

A Lottery-Funded Alabama College Promise & Alabama Opportunity Scholarship Program

*A Review of State Lottery Policies
and Recommendations for
Creation and Implementation*



By

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Dear Colleagues:

The “Alabama story” on higher education outcomes is we start them, but we don’t finish them.

We don’t finish them because Alabama ranks dead last among Southern Regional Education Board states in state-funded need-based student aid. The average state/federal split is 21/79 percent across the 16 SREB states. In 2016, Alabama invested just one percent.

Federal Pell grants are Alabama’s *de facto* student aid program. The \$462 million Pell helps academically-talented, economically disadvantaged students succeed at our state’s community colleges, regional universities, flagship universities, and 14 nonprofit accredited colleges. With no state student aid program, responsibility for enrollment and completion falls on the backs of institutions to fund scholarships, and students through self-funded loans. With no state student aid program, students and institutions are vulnerable to federal Pell cuts—adjusted for inflation, Pell has been cut 8 times since 1974, including 4 straight years starting in 2012.

These realities drive the higher education agenda of the Education Policy Center: Helping save students time, credits, and money translates into higher retention and completion rates. Our 2015 study for the Higher Education Partnership of Alabama documented the return on investment of state funding. Our Alabama Transfers program works with the Alabama General Studies Committee to create a mobile app advancing a paper-based transfer system into the digital age. We’re partnering with the new Alabama Office of Apprenticeships to create dashboards linking employer needs to apprenticeship programs, promoting 2+2+2 transfer. In July 2020, we conducted the Governor’s Survey of Employer Needs for the Governor’s Office of Education & Workforce Transformation. Our Black Belt 2020 series released nine briefs on issues facing Alabama’s impoverished 24 Black Belt counties, in partnership with Al.com, in the Fall of 2020.

Our federal student aid work includes 20 state and national studies of Pell, and presentations at the White House and at the U.S. Department of Education in administrations of both parties. We worked with state leaders and college presidents in Mississippi and Alabama to create consistent messaging for the Senate Appropriations Committee under the late Thad Cochran and Richard Shelby that spurred the 2017 restoration of year-round (Summer) Pell nationwide.

The EPC is fully committed to help Governor Kay Ivey and our state’s business and education leaders achieve the goal of 500,000 more Alabamians with industry-recognized certificates and degrees by 2025. At her request, in 2019 we coordinated a delegation of Alabama educators to see TnAchieves, the first and largest statewide College Promise. *A Lottery-Funded Alabama College Promise & Alabama Opportunity Scholarship Program* by EPC Research Associates Jonathan Bowen and Emily Grace Corley provides a roadmap to create a need-based statewide student aid programs to bring young Alabamians and working adults hope that college is within their grasp. It is the magic sauce needed to accomplish Governor Ivey’s big goal.

Stephen G. Katsinas & Nathaniel J. Bray
Education Policy Center, The University of Alabama

LETTER OF TRANSMITTAL

December 2020

Dear Colleagues:

We are pleased to present *A Lottery-Funded Alabama College Promise & Alabama Opportunity Scholarship Program, A Review of State Lottery Policies and Recommendations for Creation and Implementation*. This report examines state gaming legislation, expected lottery impacts, and provides recommendations. It reviews state lotteries across the country, with special emphasis on Georgia, Florida, Mississippi, and Tennessee, which all have lottery-funded programs. It details the cost and benefits of an Alabama College Promise and companion Alabama Opportunity Scholarship programs, detailing the implications for high school completion rates and first-time freshman in-state enrollment at public higher education institutions.

In February of 2020, Governor Kay Ivey established the Governor's Study Group on Gambling Policy, to produce "detailed and factual findings to allow the legislature as well as the people of Alabama make an informed decision about the future of gambling policy."¹ The Study Group was tasked to report on the current status of gaming in Alabama, what it could look like with costs and benefits, and to report on the various regulatory structures other states have adopted to maximize the benefits and minimize the costs of gaming. Since the Study Group on Gambling Policy was not tasked with deciding what to do with gambling revenues in the event Alabama were to later expand gaming, our report complements well the final report by the Study Group by providing options for how legislators could appropriate potential gaming revenues.

We first wish to thank our Education Policy Center colleagues Emily Jacobs, Hunter Whann, Noel Keeney, John Bruno, Stephanie Paul, Michael S. Malley, Jr., and Associate Director Nathaniel Bray. We thank EPC Fellows Ray Huebschmann, Vince Lacey, Brian Johnson, James E. "Skip" Dotherow, James E. "Ed" Davis, David S. Murphy, Art Dunning, and Jake L. Warner. We also thank The University of Alabama's Master of Public Administration faculty, including MPA Program Director Dr. Dana Patton and Dr. Sungho Park. We also thank Peter Abernathy, Chief Aid and Compliance Officer of Tennessee Higher Education Commission, and Misti Monroe, Chief Revenue Officer at the Legislative Budget Office of Mississippi for their assistance. Finally, we thank EPC Director Stephen Katsinas, whose patient guidance and support throughout the writing of this report has been essential.

We need to do more to expand access in Alabama. In 2017-18 Mississippi's community colleges enrolled just under 53,000 students and in that same year Alabama's community colleges enrolled just over 54,000 students, despite the fact we have nearly 2 million more Alabamians. Our state's community colleges do a good job with the resources given, but they're underfunded.

An Alabama College Promise with a companion Alabama Opportunity Scholarship Program could be decisive in helping Governor Ivey and her team achieve their *SuccessPlus* goal to attain 500,000 highly-skilled workers with recognized degrees and certificates by 2025. We commend to you the work and it is a privilege to be of service. Any mistakes or errors are ours alone.

*Jonathan R. Bowen & Emily Grace Corley, MPA students and Research Associates,
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A Lottery-Funded Alabama College Promise & Alabama Opportunity Scholarship Program

Education Policy Center, The University of Alabama

Executive Summary

Overview

The Education Policy Center at the University of Alabama has completed a quantitative study to propose an Alabama Lottery for Education. By examining state lottery policy surrounding Alabama, we have established a basis for understanding the implications for using lottery revenues for scholarships to post-secondary institutions. This report examines state gaming legislation on lottery proceeds and provides data on expected impacts of a College Promise program and Opportunity Scholarship in Alabama. Across the country, College Promise programs are used to ease the financial burden that comes with pursuing a college degree. This report concludes with policy recommendations to establish a state education lottery that would fund Alabama College Promise—to make community college free or as close to free as possible—utilizing lottery revenue to invest in the future of the state's workforce needs.

Methodology

This report presents a variety of data relating to state gambling policy—including national and state perspectives—over the past thirty years. In addition to studying lottery legislation, an analysis of the cost of Alabama College Promise, as well as lottery programs in states bordering Alabama, provides a detailed analysis of the implications for high school completion rates and first-time freshman in-state enrollment at public higher education institutions. The analyses conducted in this report informed the policy recommendations to establish an education lottery and create a College Promise program in Alabama.

Key Findings

- **Lotteries for education have grown.** At least 28 states earmark lottery proceeds for education programs in some form—including scholarships, grants, building & construction funds, pre-k, and afterschool programs.
- **Net lottery proceeds offer states an additional revenue stream.** California, Florida, Georgia, New York, and Texas all saw lottery proceeds exceed \$1 billion in 2018. Instead of increasing taxes on their residents, states can utilize revenue generated by a lottery to invest in public programs.
- **State-operated gaming legislation is needed.** Alabama currently operates ten casinos at various locations throughout the state. However, the state lacks programs paid for through proper channels of taxation. *The focus of policymakers should be on establishing an Alabama lottery for education, allowing the state to benefit from the growing gambling enterprise.*
- **Alabama lacks state-based student aid.** With no broad support from the state, the cost of post-secondary institutions falls solely on the backs of parents, students, and institutions. *A college promise program would be the first comprehensive student aid program in Alabama*

since the state currently has limited to no opportunities for its high school graduates to receive need-based funding for post-secondary education, making the federal Pell grant the state's de facto student aid program.

- **An education lottery could pay for Alabama College Promise and Alabama Opportunity Scholarship.** With a targeted approach to student-aid, an education lottery could generate an estimated \$280 million in profits and fund last-dollar scholarships for upwards of 56,000 low-income Alabamians. The Alabama College Promise scholarship would cost roughly \$200 million and provide need-based scholarships for 40,000 low-income students for use at public community and technical colleges. The remaining \$80 million would go towards the creation of the Alabama Opportunity Scholarship, funding need-based scholarships for use at four-year public and private non-profit universities.
- **Alabama College Promise could improve high school graduation rates and in-state post-secondary enrollment.** Data examined in this report finds that in Florida, Georgia, and Tennessee, following the creation and implementation of their respective education lotteries, high school graduation rates and increased enrollment across all sectors of public post-secondary institutions. In Tennessee, where TNPromise provides need-based awards for low-income students to use at two-year colleges, there was also an increase in enrollment specifically at public two-year colleges.
- **Alabama College Promise would improve postsecondary degree attainment and enhance the state's workforce.** With no existing state student-aid, Alabama often starts students in post-secondary education programs but does not provide the infrastructure to help them finish. *Alabama College Promise would fill in the funding gaps for students and lead to an increase in degree and workforce credential attainment.* Building up of Alabama's workforce requires pathways to post-secondary institutions to gain essential training and credentials needed to compete in the modern job market.

Conclusions

- (1) ***It is the recommendation of the authors that the Alabama Study Group on Gambling Policy propose the adoption of a statewide education lottery that will create a lottery to fund Alabama's 21st century workforce needs.*** This speaks to the need for Alabama to use the \$280 million of estimated first-year lottery proceeds to create the Alabama College Promise and Alabama Opportunity Scholarship. Both options could expand the number of graduates with twenty-first century workforce skills and bolster the credentials of Alabama's workforce.
- (2) As part of this recommendation, we suggest that the lottery revenues be kept in a "lockbox fund" (in the style of the Tennessee Promise legislation) in order to ensure that the proceeds are used for their intended purpose of providing need-based aid for students pursuing post-secondary education at Alabama's public community and technical colleges—and not transferred to other accounts for other, extraneous expenditures. The endowment will propel more high school students to enroll and complete credentials and associate degrees statewide.

tnAchieves year one high school-to-college retention rate exceeded the seven prior years combined.

- (3) The Alabama College Promise program should be structured to *provide last-dollar scholarship funds to low-income students* upon completing high school or GED prior to their 19th birthday. A last-dollar scholarship would be applied after other forms of aid are awarded. This is critical for two reason: last-dollar scholarships will conserve monetary resources to make the lottery resources stretch further, enabling the program to serve more students, and it encourages FAFSA completion since completing the FAFSA would be a prerequisite for receiving Promise funds.

Summary

This study was designed to examine state lottery legislation and provide examples as to how Alabama could implement a lottery. Alabama is currently losing revenue to their neighboring states, all of which operate a lottery and are building their future on the backs of Alabama taxpayers. With record-low unemployment and improving labor force participation rates prior to the COVID-19, Alabama could use lottery revenues to plug its human capital pipeline leaks. Recognizing the nature of college affordability and accessibility helps develop our understanding of the problem.

Alabama lacks a comprehensive state student-aid program. This creates an immense financial burden for students and families when it comes to paying for college. Even for low-income students receiving Pell Grants, the existing needs-based aid streams are not enough to cover the full indirect costs of attending college. An Alabama education lottery could provide a new stream of funding to allocate towards need-based student-aid in the form of Alabama College Promise and the Alabama Opportunity Scholarship. The expected proceeds from a lottery in Alabama is roughly \$280 million. Alabama College Promise and the Alabama Opportunity Scholarship, together, would target last-dollar scholarship funds to low-income students for use at public two-year colleges, public four-year colleges, and private non-profit colleges. These programs could provide scholarships for upwards of 56,000 low-income students and improve access to higher education and workforce development opportunities.

The data examined and discussed in this report suggests that Alabama would see an improvement in high school graduation rates, increased post-secondary enrollment, particularly at two-year institutions, and overall improvement in post-secondary degree and workforce credential attainment. Georgia, Florida, and Tennessee allocate lottery proceeds for college scholarships, providing pathways for workers to gain essential training and credentials needed to compete in the modern workforce. Following the creation and implementation of each respective lottery, high school graduation rates and college enrollment increased in the state's post-secondary education institutions. Because the majority of new jobs created since the Great Recession require more than a high school diploma (i.e. an industry recognized credential or two-year degree), Alabama must invest in workforce training and development opportunities in order to retain and recruit well-paying jobs to the state. If Alabama wants to stay competitive in the twenty-first century economy, it is paramount that the state invests in a well-trained and well-educated workforce.

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Education Policy Center, The University of Alabama

INTRODUCTION: OVERVIEW OF STATE LOTTERIES

A Brief Overview of State Lotteries

Since the emergence of state lotteries, there has been much debate about the value they provide and how they can be used throughout the United States. There are currently 45 state-sponsored lotteries, including Washington D.C. and, most recently, as of 2018, Mississippi. This leaves Alabama—along with Alaska, Hawaii, Nevada, and Utah—as one of the only states to *not* sponsor a lottery. This report examines state gaming legislation on lottery proceeds, explores data on expected impacts of a College Promise program in Alabama, and provide policy recommendations to establish a state education lottery to fund Alabama College Promise. Included is an examination of a diverse array of programs funded by state lotteries with specific focus on states surrounding Alabama. The existing literature is used to evaluate the effects of state lotteries, allowing us to speculate how lottery proceeds could be used in Alabama.

How states allocate their lottery proceeds varies from one to the other. Lottery revenues are used to serve a variety of purposes: in infrastructure, health care, veteran affairs, or to allocate revenues directly to their general fund. At least 28 states earmark lottery proceeds for education programs in some form, including scholarships, grants, building & construction funds, pre-k and afterschool programs.² Many states have chosen to adopt a state-sponsored lottery because of the additional revenue stream the lottery provides for education related expenditures.

How states use lotteries has led to much debate and research into the ethics of state-sponsored lotteries. Some have chose to use lottery proceeds to replace existing state funding for a purpose other than its intended use. This presents a question: should lotteries *supplement* or *supplant* existing sources of state funding?

The steady stream of revenue granted to states by lotteries to has allowed them to fund a diverse range of public projects and programs. In Massachusetts, lottery revenue is used to provide unrestricted aid to cities and towns,³ while Wisconsin provides benefits in property tax credits.⁴ In Indiana, lottery proceeds are used for local police & firefighters' pensions, the Teachers' Retirement Fund, and the Build Indiana Fund.⁵ Policymakers in Kansas chose to invest lottery proceeds mainly in the Economic Development Initiatives Fund.⁶ State legislators ultimately have the power to determine where lottery proceeds are allocated based on the written language of the bill. For many states, using lottery proceeds for education has bipartisan support and provides additional funding for public schools and higher education.

The idea of using lottery proceeds to fund programs in education has been adopted by 24 states as a way to raise revenues without directly increasing taxes. This offers state legislatures the option to increase revenues and fund programs supported by the general public. Since the

1980s, lotteries have been used as a politically convenient measure to increase government revenues without having citizens bear the cost of higher taxes. The three oldest lotteries in the country, New Hampshire, New York, and New Jersey all earmark funds for public education. Lotteries are viewed as a voluntary tax – only individuals who wish to purchase a lottery ticket pay the tax. Lotteries provide state legislatures with a unique opportunity to increase their states revenue without imposing undesirable taxes.

More Money for Education

With more funds pouring into state coffers, the potential for unintended use— and perhaps misuse—by state governments rises. New Mexico operates the New Mexico Legislature Lottery Scholarship program, which provides scholarships to students who earn a 2.5 GPA in their first semester of college.⁷ This program is structured to benefit students each semester of continued academic success. When the Great Recession occurred, the New Mexico legislature opted to cut state appropriations for their institutions operating budgets. At the same time, scholarship funding designated for need-based assistance was used to plug the revenue shortfalls and deficits.⁸ Thus, New Mexico has transferred lottery proceeds to different funds as a means of combating state deficits instead of funding for its originally intended purposes.⁹ In recent years, bills have been introduced to further limit this guarantee and to open the door for even more discretionary spending of lottery proceeds.

Contrary to New Mexico's experience, the State of Kentucky re-purposed lottery proceeds away from regular state expenditures and toward education. Originally, the majority of proceeds from the Kentucky Lottery were transferred to its general fund. Beginning in 1998, however, funds began being used for the Kentucky Educational Excellence Scholarship program, and as of 2005 one hundred percent of lottery proceeds are placed in college grants, scholarships, and literacy program.¹⁰ The Kentucky Educational Excellence Scholarship provides scholarships to students who earn at least a 2.5 GPA each year in high school.¹¹ The better a student does in high school, the more funding they can earn towards college. Kentucky also offers awards based on students' ACT/SAT scores as well as scores on Advanced Placement, International Baccalaureate, or Cambridge Advanced International exams.¹² Scholarships range from \$125 for a student with a 2.5 GPA up to \$500 for students with a 4.0 GPA per year. As in other states, Kentucky primarily focuses on funding merit-based awards to recruit the best in-state students while providing limited opportunities for need-based aid.

It is certainly worth further investigating the efficacy of state lotteries and their impact on the quality of public education. Regardless, efforts to fund education lotteries continue to be popular. The support for education lotteries is backed by the growing body of literature, explored below, that shows traditional methods of funding education are inadequate to sufficiently meet the needs of students.

Lottery Proceeds & Revenue of States Bordering Alabama

The most recent data on lottery revenues, as seen in Figure 1 below, show lotteries in states surrounding Alabama. Because Mississippi established its program in 2018, data is limited and not presented here. Florida, Georgia, and Tennessee saw 28 percent of lottery revenue going to the state government.¹³ California, Florida, Georgia, New York, and Texas all saw lottery proceeds above \$1 billion, enabling them to distribute high sums to public education and state programs.¹⁴ Lottery proceeds have enabled Arizona, Kentucky, Tennessee, and West Virginia to invest more into their state schools, providing them with an additional revenue stream on top of current state funding, i.e. supplementing existing appropriations.

Figure 1. State Lottery Revenues and Proceeds, 2018 (<i>millions</i>)				
State	Year Created	Revenue	Net Proceeds	Percentage of Net Revenue
Florida	1986	\$6,334,056	\$1,764,046	28%
Georgia	1992	\$4,089,821	\$1,145,070	28%
Mississippi	2018	N/A	N/A	N/A
Tennessee	2003	\$1,471,210	\$417,101	28%
Source: 2018 Annual Survey of State Government Finances Tables.				

States neighboring Alabama have used lottery proceeds to invest in education as a workforce development tool. Georgia, Florida, and Tennessee not only invest in educating their youth, they also provide pathways to higher education for adults to gain essential training and skills needed to compete in the national and global job markets. Investing lottery proceeds in education is a useful tool for developing the human capital of a state's workforce. By tying lottery revenues to scholarships for postsecondary institutions, these states are promoting workforce development. Below, this issue brief proceeds with an in-depth examination of Georgia's HOPE Scholarship, Florida's Bright Futures Scholarship, and the tnAchieves program, to better understand policy options about how to use state lottery revenues for programs in higher education.

PART ONE: GAMING LEGISLATION IN ALABAMA’S NEIGHBOING STATES

Overview: States neighboring Alabama all operate a state-sponsored lottery. Each state has unique education funded programs supported by lottery proceeds. How each states invest those proceeds differ from one to the other. This section examines state lottery policy to show options that Alabama could imitate for a lottery for education.

The Georgia HOPE Scholarship

The State of Georgia is largely regarded as a pioneer in using lottery proceeds to fund scholarships to attend postsecondary colleges and universities.¹⁵ Per Georgia law, proceeds from the Georgia Lottery for Education support scholarships and grants under the Zell Miller Tuition Assistance Program.¹⁶ Introduced in 1992 under Governor Zell Miller— the HOPE scholarship and Zell Miller scholarship have been used to retain the state's brightest and most academically talented students.¹⁷ Since its inception, Helping Outstanding Pupils Educationally (HOPE) tuition assistance program has provided more than \$10 billion in financial assistance to over 1.8 million high school graduates. This initiative has provided aid for students to attend public and private universities and technical schools, resulting in a better-educated workforce in Georgia.

In 2019, 44 percent of bachelor's degree-seeking students and 22 percent of associate degree-seeking students in the Georgia University System received scholarships under HOPE.¹⁸ HOPE Scholarships for University of Georgia students alone totaled more than \$175 million in 2018.¹⁹ Georgia Code 50-27-2 section (1) outlines that lottery proceeds shall be used to support improvements and enhancements for educational purposes, and net lottery proceeds shall be used to supplement, not supplant, existing resources for educational purposes and programs.²⁰ As outlined in Appendix A, the Georgia Legislature grants the Georgia Lottery Corporation broad authority over the Georgia Lottery for Education, creating an oversight body whose sole mission is dedicated to the integrity of the lottery.

Like the lottery scholarships in Kentucky and New Mexico, Georgia's HOPE Scholarship is a merit-based award made available only to Georgia high school students who graduate with a minimum 3.0 GPA. Students must also meet federal and state citizenship requirements and graduate from an eligible Georgia high school. Students must meet enrollment standards by being admitted, enrolled, and classified as a degree-seeking student at eligible public, private, and for-profit colleges and universities in Georgia.²¹

The purpose of the policy behind HOPE has sparked an interesting debate about the policy objective for scholarships in higher education. The policy objective for HOPE was to invest in Georgia's "best and brightest" students, to retain them long-term, and grow Georgia's workforce. This is the justification behind the merit-requirements attached to HOPE scholarships. Award amounts vary drastically depending on the institutions and the scholarship available. A student taking 15 hours at Chattahoochee Technical College could get a \$1,050 HOPE award, while a student at Georgia Tech on a Zell Miller scholarship, could get \$5,004 for taking the same number of hours.²² The Zell Miller scholarship is essential a HOPE scholarship

that covers full cost of tuition, given to students with a higher GPA. In the Fall of 2013, more than half of the states undergraduate students did not qualify to receive HOPE scholarship funding.²³ At the University of Georgia, in the 2013-2014 academic year, 79 percent of students received a HOPE or Zell Miller scholarship, compared to only 39 percent of students at Georgia State University.²⁴

Claire Suggs, a senior education policy analyst at the Georgia Budget and Policy Institute, writes "less than half of the in-state students benefit from Georgia's flagship merit-based aid programs," demonstrating the disparities in HOPE distributions and offering an idea of how many students are not able to benefit from the program.²⁵ In the report, she details the limitations of Georgia's merit-based approach as a solution for closing the gaps between students and college affordability. She continues by explaining how students from underserved groups in low-to-moderate income backgrounds are underrepresented among scholarship recipients; within the university system, only 20 percent of African American students and 36 percent of Hispanic students were awarded a HOPE scholarship, compared to 46 percent of Asian American 45 percent of white students.²⁶

The scholarship program, originally passed, included an income cap to determine eligibility. The income cap restriction was lifted in 1996, and now Georgia residents can receive HOPE funding based entirely on high school academic performance with no tie to income.²⁷ By removing the income cap restriction, students from affluent socioeconomic backgrounds are eligible for the same amount of funding as students from low-income backgrounds.

In 2011, the Georgia legislature further amended the HOPE scholarship program by allowing funding to be applied to any portion of a student's tuition. Greater discretionary spending offers budgetary flexibility for students, allowing them to use HOPE scholarship money for books, supplies, and other expenses. With financial pressure mounting, Governor Nathan Deal signed House Bill 326 in 2012 to prevent the scholarship fund from running dry.²⁸ H.B. 326 requires the shortfall reserve to be drawn upon to meet any deficiencies "if net proceeds paid into the Lottery for Education Account in any year are not sufficient to meet the amount appropriated for education purposes." Subsection (f) of section (15) declares no surplus in the Lottery for Education Account shall be reduced to correct any nonlottery deficiencies in sums available for general appropriations, meaning no amount of funding will be transferred from the Lottery for Education Account except for educational purposes. This amendment is critical to HOPE scholarship protection, ensuring the scholarship is sustainable for generations to come.

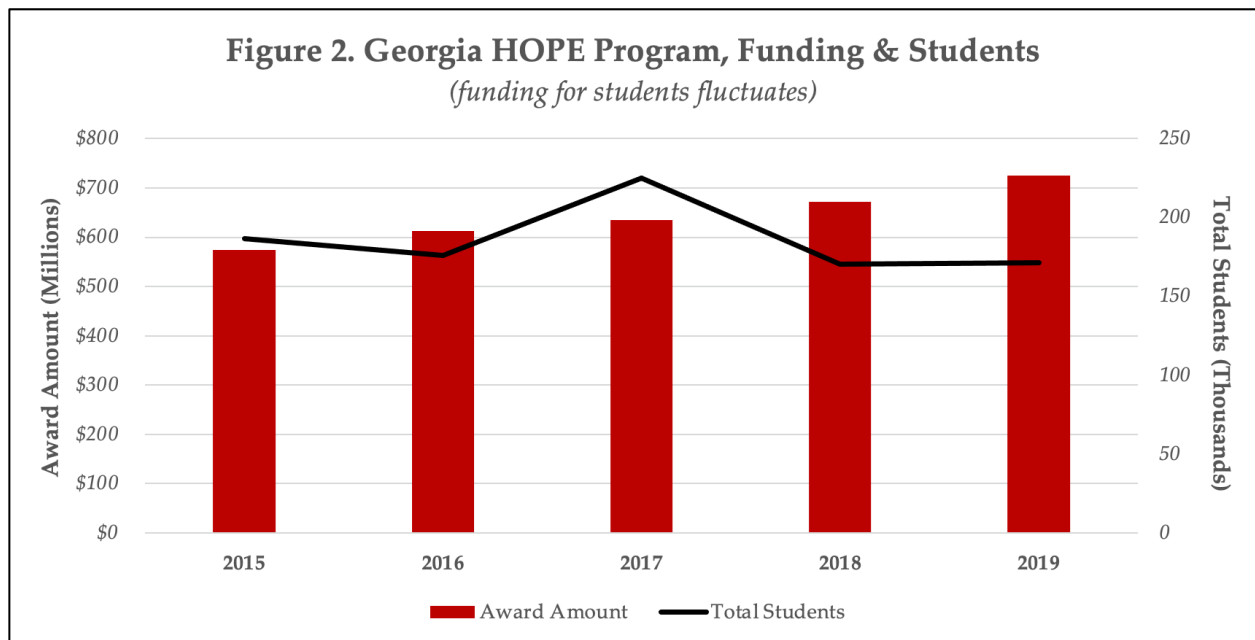
Since 1997, Georgia has returned between 25 and 35 percent of total lottery revenue to education.²⁹ In 2019, \$1.2 billion in lottery revenue went into Georgia's education system, providing a \$100 million increase from the year prior. In FY 2011, a combined \$740 million was allocated for the HOPE Scholarship and Grant program.³⁰ Returns from the Georgia lottery to education have increased every year with the exceptions of 1998 and 2005. While funding has increased, however, the total number of students receiving HOPE scholarships has fluctuated. The Fiscal Research Center outlines how the objectives for HOPE have been dedicated to

increasing student achievement in high school and college, increasing the quality of Georgia's workforce, and retaining the "best and brightest" students in Georgia.³¹

While the state has programs in place to recruit in-state talent, policies are failing to create equitable solutions that would lead to significantly higher levels of educational attainment for all its residents. While the HOPE scholarship program is helping individuals meet their financial need, it is broadly struggling to increase the overall number of students enrolling in post-secondary institutions. According to researchers from the University of Pennsylvania's Institute for Research, only 31 percent of Georgians between ages 18 and 24 are in college, ranking 45th lowest rate in the nation.³²

Figure 2 below, shows the Georgia Student Financial Commission awarded \$724,517,398 to 171,254 students in the HOPE Program for academic year 2018. That is a decrease, as 186,444 students were served in 2014, even as the total amount of aid awarded increased. In other words between 2014 and 2018 15,000 fewer students received \$151 million more in state aid to go to college. In recent years, award amounts have steadily increased, yet the number of total HOPE scholars has not.

While HOPE offers generous merit aid to Georgia's "best and brightest" students, the state does not offer a broad comprehensive need-based aid program. Students in Georgia, like many Pell Grant recipients in Alabama, depend primarily on federal financial aid for need-based tuition assistance.



Source: GSFC, Annual Report 2015-2019³³

Florida Bright Futures Scholarship

State policy in Florida presents a different use of lottery proceeds for education. Instead of tying lottery proceeds to government mandates like Tennessee, or solely investing in scholarships like Georgia, the Florida Legislature appropriates lottery proceeds into the Educational Enhancement Trust Fund (EETF). The EETF is meant to provide support for improvements for schools, resources in the classroom, and funds for the Bright Futures Scholarship.

At the end of each fiscal year, the Florida legislature determines a percentage amount from lottery proceeds and the sale of online and instant lottery tickets that will be deposited into the EETF. Funding percentages are subject to change from year to year. Florida State Code (FL Code § 24.121) does not specify requirements for funding the scholarship. Section (5)(a) states:

Public educational programs and purposes funded by the Educational Enhancement Trust Fund may include, but are not limited to, endowment, scholarship, matching funds, direct grants, research and economic development related to education, salary enhancement, contracts with independent institutions to conduct programs consistent with the state master plan for postsecondary education, or any other educational program or purpose deemed desirable by the Legislature.

This allows the legislature to loosely interpret what lottery proceeds for education can be spent on, allowing changes year to year.

The Bright Futures Scholarship Program was established in 1997 and intended to reward high school graduates with merit-based scholarships upon enrollment at an eligible Florida public or private postsecondary institution using lottery-based funding.

Since the creation of the program, the Florida lottery has provided more than \$6.2 billion in aid to over 840,000 college students.³⁴ In fiscal year 2019, the EETF appropriated over \$595 million to the Bright Futures Scholarship Program, a \$70 million increase from the previous year. Almost half—42.6 percent—of the EETF funding was distributed to public schools, 18.4 percent to state universities, and 28.5 percent to Bright Futures.³⁵ Bright Future offers four award levels of funding—(The Florida Academic Scholars Award, the Florida Medallion Scholars Award, the Florida Gold Seal Vocational Scholars Award, and the Florida Gold Seal CAPE Scholars award). Each level has increasingly stringent GPA, college entrance exam scores, and community service hour requirements.³⁶

Like Georgia, Florida lottery policy emphasizes merit and academic success. ***The impact that Florida's Bright Futures Scholarship has had on the thousands of students who have received aid is undeniable, but a compelling argument can be made that the program fails to adequately serve students who demonstrate the greatest financial need.***³⁷ At the University of Florida, \$124,002,303 was disbursed to 23,597 students under Florida Bright Future Scholarships in academic year 2017-2018.³⁸ However, that same year, 31,046 students took on \$256,064,482 in the form of loans.³⁹ In the 1997 academic year, 42,319 students received

scholarship funding, totaling over \$69 million in disbursements. Data from academic year 2018 shows Florida's Bright Futures Scholarship program disbursed \$544 million to 101,579 students, an increase of 59,000 students over 21 years.⁴⁰ While the number of students receiving Bright Futures Scholarships has increased, so too has the number of students taking out loans.

The Florida Legislature has, in the past, used lottery proceeds to fund pursuits not outlined in legislative policy. Steven Stark, Craig Wood, and David S. Honeyman studied The Florida Education Lottery and its use as a substitute for existing funds and its effects on the equity of school funding, examining lottery appropriations to local school district for the 1989-1990 school year. They found that 43.2 percent of lottery funds were used for the enhancement of education while 56.8 percent were used as a substitute for existing resources.⁴¹ Their analysis concluded that there was an overall decrease in the level of state funding for K-12 education and blamed this decrease on the state having substituted existing resources for public education with lottery proceeds.⁴²

Outlined in Appendix B, Florida statute 24.121 details the expected allocation of revenues and expenditures of funds for public education. As previously mentioned, the Florida Legislature operates with a sense of flexibility as to what educational programs and purposes are funded by the EETF. Yet it is stated in section (c) a portion of net revenues, as determined annually by the Legislature shall be distributed to each school district and be made available to each public school in the district for enhancing school performance through development and implementation of a school improvement plan. This section of Florida lottery policy allows the legislature to adjust the amount of funding schools receive and has opened the door for lottery funds to supplant existing appropriations.

One major problem with lotteries funding education without strict mandates is that states can decide to replace existing state funding with lottery profits. By definition, this means lottery proceeds are not fully utilized for the impact of providing *supplemental* funding to education programs, and their current struggle for additional funding continues without the essential funding to improve year to year.

Tennessee's "tnAchieves"

In 2003, Governor Phil Bredesen made education one of Tennessee's top priorities. His leadership was instrumental in establishing the Tennessee Education Lottery Scholarship program. Ensuring college affordability was made a high priority of his administration. Bredesen secured U.S. Department of Education "Race to the Top" funds,⁴³ and, at the end of his second term, signed the Complete College Tennessee Act of 2010.⁴⁴ This put Tennessee in position to increase postsecondary education attainment rates and focus on improving and developing the skill of their state's workforce.

Gov. Bredesen, a Democrat, laid the groundwork for the next administration, where he was succeeded by Bill Haslam, a Republican. Governor Haslam picked up right where the previous administration left off and under his direction, tnAchieves came into being. In

partnership with Tennessee Promise, tnAchieves has the mission to increase higher education opportunities for high school students by providing last dollar scholarships.⁴⁵ When passed in 2003 Tennessee Education Lottery Scholarships were used to fund a diverse set of educational programs such as pre-K, afterschool programs, and a mix of small grants and scholarships. Under the direction of Gov. Haslam, excess lottery reserve funds were allocated to develop an endowment that would sustain the Tennessee Promise scholarship program over time.⁴⁶

The Tennessee Promise endowment provides financial assurance for scholarships to continue to cover certificates and degrees at two-year community college programs.⁴⁷ By creating a lockbox trust in the state treasury, a percentage of overall lottery proceeds would not be repurposed. Tennessee Code 4-51-111, outlines the requirements of the "lockbox" account, stating:

There is created with the state treasury a lottery for education account. Amounts remaining in the account at the end of each fiscal year shall not revert to the general fund. Money in the account shall be invested by the state treasurer according to title 9, chapter 4, part 6 for the sole benefit of the account. All earnings articulable to such investments shall be credited to the lottery for education account.

Outlined in Appendix Three, The Tennessee Promise Scholarship Act of 2014 received bipartisan support and effectively established an endowment for the sole purpose of funding Tennessee Promise, specifically stating in SB 2471 that "beginning in FY14-15, all funds in the Lottery for Education Account that exceed \$10,000,000 shall be transferred, every quarter, to the Tennessee Promise Scholarship endowment." The endowment established a reserve amount that would ensure the Promise program would be funded for posterity.

In 2013, Tennessee launched the Drive to 55 campaign, an ambitious educational attainment initiative devoted to the state's workforce development outcomes.⁴⁸ The goal of this initiative is to equip 55 percent of Tennesseans with a college degree or certificate by the year 2025, to increase the quality of the state's workforce. The Tennessee Student Assistance Corporation (TSCA) is charged with administering the Drive to 55 Alliance and the Tennessee Promise program. One of the pillars of the Drive to 55 Alliance is to "generate private sector awareness, ownership and support for the long-term steps needed in college entry and completion, adult education and training, and identifying and closing gaps," to better prepare the future of Tennessee's workforce.⁴⁹

The Tennessee Promise scholarship program provides two years of tuition-free community or technical college to high school graduates attending in-state institutions. ***The Tennessee Promise is a last-dollar program that provides scholarships to students with the intent of making the cost of state community and technical colleges tuition free when combined with other forms of financial aid.***⁵⁰ As a last-dollar scholarship, the Tennessee Promise is applied only after other forms of aid are awarded. Tennessee Promise recipients are also paired with a mentor in the community to guide them through the application and enrollment process. Requiring students to participate in mentoring and community service programs keeps them accountable and connected to a support team to navigate the college

application and world of work processes. As states struggle to make college more affordable and easily accessible while also securing funding that is protected and sustainable, Tennessee provides a model that effectively achieves both.

The specific use of lottery proceeds outlined in Tennessee legislation allows little room for interpretation or misuse of funds. The state legislature also specified the intended use of amounts remaining in unclaimed prize money to be used for a special subaccount to fund afterschool programs. Contrary to how other state lottery policy is written, proceeds from the Tennessee Lottery for Education are used to provide supplemental assistance on top of traditional methods of financial aid. Unlike Florida's Bright Futures Scholarship and Georgia's HOPE scholarship, Tennessee's Promise Scholarship awards scholarships to students who demonstrate the greatest need. Tennessee's approach to need-based aid attracts more students into the higher education system, a key feature to develop the future workforce. ***The Tennessee Promise Scholarship offers upward mobility for students, allowing them to gain essential training for developing their skills. The Tennessee Promise approach gives students a pathway towards affordable higher education.***

With guidance from the national College Promise Campaign, Tennessee has embraced the idea of using higher education as a pathway for workforce development. The national College Promise Campaign aims to assist students with the cost of pursuing higher education.⁵¹ As a national non-profit, non-partisan program, they have advocated state and local policymakers across the country to create programs allowing high school graduates to attend two-year and four-year colleges and universities. Currently, College Promise programs are offered in more than 320 states and localities and has helped facilitate more than \$3 billion in grantmaking in nearly 70 countries.⁵² The mission of the Campaign is to provide students with pathways to attend trade schools, community colleges, and flagship universities and prepare students for careers in the twenty-first century.

Since its inception in 2015, Tennessee Promise has enrolled over 88,000 students.⁵³ Early indicators of student success show increases in high school graduation, the FAFSA filing rate, and college enrollment.⁵⁴ Future research will provide further insight into the effectiveness and impact of the program over time, including college graduation rates and workforce employment. For states looking to implement a lottery scholarship for the purpose of making college more accessible and affordable, Tennessee Promise is a model program.

Implications for Alabama

Alabama currently operates ten casinos at various locations throughout the state. This includes bingo gaming and pari-mutuel wagering, as well as horse and dog track racing. While gaming is allowed through the compact formed with The Porch Band of Creek Indians, Alabama lacks state-operated programs paid for through proper channels of taxation. In February 2020, Governor Kay Ivey created the Alabama Study Group on Gaming Policy to gather facts related to gaming policy and legislation.⁵⁵ The Study Group is tasked to administer a report by the end of 2020, providing details as to how the state would be affected by expanding gaming through a

state lottery or casinos. The Alabama Constitution currently prohibits lotteries and other forms of gambling.

In recent years, as more states have turned towards state-sponsored lotteries to increase revenue, public sentiment for a lottery has changed. With record-low unemployment and improving labor force participation rates prior to the COVID-19 pandemic, but flat or declining number of high school graduates, Alabama could use lottery revenues to plug leaks in its human capital pipeline. National studies consistently find Alabama high school graduates start college, but no not finish.

Today 27 states have College Promise programs, most of them with need-based student aid programs. ***A College Promise program would be the first comprehensive state student aid program in Alabama since the state currently has limited to no opportunities for its high school graduates to receive need-based funding for post-secondary education, making the federal Pell grant the state's de facto student aid program.*** This has left thousands of Alabamians struggling to cover the financial burden that comes with pursuing a college degree. An Alabama College Promise program could increase the number of graduates with twenty-first century workforce skills and bolster the credentials of Alabama's workforce.

Recognizing the nature of college affordability and accessibility helps develop our understanding of the problem. The rising cost of tuition and fees has made it harder to increase assistance to those with unmet need and limitations. In Alabama, not accounting for federal programs, the burden to finance college degrees and certificates relies entirely upon students, parents, and institutions with small endowments. The money generated by lottery sales could be used to propel more high school students to enroll and complete credential training and associate degrees in technical fields that are in-demand across the state. ***Taking the model Tennessee has provided, Alabama can make the promise of free community college a reality for its citizens.***

PART TWO: THE CURRENT STATE OF EDUCATIONAL ATTAINMENT AND STUDENT-AID IN ALABAMA

The State of Educational Attainment in Alabama

Educational attainment in Alabama continues to fall below national averages and ranks among the lowest in the country. Among Alabamians, 85 percent of people age 25 and over have completed high school, below the nationwide average of 87 percent.⁵⁶ Roughly 25 percent of this same age demographic has attained a bachelor's degree or higher, and over 20 percent of adults have some college credit but no degree.⁵⁷

This strongly suggests that Alabama not only has a lagging college enrollment rate compared to the rest of the country—the United States average bachelor's degree attainment rate is 31 percent—but also that the state lacks the educational infrastructure to help students enroll *and then complete college*. College Promise programs, like the one in the State of Tennessee, provide high school graduates with the opportunity to attend public two- or four-year colleges at as low a cost as possible—if not zero cost—and connect them with valuable job training experiences, like apprenticeships that count towards field-recognized certificates.⁵⁸

As it stands, Alabama's deficiencies in educational attainment across the state stand to make Alabamians less competitive in the regional, national, and global labor markets. A state lottery-funded College Promise program could help grow and improve the state. We now turn to what a College Promise program might look like if implemented in Alabama. The following paragraphs aim to examine the potential impact of a state lottery by identifying expected lottery revenue and uses, determining the structure and eligibility requirements of an Alabama College Promise program, and determining the overall impact of such a program on Alabama.

Expected Lottery Revenues and Uses

As of November 2019, all four states bordering Alabama have a lottery, some form of gambling, or both with Mississippi being the most recent of the four to implement a state lottery and legalize gambling in some form. Alabama is the last state in the southeast to not have a state lottery. Even so, Alabamians are still playing the lottery—they are just crossing into Florida, Georgia, Tennessee, and now Mississippi, to partake.⁵⁹ Though Governor Ivey's study group on gambling has not yet released their report on gaming and lottery in the state, past estimates show that Alabama is losing over \$200 million per year to the bordering states in lottery revenues, though this figure has likely gone up since the implementation of Mississippi's state lottery last year.⁶⁰

Figure 3. Revenue and Apportionment of State-Administered Lottery Funds in billions , 2018

State	Lottery Revenue	Apportionment of Funds		Net Proceeds Remaining
		Prizes	Administrative Costs	
Florida	\$6.34	\$4.39	\$0.17	\$1.76
Georgia	\$4.09	\$2.76	\$0.17	\$1.14
Tennessee	\$1.47	\$1.02	\$0.03	\$0.42

Source: United States Census Bureau

When considering the data in Figure 3, it is important to keep in mind that Florida and Georgia are both significantly higher in population, so the proceeds available from those lotteries will be significantly higher than Alabama should expect to bring in. For this reason, Tennessee, which has less than 2 million more residents than Alabama, provides a better comparison. In May of 2020, David Barden—CEO of the New Mexico Lottery and former lottery official in South Carolina—testified before the Alabama Study Group on Gambling Policy that Alabama could “expect to generate about \$1 billion in annual sales and could see about \$280 million in profits” after the pay out and administration expenses were paid.⁶¹ Thus, compared to the \$1.4 billion in revenue and roughly \$417 million that Tennessee brought in through its lottery in 2018, the expected revenues and profits for Alabama seem to be reasonable and achievable projections.

Every single state bordering Alabama sends at least some portion of the lottery revenues to fund college scholarships, grants, or general educational improvement. As discussed earlier in this report, both Florida and Georgia offer merit-based scholarships to attend public colleges and universities and some qualifying private colleges, with Florida also investing funds into its Educational Enhancement Trust Fund (EETF). In Mississippi, the lottery has been set up to fund both infrastructure improvements and educational initiatives, with the first \$80 million in proceeds each year going towards improving roads and bridges and any proceeds above that threshold going towards education.⁶² Tennessee funds last dollar, need-based college scholarships with its lottery revenue through its Promise program, with an emphasis on sending high school graduates to two-year technical and community colleges in pursuit of a well-educated, well-qualified, and well-credentialed workforce.⁶³

Alabama could choose to use the proceeds from a lottery to fund a revitalization of outdated infrastructure or improvements for overcrowded prisons, among other things. ***However, if Alabama wants to stay competitive in the twenty-first century economy, it is paramount that the state invests in a well-trained and well-educated workforce.***

Call for Alabama College Promise Program

At present, Alabama effectively has no comprehensive state student-aid program, with the Federal Pell program serving as the de facto state student-aid program. As seen in Figure 4 (below), the average aid awarded to Alabama students in Fall 2018 was \$106. Every state bordering Alabama awarded over double that amount, with Tennessee awarding over twenty-five

times more in aid on average. In total dollars awarded, Alabama awarded just over \$5 million in Fall 2018, not even half of the amount that Mississippi distributed in student aid that year. When compared to Florida, the state that distributed the most student aid in Fall 2018, Alabama's meager \$5 million in state student aid is less than three percent of Florida's total spending. Of the twelve financial aid programs that are available to Alabamians through the state's Commission on Higher Education, only one scholarship is awarded based on financial need. The rest of the scholarships are awarded to children of the deaf and blind, GI dependents, and various descendants of veterans, police officers, and firefighters.⁶⁴ Keeping this in mind, the goal of the Alabama College Promise program should be to prioritize high-need students (as determined by the FAFSA) in order to expand access to higher education for students from low-income families.

Figure 4: Average State Student Aid for Alabama and Bordering States, Fall 2018		
State	Total State Student Aid, Fall 2018	Average State Student Aid, Fall 2018
Alabama	\$5,040,325	\$106
Florida	\$212,342,547	\$1,411
Georgia	\$155,593,834	\$2,089
Mississippi	\$11,901,999	\$386
Tennessee	\$146,750,733	\$2,662

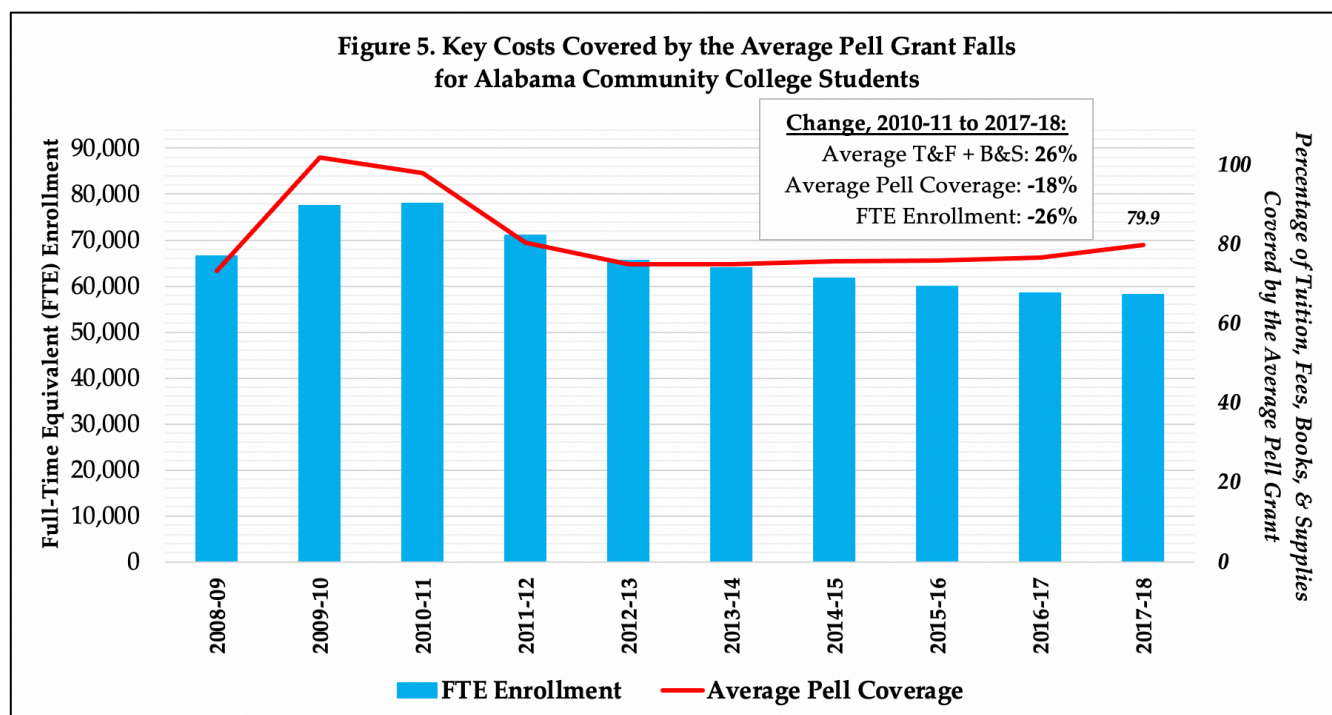
Source: Unpublished Analysis of IPEDS data by the Education Policy Center at The University of Alabama, 2020

Providing access to higher education is an important distinction here. Both the Georgia HOPE and Florida Bright Futures scholarships are strictly merit-based, whereas Tennessee Promise emphasizes a need-based and a broader workforce development approach. *Because Alabama lacks a comprehensive student-aid program and lags far behind in college degree attainment, it is extremely important to provide assistance to the students most lacking educational and workforce development opportunities.*

PART THREE: OPTIONS FOR ALABAMA COLLEGE PROMISE PROGRAM

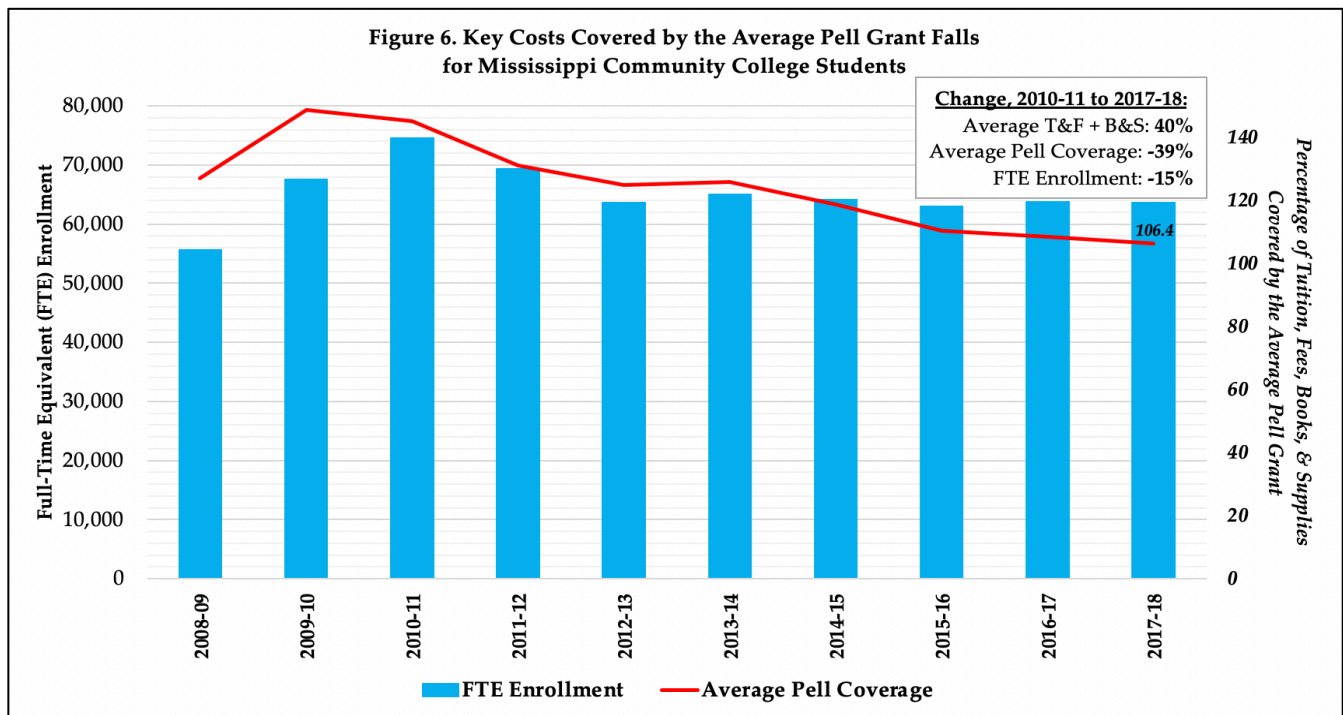
Overview: With record low unemployment, improving labor force participation rates, but flat or declining number of high school graduates, Alabama needs to plug its human capital pipeline leaks by increasing the number of available, qualified, and skilled workers.

A 2012 study by the Education Policy Center, commissioned by the Alabama Commission on Higher Education, found that the Federal Pell grant program is Alabama's de facto state student aid program.⁶⁵ Because over ninety percent of college students—both four-year and two-year—attend public colleges and universities in Alabama, the Pell Grant has a direct and positive influence on every public higher education institution.



Above, Figure 5 shows the key costs that are covered by the average Pell award for Alabama community college students. Those costs include tuition, fees, books, and supplies. The blue bars show the Full Time Equivalent (FTE) enrollment while the red line shows the percent of key costs covered by the average Pell grant. At its peak, the average Pell award covered ninety-eight percent of costs in 2009-10. Since then, the average tuition and fees grew by twenty-six percent to \$5,961 in 2017-18, and the average Pell award has fallen by eighteen percent, covering just under eighty percent of expenses. This coverage gap means that more students will have to take out additional loans, work multiple jobs, or simply drop out if they cannot afford tuition. In the same period of time, FTE enrollment fell by twenty-six percent. In 2017-18, under sixty thousand students were enrolled in Alabama's community colleges, suggesting students are being priced out of attending community college and that there isn't enough support to fill in the Pell coverage gaps.

Below, Figure 6 shows the same information for Mississippi community colleges. Similar to Alabama, Pell coverage in Mississippi peaked in 2009-10 at nearly one-hundred and forty percent. This means that there was money left over for students to use for expenses like housing, transportation, or childcare. Since 2009-10, the average tuition and fees at Mississippi community colleges has grown by forty percent to \$4,433 in 2017-18, while the average Pell coverage has fallen by nearly forty percent. However, the average Pell award in Mississippi still covered over one hundred percent of the key costs attending community college in 2017-18, and Mississippi has only seen a fifteen percent decline in FTE enrollment. In 2017-18, Mississippi enrolled over five-thousand more students than Alabama despite Alabama having nearly two million more residents than Mississippi.



The information presented above supports the conclusion that Alabama lacks a comprehensive state student-aid program and lags behind both in college enrollment and degree attainment. Therefore, Alabama should move to create a permanent and comprehensive student-aid program that will support the students most lacking educational and workforce development opportunities. This will support the goals of the state to improve workforce development and participation by providing access to higher education opportunities that allow for credential or degree attainment.

The data in Figures 7 and 8 (below) show the average Pell Grant award broken down by institutional classification, the net cost of attendance (NCOA) with just a Pell Grant, and the total cost of paying the NCOA for Pell Grant recipients. Based on this data, it would cost over \$1.2 billion to cover the NCOA for all Pell Grant recipients attending public institutions in Alabama, which does not account for other scholarships or grant awards.

Figure 7. Pell at Alabama Public Colleges and Universities, 2017-18			
Sector	Total Pell Awards	Total Pell Recipients	Average Pell Award
Flagship Universities	\$45,977,542	10,154	\$4,636
Regional Universities	\$162,836,633	36,554	\$4,865
Community Colleges	\$166,317,959	42,294	\$5,062
Total	\$375,132,134	89,002	\$4,981
Source: U.S. Department of Education, 'Distribution of Federal Pell Grant Program Funds by Institution'			

Figure 8. Net Cost of Attendance Not Covered by Pell Grants and Actual Net Cost of Attendance for Students at Alabama Public Colleges and Universities with Family Income \$0-\$30,000, 2017-18				
Sector	Total Indirect Cost of Attendance	Average Pell	Net Cost of Attendance (what Pell doesn't cover)	Cost for State to Cover What Pell Does Not
Flagship Universities	\$30,353	\$4,636	\$25,717	\$258,893,922
Regional Universities	\$22,189	\$4,865	\$17,324	\$600,725,851
Community Colleges	\$14,527	\$5,062	\$9,465	\$400,934,484
Total				\$1,260,554,257
Source: U.S. Department of Education, Integrated Postsecondary Education Data System				

Below, figure 9 shows the reported actual net cost of attendance (ANCOA) by classification of institution and the projected cost of covering the ANCOA for all Pell Grant recipients attending that classification of institution. The ANCOA accounts for other scholarships and grants that students might receive in addition to Pell Grants. To cover the ANCOA for all the nearly 90,000 Pell Grant recipients, it would still cost over \$845 million. The currently projected \$280 million in lottery proceeds would clearly not suffice for a program so wide in scope as to serve all ninety thousand students receiving Pell Grants. Following are options for a state student aid program that would address the gaps in Pell Grant coverage in Alabama.

Figure 9. Actual Net Cost of Attendance for Students at Alabama Public Colleges and Universities with Family Income \$0-\$30,000, 2017-18		
Sector	Actual Net Cost of Attendance	Cost for State to Cover Actual Net Cost
Flagship Universities	\$18,566	\$188,392,990
Regional Universities	\$13,068	\$456,573,037
Community Colleges	\$4,976	\$200,612,272
Total		\$845,578,299
Source: U.S. Department of Education, Integrated Postsecondary Education Data System		

Option One: Meeting the Full Need

The first option to address the deficiencies in state student aid in Alabama is simply to meet the full need. An Alabama Education Lottery will not produce enough revenue to fully meet the need of low-income students and plug the state's human pipeline leaks. The full need of students receiving Pell Grants is over \$800 million, while an education lottery would only bring in \$280 million, leaving a \$565 million gap in funding. One way to address this gap in funding would be to find an additional funding stream (raising property taxes, for example) or to cut funding for another program. If Alabama were to meet the full need of Pell recipients, nearly 90,000 low-income students across community, regional, and flagship colleges and universities would reap the benefits of such a prolific investment in higher education.

Option Two: Merit Based Student Aid

Similar to Florida and Georgia, another option would be to use lottery revenues to fund merit-based scholarships to the states academically inclined students. As outlined in Florida and Georgia gaming legislation, merit-based awards would restrict the number of students eligible to receive an award. The policy objective for merit-based awards is to retain students in-state, increase their skills, and provide credentials to better develop the state's workforce. These awards typically have stringent standards on GPA scores, ACT/SAT tests, and other graduation exams. In Georgia and Florida, strict GPA requirements dictate the amount of scholarship funding students are eligible for. Merit-based funding will help students who are academically inclined, while leaving those who need help the most behind. A merit-based student aid program would allow Alabama Legislators greater control over which students receive funding.

Option Three: Alabama College Promise and Alabama Opportunity Scholarship

A third option is to fund the Alabama College Promise and Opportunity Scholarship. Both programs should be structured to provide *last-dollar scholarship funds to low-income students* upon completing high school or a GED prior to their 19th birthday. Last-dollar scholarships, instead of covering the full price of tuition, room and board, and other expenses, cover the remaining costs after other scholarships or grants are applied. This is a critical distinction for two reasons: (1) it conserves monetary resources to make the lottery resources stretch further, enabling the program to serve more students, and (2) it encourages FAFSA completion and federal student aid participation since completing the FAFSA would be a prerequisite for receiving Promise funds or an Opportunity scholarship.

Based on the data presented in this brief, the best use of these funds is to primarily target students who come from low-income families. *The Alabama College Promise program would provide scholarships for use at Alabama public two-year community and technical colleges.* This will serve to improve Alabama's certificate and degree attainment rate as well as improve overall workforce readiness. In the summary table of actual net cost of attendance above (Figure 9), to cover the actual net cost of attendance for all Pell Grant recipients attending two-year colleges would cost roughly \$200 million. **Doing so would serve over 40,000 low-income Alabamians and leave roughly \$80 million leftover to distribute to upwards of 16,000**

additional low-income students attending 4-year colleges and universities. Supposing an Alabama College Promise would be a need-based aid program, there are some basic eligibility rules that should be implemented so that the program stretches limited funds to aid as many Alabamians as possible. All recipients of Alabama College Promise funds should meet the following eligibility requirements:

1. Be residents of Alabama and have graduated from an Alabama public high school (or completed their GED) by age 19
2. Must attend a public post-secondary two-year college in Alabama
3. Must have completed the Free Application for Federal Student Aid (FAFSA)
4. Must maintain a 2.0 GPA in their post-secondary program

These eligibility requirements are equivalent to what other cities and states have put in place for their respective college promise programs. Both Birmingham Promise and Tennessee Promise have requirements that students must complete the FAFSA and attend public, in-state post-secondary institutions.^{66,67}

Additionally, the Alabama Opportunity Scholarship would fund need-based scholarships at four-year public universities and regionally accredited private colleges. Of the expected \$280 million in first year revenue, \$80 million would go towards the creation of the scholarship. This would be distributed in the form of aid to Pell recipients at the state's public and private four-year institutions. Similar to the Alabama College Promise, the Alabama Opportunity Scholarship would be a need-based aid program, provided to cover expenses Pell grants currently do not. This option would also help students transition from community college to a four-year university to help complete their degree. Today, the majority of jobs require an education beyond high school, an Alabama College Promise and Opportunity Scholarship would provide additional resources to help students receive credentials of value and provide a gateway to the job market.

PART FOUR: EXPECTED IMPACT OF ALABAMA COLLEGE PROMISE

Overview: With no existing state student-aid, Alabama often starts students in post-secondary education programs but does not provide the infrastructure to help them finish. Alabama College Promise would fill in the funding gaps for students and lead to an increase in degree and workforce credential attainment.

College Scholarships and High School Graduation Rates

Since the implementation of state lotteries in Florida, Georgia, and Tennessee, all three states have seen vast improvements in high school graduation rates. Figures 10, 11, and 12 below show the high school graduation rates for each of these three states from the 1990-91 academic year through the 2017-18 academic year.^{68,69} The vertical black line on each chart indicates the year when each state established their respective education lotteries (Tennessee has two lines, indicating when the education lottery was created and then when Tennessee Promise was implemented). In every one of these states, there is an almost immediate rise in high school graduation rates following the implementation a lottery. In all three states, the graduation rates hovered between 60 and 70 percent around the time the lotteries were implemented, and as of the 2017-18 academic year, each state has improved to graduation rates of at least 80 percent, with Tennessee having the highest at 90 percent. Improving high school graduation rates is extremely important, as the College Promise Campaign highlights, because the majority of jobs created since the Great Recession require more than a high school diploma, and often require certificates or two-year college degrees.⁷⁰ Given that the goal of college promise programs is to improve post-secondary degree and credential attainment, having students complete high school is an essential first step. Even though Alabama already has very high secondary graduation rates (in 2017-18, Alabama had a 90 percent high school graduation rate), implementing a college promise program in the state would likely further improve high school graduation rates, and, as further data will show, also improve college enrollment rates.

Figure 10. Florida High School Graduation Rate 1990-2018

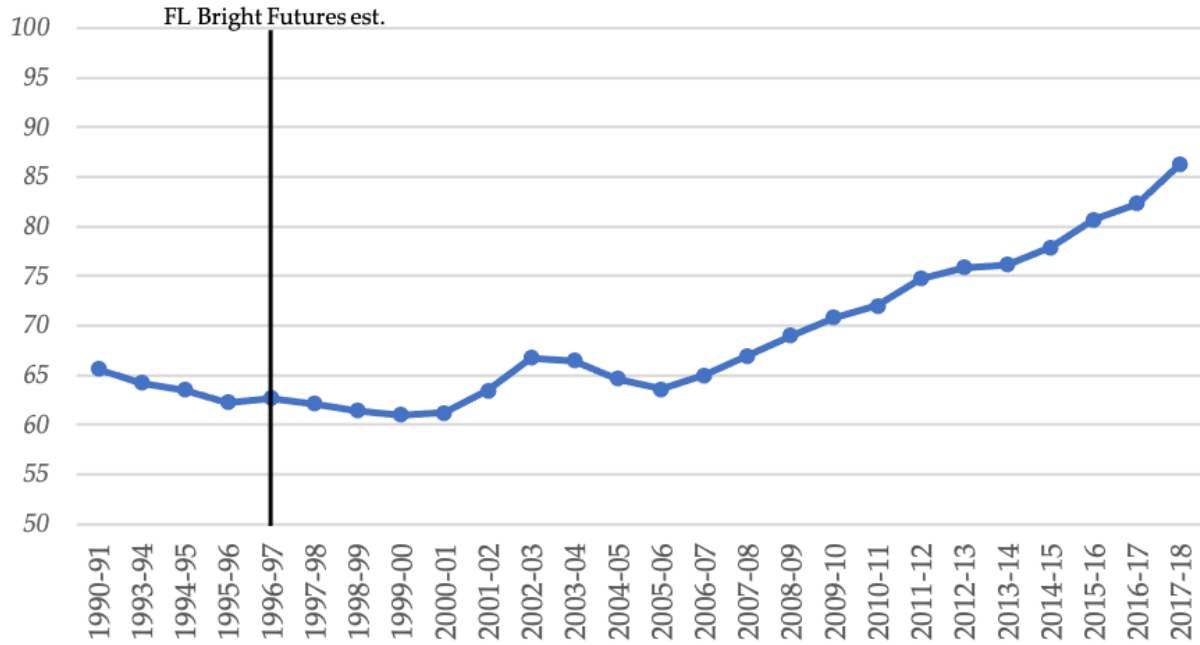
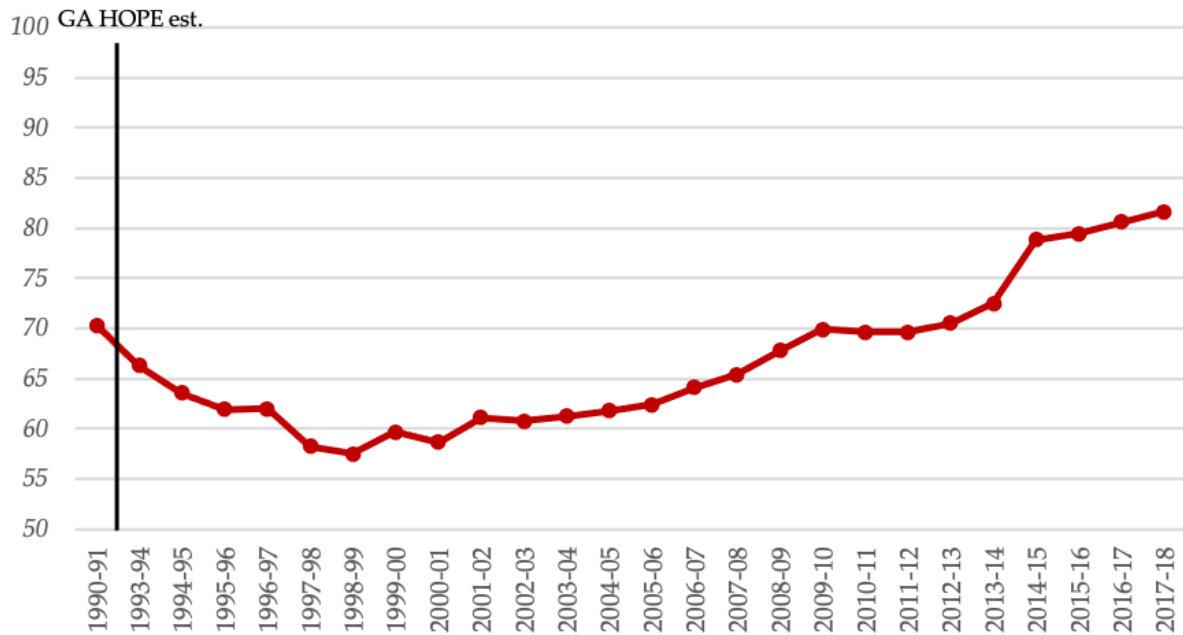
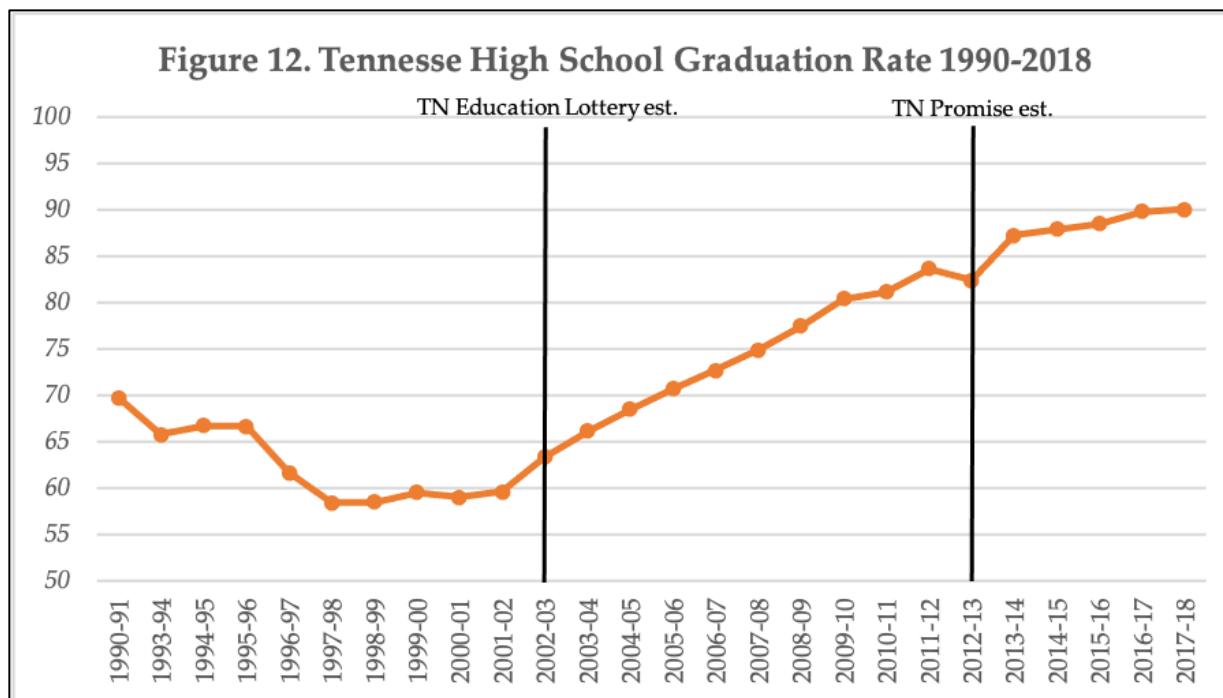


Figure 11. Georgia High School Graduation Rate 1990-2018





First-Time Freshman Enrollment

Additionally, there is evidence that state education lottery scholarships led to an increase of in-state enrollment across all three states. Below, Figures 13, 14, and 15 show the first-time freshman in-state enrollment across all levels of public post-secondary institutions for Florida, Georgia, and Tennessee, respectively, from 1992 to 2018.⁷¹ After the year 2000, institutions were not required to report enrollment in odd years which resulted in anomalies in the data due to non- or under-reporting, so those observations have been left out of this report. Despite this, in-state enrollment at the public institutions in these three states generally increased in the years following the implementation of their respective lotteries. Additionally, given the focus on access to higher education and workforce development by Tennessee Promise, Figure 16 shows total in-state enrollment at Tennessee's public two-year institutions from 1992 to 2018. Following the implementation of the Tennessee Education Lottery and Tennessee Promise, enrollment grew at public two-year community and technical colleges.

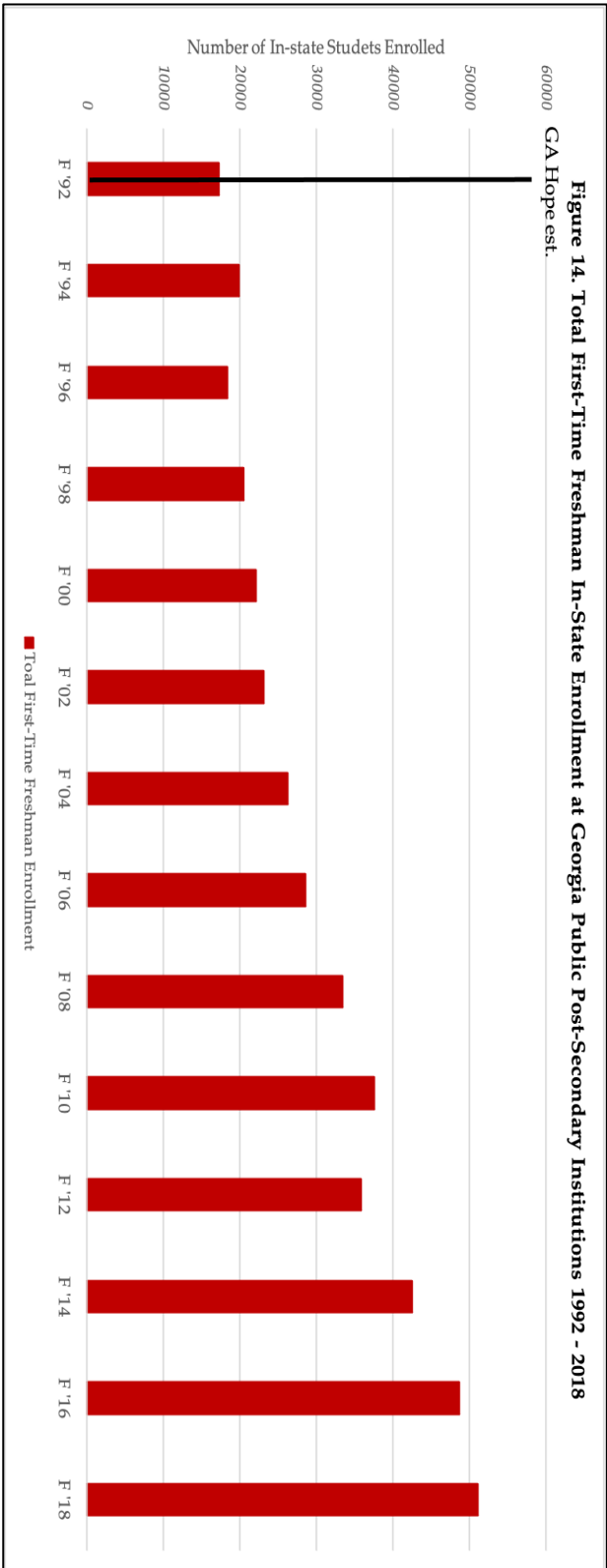
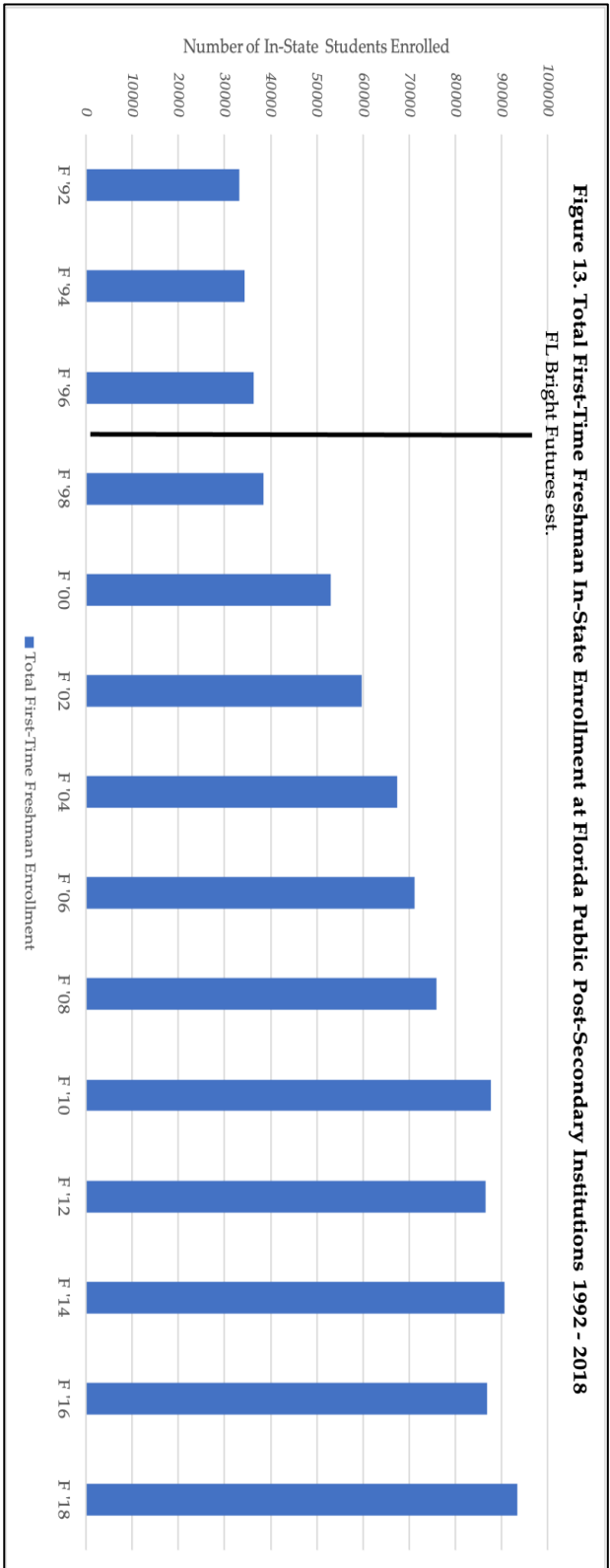


Figure 15. Total First-Time Freshman In-State Enrollment at Tennessee Public Post-Secondary Institutions 1992-2018

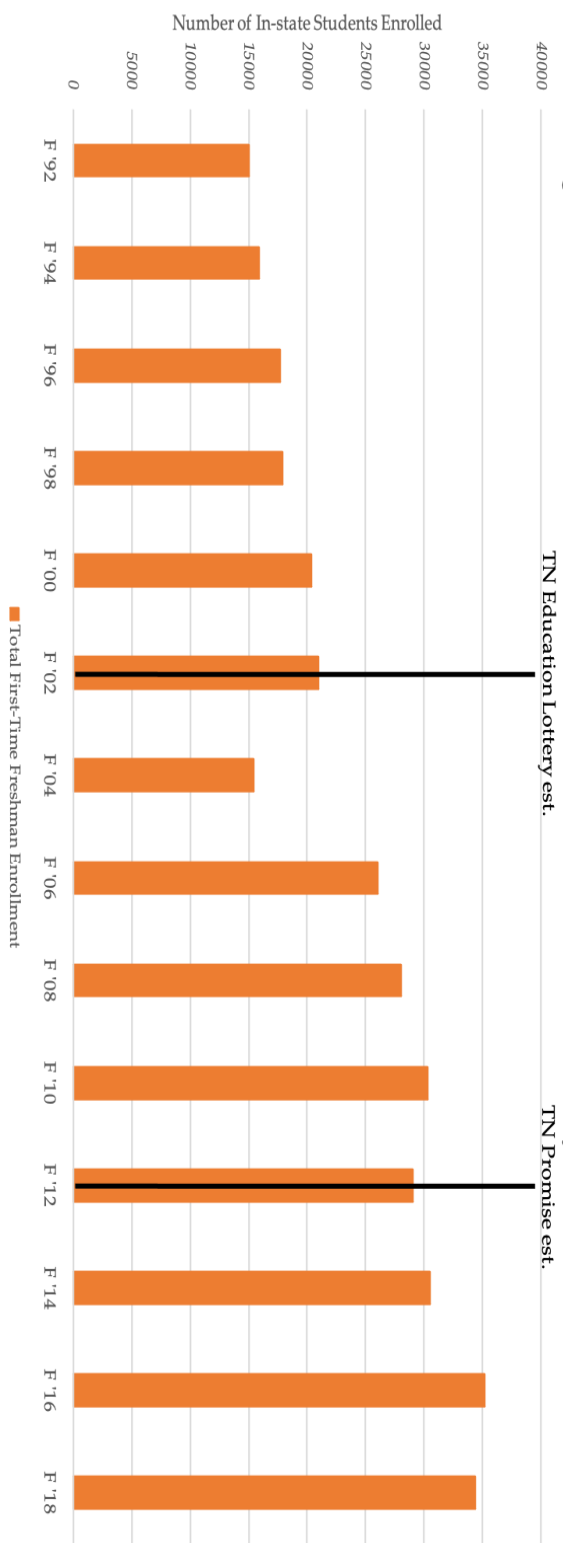
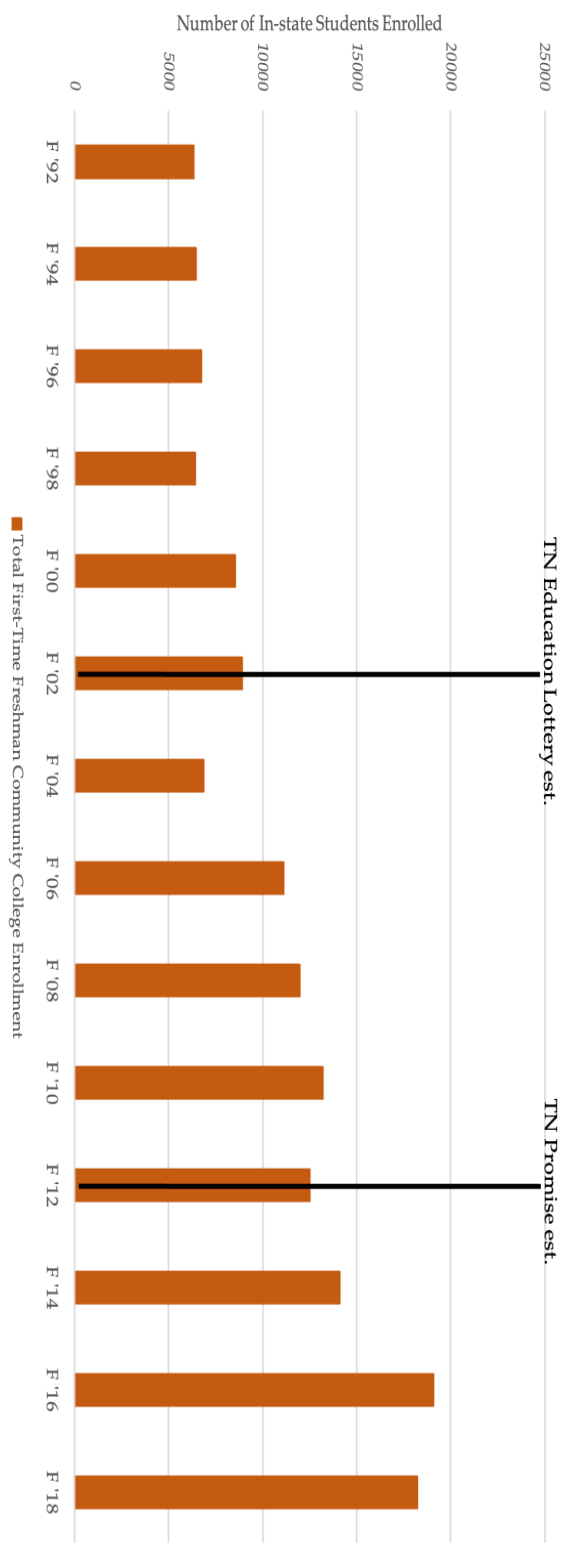


Figure 16. Total First-Time Freshman In-State Enrollment at Tennessee Community Colleges 1992-2018



Based on the data presented above, we believe that Alabama would experience similar enrollment increases at public post-secondary, particularly at public two-year community and technical colleges, following the creation and implementation of a statewide college promise program. This is incredibly important to the future of Alabama's economy and ability to compete in regional, national, and worldwide markets. In a 2012 study by the Education Policy Center regarding workforce training, a survey of community college leaders found that the majority of state community college directors agree or strongly agree that "business leaders see community colleges as primary workforce training providers."⁷² Additionally, if Alabama wishes to retain and continue to recruit well-paying jobs to the state through the expansion of auto-manufacturing, Alabama must invest in workforce training and development to ensure that there are enough skilled workers to fill new openings.⁷³ This can be done by creating Alabama College Promise to expand access to public two-year colleges as well as improve degree and credential attainment across the state.

Policy Recommendations

In order to continue to grow our state's economy, it is essential to have a robust educational system that will encourage workers to enroll in colleges and further develop their employable skills. Many students in Alabama currently put off attending post-secondary institutions due to the prohibitive cost barriers and lack of available aid, therefore, a comprehensive need-based aid program is necessary to improve access to higher education in Alabama and enhance the state's workforce and opportunities. Our community and technical colleges deliver essential training and educational resources that sustain local communities through the schooling of future welders, electricians, auto-manufacturing technicians, and many other in-demand occupations that will help propel Alabama graduates into well-paying jobs.

Therefore, based on the data examined and discussed in this report, ***it is the recommendation of the authors that the Alabama legislators consider the adoption of a statewide education lottery that will create and fund an Alabama College Promise program and Opportunity Scholarship.*** If implemented correctly and effectively, the state stands to gain up to \$280 million in proceeds to put towards addressing the issue of its choosing. We believe these funds would be best used to fund higher education access and, by extension, workforce development. By establishing and funding Alabama College Promise with proceeds from an education lottery per this brief's recommendations, the state of Alabama could expect to provide last-dollar scholarships to upwards of 40,000 low-income students for use at Alabama's many public community and technical colleges. Additionally, the Alabama Opportunity Scholarship would provide last-dollar scholarships to low-income students attending public or private non-profit four-year colleges, serving upwards of 16,000 additional students. As part of this recommendation, we suggest that the lottery revenues be kept in a "lockbox fund" (in the style of the Tennessee Promise legislation, see Appendix 3) in order to ensure that the proceeds are used for their intended purpose of providing need-based aid for students pursuing post-secondary education at Alabama's public community and technical colleges—and not transferred to other accounts for other, extraneous expenditures. Additionally, we advise that provisions be included

in any lottery legislation to create an endowment fund so that funding is stable and sustainable for future generations and beneficiaries.

Concluding Thoughts: The Way Forward

Every state surrounding Alabama uses lottery proceeds to invest in education in some form. Without one in Alabama, the burden to finance college degrees and certificate completions falls entirely on students, parents, and higher education institutions. Keeping college affordable for low-income and middle-income students and their families by financing college access and choice is a joint responsibility of federal and state governments. The University of Alabama's Education Policy Center has conducted 20 student aid studies since 2011. EPC research justified the strong support of the Mississippi and Alabama Congressional Delegations to restore year-round (Summer) Pell Grants as part of the bipartisan Consolidated Appropriations Act signed by President Donald J. Trump on May 4, 2017. To the regular nine-month Pell Grant of \$6,000, the summer Pell grant added an additional \$3,000 to help students continue their education and finish their programs in a shorter time frame, critical to working students and conducive to earning a family-sustaining wage.

Student aid is an underutilized, powerful tool in state policymakers' workforce development toolbox. Maintenance of effort provisions in federal student aid laws do not exist, unlike Medicaid and highway, causing the erosion of higher education funding for many years. ***Therefore, Alabama should use the estimated \$280 million of first year estimated lottery proceeds to create the Alabama College Promise and Alabama Opportunity Scholarship.*** These programs would be the state's first comprehensive state-based student aid program, and each would provide much needed financial assistance to the state's high school graduates. A lottery would provide Alabama with the funds to plug its human capital pipeline leaks, ensuring students will gain financial assistance needed to complete credentials, certificates, and degrees. In order to continue to grow our state's economy in the future, it is essential to have a robust educational system that will encourage workers and students to enroll in colleges to further develop their employable skills. ***An endowed Alabama College Promise will propel more high school students to enroll and complete credentials statewide in technical fields to better meet the states workforce development goals.***

APPENDIX ONE
Georgia Code Lottery for Education (GA Code § 50-27-2)

It is found and declared by the General Assembly:

- (1) That net proceeds of lottery games conducted pursuant to this chapter shall be used to support improvements and enhancements for educational purposes and programs and that such net proceeds shall be used to supplement, not supplant, existing resources for educational purposes and programs;
- (2) That lottery games are an entrepreneurial enterprise and that the state shall create a public body, corporate and politic, known as the Georgia Lottery Corporation, with comprehensive and extensive powers as generally exercised by corporations engaged in entrepreneurial pursuits;
- (3) That lottery games shall be operated and managed in a manner which provides continuing entertainment to the public, maximizes revenues, and ensures that the lottery is operated with integrity and dignity and free of political influence; and
- (4) That the Georgia Lottery Corporation shall be accountable to the General Assembly and to the public through a system of audits and reports.

APPENDIX TWO:
FLORIDA CODE § 4-24-121

24.121 Allocation of revenues and expenditure of funds for public education.—

(1) Variable percentages of the gross revenue from the sale of online and instant lottery tickets shall be returned to the public in the form of prizes paid by the department or retailers as authorized by this act. The variable percentages of gross revenue from the sale of online and instant lottery tickets returned to the public in the form of prizes shall be established by the department in a manner designed to maximize the amount of funds deposited under subsection (2).

(2) Each fiscal year, variable percentages of the gross revenue from the sale of online and instant lottery tickets as determined by the department consistent with subsection (1), and other earned revenue, excluding application processing fees, shall be deposited in the Educational Enhancement Trust Fund, which is hereby created in the State Treasury to be administered by the Department of Education. The Department of the Lottery shall transfer moneys to the Educational Enhancement Trust Fund at least once each quarter. Funds in the Educational Enhancement Trust Fund shall be used to the benefit of public education in accordance with the provisions of this act. Notwithstanding any other provision of law, lottery revenues transferred to the Educational Enhancement Trust Fund shall be reserved as needed and used to meet the requirements of the documents authorizing the bonds issued by the state pursuant to s. 1013.68, s. 1013.70, or s. 1013.737 or distributed to school districts for the Classrooms First Program as provided in s. 1013.68. Such lottery revenues are hereby pledged to the payment of debt service on bonds issued by the state pursuant to s. 1013.68, s. 1013.70, or s. 1013.737. Debt service payable on bonds issued by the state pursuant to s. 1013.68, s. 1013.70, or s. 1013.737 shall be payable from, and is secured by a first lien on, the first lottery revenues transferred to the Educational Enhancement Trust Fund in each fiscal year. Amounts distributable to school districts that request the issuance of bonds pursuant to s. 1013.68(3) are hereby pledged to such bonds pursuant to s. 11(d), Art. VII of the State Constitution.

(3) The funds remaining in the Operating Trust Fund after transfers to the Educational Enhancement Trust Fund shall be used for the payment of administrative expenses of the department. These expenses shall include all costs incurred in the operation and administration of the lottery and all costs resulting from any contracts entered into for the purchase or lease of goods or services required by the lottery, including, but not limited to:

(a) The compensation paid to retailers;

(b) The costs of supplies, materials, tickets, independent audit services, independent studies, data transmission, advertising, promotion, incentives, public relations, communications, security, bonding for retailers, printing, distribution of tickets, and reimbursing other governmental entities for services provided to the lottery; and

(c) The costs of any other goods and services necessary for effectuating the purposes of this act.

(4) The unencumbered balance that remains in the Operating Trust Fund at the end of each fiscal year shall be transferred to the Educational Enhancement Trust Fund.

(5)(a) Public educational programs and purposes funded by the Educational Enhancement Trust Fund may include, but are not limited to, endowment, scholarship, matching funds, direct grants, research and economic development related to education, salary enhancement, contracts with independent institutions to conduct programs consistent with the state master plan for postsecondary education, or any other educational program or purpose deemed desirable by the Legislature. Prior to the expenditure of these funds, each school district shall establish policies and procedures that define enhancement and the types of expenditures consistent with that definition.

(b) Except as provided in paragraphs (c), (d), and (e), the Legislature shall equitably apportion moneys in the trust fund among public schools, community colleges, and universities.

(c) A portion of such net revenues, as determined annually by the Legislature, shall be distributed to each school district and shall be made available to each public school in the district for enhancing school performance through development and implementation of a school improvement plan pursuant to s. 1001.42(18). A portion of these moneys, as determined annually in the General Appropriations Act, must be allocated to each school in an equal amount for each student enrolled. These moneys may be expended only on programs or projects selected by the school advisory council or by a parent advisory committee created pursuant to this paragraph. If a school does not have a school advisory council, the district advisory council must appoint a parent advisory committee composed of parents of students enrolled in that school, which is representative of the ethnic, racial, and economic community served by the school, to advise the school's principal on the programs or projects to be funded. Neither school district staff nor principals may override the recommendations of the school advisory council or the parent advisory committee. These moneys may not be used for capital improvements or for any project or program that has a duration of more than 1 year; however, a school advisory council or parent advisory committee may independently determine that a program or project formerly funded under this paragraph should receive funds in a subsequent year.

(d) No funds shall be released for any purpose from the Educational Enhancement Trust Fund to any school district in which one or more schools do not have an approved school improvement plan pursuant to s. 1001.42(18) or do not comply with school advisory council membership composition requirements pursuant to s. 1001.452(1). The Commissioner of Education shall withhold disbursements from the trust fund to any school district that fails to adopt the performance-based salary schedule required by s. 1012.22(1).

(e) All components of the Florida Bright Futures Scholarship Program shall be funded annually from the Educational Enhancement Trust Fund. Funds shall be allocated to this program prior to application of the formula for equitable distribution to public schools, community colleges, and state universities. If shortages require reductions in estimated distributions from the Educational Enhancement Trust Fund, funds for the Florida Bright Futures Scholarship Program shall be reduced only after reductions in all other distributions are made.

APPENDIX THREE:**TENNESSEE SENATE BILL 2471**

AN ACT to amend Tennessee Code Annotated, Title 49, Chapter 4, Part 7 and Title 49, Chapter 4, Part 9, relative to postsecondary financial assistance. WHEREAS, Governor Haslam has set the goal of making Tennessee the number one location in the southeast for high-quality jobs; and WHEREAS, high-quality jobs require a workforce that is equipped with the knowledge and skills provided through postsecondary education; and WHEREAS, the Governor and members of the General Assembly hear continually from Tennessee employers that the demand for skilled workers exceeds the supply; and WHEREAS, Tennessee lags behind the national average in residents with higher education degrees, ranking forty-third in the percentage of adults with a two-year degree or higher; and WHEREAS, without intervention, the current higher education attainment level of thirty two percent (32%) among Tennesseans is projected to increase to only thirty-nine percent (39%) by 2025; and WHEREAS, recognizing these realities, Governor Haslam launched the Drive to 55 initiative to increase higher education attainment among Tennesseans to fifty-five percent (55%) by 2025, which will require the awarding of four hundred ninety-four thousand (494,000) additional postsecondary credentials; and WHEREAS, these credentials need to be fully aligned with emerging workforce demand, which will require collaboration across education and workforce agencies at the state, regional, and local level; and SB2471 012014 -2- WHEREAS, the Drive to 55 initiative is comprised of strategies to address both traditional and non-traditional students; and WHEREAS, we cannot reach 55 percent without engaging our adult population that has some college but no degree; and WHEREAS, reaching this goal will require focused effort and coordination across all systems and institutions of Tennessee higher education; and WHEREAS, a key to the future economic success of Tennessee is reaching 55 percent higher education attainment by 2025 in order to keep up with projections of the percent of Tennessee jobs that will require a postsecondary credential or degree; now, therefore, BE IT ENACTED BY THE GENERAL ASSEMBLY OF THE STATE OF TENNESSEE:

SECTION 1. Tennessee Code Annotated, Section 49-4-708, is amended by deleting the section in its entirety and by substituting instead the following language:

(a) This section shall be known and may be cited as the “Tennessee Promise Scholarship Act of 2014”.

(b) As used in this section:

(1) “Continuous enrollment” has the same meaning as defined in § 49-4- 902;

(2) “Eligible high school” has the same meaning as defined in § 49-4- 902;

(3) “Eligible postsecondary institution” means a Tennessee public college or university, a Tennessee college of applied technology, or a regionally accredited four-year private, non-profit institution located in this state and having its primary campus domiciled in this state;

(4) “Full-time student” has the same meaning as defined in § 49-4-902;

(5) “Gift aid” has the same meaning as defined in § 49-4-902;

(6) “Home school student” means a student who completed high school in a Tennessee home school associated with a church-related school as defined - 3 - 012014 by § 49-50-801 or an independent home school student whose parent or guardian has given notice to the local director of a Tennessee school district under § 49-6-3050(b)(1) of intent to conduct a home school;

(7) “Resident” means a student as defined by regulations promulgated by the board of regents under § 49-4-104; and

(8) “TSAC” means the Tennessee student assistance corporation. (c) TSAC shall administer the Tennessee Promise Scholarship Program for Tennessee residents seeking an associate’s degree, certificate or diploma from an eligible postsecondary institution under the following terms and conditions: (1) To be eligible for the scholarship a student shall be admitted to and enrolled full-time in an eligible postsecondary program in the fall term following graduation from an eligible high school, or completion of high school as a Tennessee home school student, or obtaining a GED® or HiSET® diploma; provided, that the student obtains the GED® or HiSET® diploma prior to the student reaching nineteen (19) years of age. Exceptions to initial enrollment may be made for extenuating circumstances as provided in rules and regulations promulgated by TSAC; (2) Students applying for the scholarship shall complete the Tennessee Promise application in their initial year of enrollment. Students shall complete the free application for federal student aid (FAFSA) each academic year in which they seek to receive the Tennessee Promise Scholarship; (3) To continue to receive a Tennessee Promise Scholarship, a student shall maintain satisfactory academic progress as determined by the rules and regulations promulgated by TSAC; - 4 - 012014 (4) Scholarship recipients shall participate in mentoring and community service programs under the rules and regulations promulgated by TSAC. TSAC shall develop the selection and renewal criteria for students and shall have the authority to work with outside organizations to develop the most effective means for delivering the scholarships; (5) Subject to the amounts appropriated by the general assembly, a Tennessee Promise Scholarship shall be the cost of tuition and mandatory fees at the eligible postsecondary institution attended less all other gift aid, as defined in § 49-4-902. Gift aid shall be credited first to the student’s tuition and mandatory fees; (6) Notwithstanding subdivision (c)(5), the amount of the Tennessee Promise Scholarship at an eligible four-year public postsecondary institution or an eligible private institution shall not exceed the average cost of tuition and mandatory fees at public two-year postsecondary institutions; (7) A Tennessee Promise Scholarship student who has an approved medical or personal leave of absence from an eligible postsecondary institution may continue to receive the scholarship upon resuming the student's education at an eligible postsecondary institution so long as the student continues to meet all applicable eligibility requirements. The sum of all approved leaves of absence shall not exceed six (6) months. The student shall be eligible for the scholarship until the occurrence of the first of the following events: (A) The student has earned a certificate, diploma, or associate degree; or (B) The sum of the number of years the student attended a postsecondary institution, exclusive of approved leaves of absence, - 5 - 012014 equals two and one-half (2½) years from the date of the student’s initial enrollment at an eligible postsecondary institution; and (8) Except for a medical or personal leave of absence, as approved by an eligible postsecondary institution, a Tennessee Promise Scholarship student shall maintain continuous enrollment at an eligible postsecondary institution.

(d) The Tennessee Promise Scholarship program shall be funded under the following terms and conditions:

(1) There is established an endowment for the purpose of funding the Tennessee Promise Scholarship, which shall be funded from program-generated revenues of the TSAC and shall be invested as a part of the chairs of excellence endowment fund established by § 49-7-501, the intermediate-term investment fund established by § 9-4-608, or the state pooled investment fund established by § 9-4-603. To the extent that the endowment is invested in the chairs of excellence

endowment fund, the chairs of excellence endowment fund shall serve exclusively as an investment vehicle; accordingly, the chairs of excellence program and funding requirements shall not apply;

(2) In addition to the endowment described in subdivision (d)(1) there is established an additional endowment for the purpose of funding the Tennessee Promise Scholarship, which shall be funded from the lottery for education account established in § 4-51-111(b)(1). Such endowment shall be established as a separate account in the state treasury. Moneys in this endowment shall be invested by the state treasurer pursuant to title 9, chapter 4, part 6, for the sole benefit of that fund;

(3) Beginning in fiscal year 2014-2015, all funds in the lottery for education account, established in § 4-51-111(b), in excess of ten million dollars - 6 - 012014 (\$10,000,000) shall be transferred on a quarterly basis to the Tennessee Promise Scholarship endowment described in subdivision (c)(2). Such transfers shall occur after all required expenditures have been made for Tennessee education lottery scholarship programs, Tennessee student assistance awards, and administrative expenses, and after any required deposits into the general shortfall reserve subaccount have been made; and

(4) Funds appropriated for the Tennessee Promise Scholarship program, including matching funds or other appropriations made by the general assembly, may be placed in an endowment fund created solely for the program, the interest income from which shall be used to provide scholarships under this section. The corpus of each endowment established under this section shall not be expended. Unexpended funds remaining in each endowment in any fiscal year shall not revert to the general fund, but shall remain available in the Tennessee Promise Scholarship program for scholarship expenditures in subsequent fiscal years.

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