating it.

**Overall, the trend in higher education has shifted away from need-based aid.** While the majority of state-based student financial aid is in the form of need-based grants, long-term trends show greater increases in non-need-based aid, according to the National Association of State Student Grant & Aid Programs' (NASSGAP) 43rd Annual Survey, which used data from the 2011–2012 academic year. Need-based grant aid increased from \$3.86 billion in 2001–2002 to \$6.95 billion in 2011–2012, a 79.9 percent increase. Non-need-based aid, on the other hand, increased from \$1.27 billion to \$2.4 billion, a 91.9 percent increase, over the same time frame (NASSGAP, 2013). Further, eight states—California, New York, Texas, Pennsylvania, Illinois, New Jersey, Washington and North Carolina—collectively awarded 70 percent of all need-based grant aid awarded by states (2013). It is notable that none of these states have a lottery-funded scholarship

**Table 4: Expenditures for Undergraduate Student Aid Programs, by Type, in States with Lottery-Funded Scholarship Programs (in \$ millions)**

	Aid Based Only on Need	Aid with Need & Merit Components	Aid Based Only on Merit
Arkansas	\$8.8	—	\$140.4
Florida	\$136.8	\$.07	\$333.8
Georgia	—	—	\$436.4
Kentucky	\$58.9	—	\$99.1
New Mexico	\$28	\$1.4	\$67.8
Tennessee	\$43.8	\$28	\$262.2
South Carolina	\$19.5	—	\$229
West Virginia	\$5.2	\$39.2	\$47.6
<b>Total</b>	<b>\$301 million</b>	<b>\$68.7 million</b>	<b>\$1,616.3 million</b>

*Note.* Data from “43rd Annual Survey Report on State-Sponsored Student Financial Aid, 2011–2012 Academic Year,” by NASSGAP, 2013, p. 13, Table 8.

program. In fact, when comparing award amounts by type in the lottery-funded scholarship states, the picture is very different: together, they awarded \$301 million in grants based on financial need, and a staggering \$1.6 billion in grants based on academic merit. These numbers are broken out by state in Table 4. Part of this shift away from need-based aid can be attributed to underlying ideologies: merit-based scholarship programs play into American values of democracy and the theoretical success of those individuals who work hardest. Additionally, unlike need-based grant programs, which inherently benefit only the poorest students, non-need-based programs can also support middle- and upper-income households—populations that tend to vote at higher percentages. Yet there is significant evidence that rewarding the notion of “merit” only presents an illusion of fairness among student populations.

**Despite the fact that merit-based scholarships play into a notion of democracy in a way that need-based programs—which target a specific subset of students, by definition—do not, merit-based scholarships swing too far in the**

**other direction.** Research shows that merit-based programs disproportionately benefit white and higher income families. These programs’ eligibility standards are designed to limit the pool of students who qualify for award dollars, but in doing so, they often restrict funds to those students with greater financial resources. Four states currently have a minimum ACT/SAT score or a minimum high school GPA requirement, for example, and Florida and West Virginia require students to meet both an ACT/SAT and GPA requirement. Policies like those in Florida and West Virginia are particularly harmful to the poorest students. As a 2008 study demonstrated, if Florida and West Virginia were to change their requirements from “and” to “or,” then the total amount of scholarship dollars going to low-income students would nearly double (Ness & Tucker, 2008). In fact, the Florida Bright Futures program has even come under scrutiny from the U.S. Department of Education’s Office for Civil Rights for possible discrimination against minority students (Dupuy, 2014). Clearly, the growing reliance on merit-based aid programs to distribute lottery revenues means that these dollars tend to finance students who

are likely to attend college anyway given their financial wherewithal, instead of expanding access and affordability for the neediest students for whom college is only a chance possibility.

**The inequity in college preparedness across demographic sectors is a large contributing factor to the uneven disbursement of lottery fund dollars.** According to the College Board, only 52 percent of high school graduates from the lowest-income quintile enroll in college within one year after graduation, compared to 82 percent of students at the highest-income quintile (2013a, 34). Yet this statistic is misleading, as it masks the unequal rates of graduation across quintiles and the tendencies of different quintiles to enroll in different types of institutions. If the percentage of all high school students who attended four-year institutions were separated by family income, the picture would be much more dire. The poorest students tend to be overrepresented in two-year institutions and underrepresented in four-year colleges and universities. Tuition at community colleges tends to be much less expensive on average than the tuition at public four-year institutions. Therefore, when lottery-funded scholarships cap awards at a set amount or the total amount of tuition, whichever is lesser, low-income students at two-year colleges require fewer state dollars to meet this threshold than students attending a more expensive four-year institution. Students in the lowest income brackets are also less likely to persist from semester to semester or complete a degree: Among students who began postsecondary education in 2003-04, only 26 percent of students in the lowest quartile earned a bachelor's degree by 2009, whereas 58 percent of students in the highest quartile completed their programs (College Board, 2013a). Combined with an increased likelihood of receiving need-based federal awards, the propensity to attend a less expensive institution is another way in which low-income students benefit less from lottery proceeds than students from the wealthiest backgrounds.

**The inequity of merit-based scholarship programs intensifies the unequal burden lotteries already place on particularly vulnerable populations.**

Though no individual is required to participate in gambling, making the lottery technically voluntary, lotteries are often considered a “regressive tax” for a number of reasons. First, low-income families tend to benefit less from lottery-funded programs—including merit-based scholarship programs—than higher-income families. Second, lotteries are regressive because the poorest families tend to play games more frequently than wealthier families and lotteries represent a greater share of the household income in lower socioeconomic brackets (Stewart, 2013). In essence, poor families are helping send wealthy students to college. Moreover, due to the aggressive nature of lottery advertising and the addictive nature of gambling in general, some critics even argue that the lottery is considerably less voluntary than a traditional economic model typically allows (Bowden & Elrod, 2004). In almost every study performed by economists, findings show that as household income increases, the proportion spent on lotteries decreases. If lottery proceeds were spent on programs designed to aid the populations that tend to fund them—in this case, low-income families and minorities—then the regressive nature of lotteries would be lessened (Bowden & Elrod, 2004). This, unfortunately, is not the case. At New Mexico State University, for example, only 30 percent of the recipients of lottery-funded scholarships came from families earning \$20,000 to \$39,999, whereas over half came from families with annual incomes over \$100,000 (Stewart, 2013).

**In addition to disproportionately drawing funds from low-income households into a program that unequally benefits the wealthiest families, lotteries also become increasingly regressive over time.** Tuition prices climb year after year, and insufficient, if not decreasing, state appropriations force public colleges and universities to place more of the financial burden onto students and their

families. Projected growth in student enrollments will result in a larger number of students who qualify for scholarship funds, with each lottery-funded scholarship award requiring additional state funds. Stagnating lottery revenues cannot keep pace with demand. As a result, states are forced to reevaluate and renegotiate the terms of their scholarship programs in order to address the fiscal imbalance. Of the twelve states with merit-based scholarship programs, Arkansas, Florida, Georgia, New Mexico, Tennessee, and South Carolina—all states which rely on lottery revenues to fund their scholarship programs—have proposed legislation to freeze or cut award levels (Covert, 2014; Dupuy, 2014; Quizon, 2011; THEC, 2012). In New Mexico in 2013, where a college GPA of 2.5 or higher meant 100 percent coverage of tuition costs for eight consecutive semesters, the program was expected to pay out \$67 million but only took in \$40 million. To deal with this growing deficit, the New Mexico legislature considered raising the program's minimum GPA requirement, increasing the minimum number of credits students must take each semester, or changing the award to a set amount instead of covering tuition entirely (Boyd, 2013). Ultimately, they decided to reduce the total number of semesters funded from eight to seven (Massey, 2014).

Many of the other lottery-funded scholarship programs have also felt this crunch. Arkansas altered award amounts beginning in the 2013–2014 academic year from a set amount every year to a maximum award that gradually increases over four years. In Tennessee, when the program was altered to include coverage of summer semesters, it was also amended to cap awards at either 120 attempted semester hours or completion of a degree, whichever came first (University of Tennessee, 2014). The Florida Bright Futures program endures perpetual reforms to its eligibility requirements in order to

reconcile growing costs with state budgetary issues, including cutting scholarship amounts per credit hour, raising ACT/SAT requirements, and reducing the budget for the program from \$309 million to \$266 million next year (Dupuy, 2014). Even the iconic Georgia HOPE program was forced to renegotiate terms in 2011 as demand for scholarships and increasing tuition created large deficits. To compensate, Georgia ceased paying for remedial courses, increased the minimum required GPA, and awarded set amounts instead of full tuition; these changes led to a 24 percent decrease in students that qualified for the program (Covert, 2014).

**Changes in eligibility requirements exacerbate the inherent regressive nature of lotteries and their merit-based scholarship programs.** Low-income students are often affected by less visible factors that contribute to college success, like higher rates of holding part- or full-time employment while pursuing an education, thus making it more difficult for them to focus on their studies and subsequently qualify for merit-based scholarships in the first place (Stewart, 2013). When states raise minimum eligibility requirements or cut back on award amounts in order to rein in program costs, low-income and minority students tend to be disproportionately affected. When requirements are increased, these students are squeezed out; when award amounts are cut, they are disproportionately burdened by the need to find additional funding elsewhere to cover educational expenses. These issues are at the core of the U.S. Department of Education's Office of Civil Rights' investigation into the Florida Bright Futures program (Dupuy, 2014). Therefore, while lottery programs are historically regressive to begin with, lottery-funded, merit-based scholarship programs increase this regressive nature through their distribution, increasing inequity over time as programs are reformed to deal with unsustainable growth in program costs.

## ***Issues of Politics and Philosophy: Considering the Role of Government***

**Some scholars argue that, ethically, the government should not be in the business of managing any gambling, lotteries or otherwise.** To create a lottery program, each state must first review its constitution carefully and determine what legislation would be required to make a state-run lottery legal (Ness & Mistretta, 2009). In some states, the constitution requires voter approval of lottery enactment. While some citizens may feel moral misgivings about legalizing state-run gambling even today, lotteries have grown in popularity over the past three decades, as evidenced by the lottery establishment dates shown in Table 1. Part of this shift in values and subsequent public support for lottery programs can be attributed to the propensity of states to use proceeds to support popular causes, like education.

**State-run lotteries, as an arm of the government, are not subject to the Federal Trade Commission's truth-in-advertising regulations.** Many lottery advertising campaigns exploit the addictive nature of gambling to prey on especially vulnerable populations like minorities, low-income families, the elderly, and high school drop-outs (Heberling, 2002). Furthermore, as lottery revenues decay over time, states must invest in more aggressive ad campaigns and create new, more addicting games in order to keep revenues flowing. It is paradoxical for a state government to exploit public ignorance involving the detrimental consequences of gambling in order to help fund public enlightenment through a college education (Selingo, 1999). This ethical ambiguity is particularly salient given the unequally regressive nature of lotteries, and the pattern of decreased state appropriations from the general budget when states earmark lottery revenues for education.

**In general, the public is unsure about how to grapple with the philosophical implications of a government with a vested interest in the promotion of gambling.** For example, when the University of Iowa (U of I) allowed the state to run a commercial featuring a man sitting in the school's basketball arena, scratching off a lottery ticket while humming the U of I fight song, the campus community protested the use of the university's image and brand in this way (Powers, 2007). Though the University of Iowa received proceeds from the lottery, the general public evidently still had some misgivings about the link between higher education and funds raised through gambling. Certainly, if the government has an obligation to serve and protect its people, then states must examine whether their government should be involved in promoting and operating a lottery, regardless of the causes the proceeds support.

## **The "Tennessee Promise": A Contemporary Case Study**

When Tennessee's governor, Bill Haslam, announced the "Tennessee Promise" in his 2014 State of the State Address, it instantly drew national attention with a catchy sound bite promising all of Tennessee's graduating high school seniors two years of a community college education for free. Though the program technically only covers tuition and fees, it is a unique and innovative approach to college affordability and access. The Tennessee Promise Scholarship Act of 2014 was signed into law in May 2014 as part of Governor Haslam's "Drive to 55" initiative, a campaign to increase the percentage of Tennessee citizens with a college degree from 33 percent to 55 percent—the projected workforce demand for such training—by 2025. Estimated to cost the state about \$34 million annually, financing for the program comes from earnings and interest on a new trust established from \$300 million in saved lottery reserves.

Scholarship dollars are available beginning with the high school graduating class of 2015 for a two-year degree at any of Tennessee's 13 community colleges, 27 colleges of applied technology (TCATs), or any in-state public or private four-year university that offers an associate degree. Like many state scholarship programs, including Tennessee's HOPE scholarship, the Tennessee Promise is a last-dollar program, with state dollars making up the difference in tuition costs after all other grant aid is accounted for. Due to this stipulation, all students must apply for federal aid through the FAFSA, a requirement which restricts awardees to those students who are citizens or legal residents of the state and disqualifies undocumented students. Students must be first-time freshmen and enroll in the fall semester immediately following their high school graduation. In order to maintain their scholarship, students must remain Tennessee residents, enroll full-time, earn a GPA of 2.0 or higher, participate in eight hours of community service per semester, and attend mandatory meetings and mentoring.

The scholarship program is overwhelmingly popular with Tennessee voters, with 86 percent approving the initiative, according to a recent poll (Patterson, 2014). Unlike many state scholarship programs, the Tennessee Promise is universally applicable to graduating high school seniors—there is no merit component or requirement for recognized financial need. As a result, the students that will likely benefit most from this program are those students who are not academically eligible for merit-based scholarships, like HOPE, but also do not qualify for Pell grants. By targeting this population—students who likely would not have considered college otherwise—the Promise proactively works toward producing a larger percentage of skilled workers to meet future economic needs in the state. Critics worry that promising these funds will allow students to become less academically competitive or motivated, yet proponents counter that eliminating the burden of cost allows students to focus on their

studies instead of finances (Barbour, 2014; Hall, 2014). To this point, perhaps one of the strongest portions of this plan is the requirement for awardees to attend mandatory mentoring with a designated mentor. Requiring over 5,000 volunteers across the state, individual mentors work with up to 10 students to help them fill out the FAFSA and navigate the financial aid process. This type of support, in addition to general cheerleading, can be critical for students who are the first in their family to attend college or who may not have anyone to provide this guidance at home.

Yet, despite considerable support and positive press, the Tennessee Promise scholarship program does not address many factors underlying issues of access and affordability. While research shows that an unambiguous “promise” of scholarship funds, like those in the Tennessee Promise, can be highly motivational for first-generation and low-income students, such programs are too rarely linked with guidelines for college preparedness or setting up students for long-term success (Kelderman, 2014). Moreover, because aid is last-dollar and only applicable for tuition and fees, the restrictions place an unequal burden on low-income students, compared to wealthier ones, as they still need to find financial support to cover other non-tuition educational expenses. Therefore, the Tennessee Promise does not increase access, affordability or completion for all students equally. Furthermore, part of the Tennessee Promise Scholarship Act involves reducing other four-year scholarships provided by the state to implement the new scholarships for all students. As a result, students may forgo attending a university for a community college and attempt to transfer later—a move that is proven to reduce graduation rates overall (Kelderman, 2014). Some critics also wonder if community colleges have the capacity for the increased number of students the sector will see as a result of this program and suggest that additional institutional resources will be needed to meet facility and faculty demands

(Farmer, 2014). Shifts in enrollment patterns toward community colleges may also affect the number of students and tuition dollars at the state's four-year institutions, many of which do not offer associate degrees and are excluded from Promise dollars. Clearly, the long-term implications of the Tennessee Promise scholarship will continue to be the subject of much scrutiny and analysis in the years to come.

## Moving Forward: Conclusions & Recommendations

Given the many implications, challenges and unintended consequences of state-run lottery programs, it seems clear that establishing a state lottery to buttress college access may be less than ideal as a meaningful, long-term solution to address college affordability. Yet, because 44 states and the District of Columbia already operate lotteries, and given that, once implemented, lotteries are nearly impossible to dismantle, it is more useful to imagine ways to improve the lottery as a tool to promote access and affordability than to argue against it as a policy.

**One recommendation is to restructure the financial model so that lottery revenues can be more predictable and sustainable.** At present, lottery funds are volatile, unpredictable, and rarely keep up with projections or demand. The Tennessee Promise scholarship program is an example of a particularly innovative approach on this front, because it established a substantial endowment with lottery reserves and relies on interest and earnings to fund the scholarship awards. This, too, relies on some uncertainties, like the strength of investments and the market overall, but it also cushions program funds from short-term uncertainties, like a year of low lottery sales. An alternative could be to move away from public administration of lottery programs in favor of private administration. Privatizing the lottery system would eliminate the philosophical and ethical questions about the government's obligation to its citizens and how promotion of gambling fits

into that role. Such a shift could also potentially create a more sustainable revenue source through taxation of the gambling industry as a whole, though such a tax would only be a fraction of revenue proceeds currently collected by the states (Heberling, 2002).

**Lottery revenues should also be better wielded as a lever to influence institutional tuition policy.** As evidenced by the shift in lottery-funded scholarships from full-tuition awards to a designated amount, states invest more in scholarships promising up to the full cost of tuition than those that establish a predetermined maximum. When a state promises full tuition awards, the state coffers, not families, bear the weight of increasing tuition costs year after year. Therefore, institutions feel little or no pressure from families to keep tuition raises in check. On the other hand, when scholarship programs with caps have no influence on tuition costs at institutions, over time these awards end up covering a smaller and smaller proportion of total tuition costs. The growing gap that students and families face may negate any gains in access or affordability a scholarship program is intended to create. If scholarship programs are synchronized with tuition policy, however, perhaps by only allowing funds to be used at institutions that increased tuition below a predetermined threshold, the programs may be more sustainable in the long term and can also work toward affordability by keeping tuition rates manageable.

**In terms of access, the focus of scholarship programs should shift from merit-based aid to need-based aid.** Many low-income and minority students are more likely to perceive the availability of financial aid as a factor influencing their decision to go to college. Therefore, while universally promising scholarship funds to students also inevitably supports some students with no financial need or who would have attended college anyway, such programs may help traditionally underserved populations consider and academically plan for a

postsecondary education. In contrast, studies have also shown that merit-based scholarships tend to affect where a student goes to college, not whether they will attend (Ness & Tucker, 2008). As the lottery-funded scholarship programs are largely merit-based, they are not truly operating in a way that promotes college access. While a complete overhaul of the programs from merit-based to need-based is a remote possibility, especially when considering how politically unpopular such a change would be with voters, there are some other possibilities to improve access. States should consider integrating one or more need-based elements to their programs, such as adding a supplemental need-based award on top of the merit-based aid, or providing assistance for navigating the financial aid process in order to target and better help the neediest students.

**Lottery-funded scholarships alone do not equate to student success or completion, particularly for traditionally underserved populations.** While many obstacles facing low-income and minority students are related to finance, more also needs to be done at the K-12 level to prepare students for academic college success, and more should be done at the institutional level to help guide and support these students through graduation (Fain, 2014; Gragreen, 2012; Menifield, 2012). The Tennessee Promise once again provides a good example of including elements that promote student success into lottery-funded programs. Instead of solely focusing on financial aid, mandatory mentoring could also involve academic support or success skills workshops. Alternatively, lottery funds could be tied to institutional support, like the establishment of support groups, the creation of specialized learning communities, and increased faculty-student interactions (Menifield, 2012). These initiatives at individual institutions may serve to improve the overall student experience, keep students

engaged, and promote degree completion. Finally, many of the scholarship programs are currently designed explicitly for first-time, full-time students. As the student demographic continues to change, however, with increasing numbers of nontraditional learners, more must be done to accommodate a broader array of student populations and to provide alternative program delivery models. The role of the nontraditional student in meeting state workforce and educational attainment objectives will only continue to grow.

In conclusion, despite their political popularity, state-run lotteries and lottery-funded scholarship programs as sources of postsecondary education financing raise more concerns than they set out to address. Lottery proceeds rarely match projections, often decaying within the first decade after creation. Lottery programs are expensive to administer, and they not only detract from sales tax that may have been generated, but also tend to correlate with decreased educational expenditures from the general budget. The merit-based structure of most lottery-funded scholarship programs compounds the inherently regressive nature of lotteries by unequally distributing program revenues to wealthier families instead of low-income students. Finally, the ethical ambiguity of government-promoted gambling creates moral arguments against state-run lottery programs. Yet despite all of these shortcomings, non-tax revenue streams provide an interesting approach to thinking about innovation in higher education financing. Many experiments and trial projects can be done to improve the issues of finance, access and philosophy involved with state-run lotteries. In the future, with some restructuring and imagination, lotteries and lottery-funded scholarships may become a sustainable and reliable lever for increasing college access, affordability and completion.

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