

The Tennessee Journal

The weekly insiders newsletter on Tennessee government, politics, and business

Vol. 40, No. 6
February 7, 2014

Haslam pushes lottery endowment for free community college

Gov. Bill Haslam's ambitious proposal to make community colleges and state technical schools free for all Tennessee high school graduates is reviving a familiar debate over the use of lottery scholarship funds.

The plan, which would take effect in 2015, attracted national attention this week, as Tennessee would be the only state offering such a program.

Called Tennessee Promise, it would become the cornerstone of Drive to 55, the governor's initiative to increase the portion of the work force with at least a two-year degree from the current 32% to 55% by 2025. The goal is based on an estimate that in 11 years 55% of jobs will require technical certification or an associate's or bachelor's degree.

The estimated cost of Tennessee Promise is relatively low for such a sweeping program — \$34 million a year — but the funding plan, which would draw on lottery reserves, already has been questioned, albeit from outside the legislature.

U.S. Rep. Steve Cohen (D-Memphis), who as a state senator helped create the Tennessee Education Lottery more than a decade ago, views Haslam's proposal as a raid on money that could be used instead to increase the value of lottery scholarships, which cover only part of tuition and fees.

Cohen, often with Republican allies, has argued for years that the lottery was sold to the public as an incentive for high school students to study hard and the scholarship program should continue to be merit-based. Those with a B average or a 21 on the ACT are eligible.

Some legislators, especially Democrats, have sought over the years to expand the program to lower-achieving students, arguing this would be a fairer use of the money than increasing scholarship amounts.

The lottery reserve fund, which has swollen to \$460 million, long has been a topic of controversy. It appeared three years ago the fund would slowly decline unless changes in the scholarship program were made, so a task force headed by Senate Education Chairman Dolores Gresham (R-Somerville) was established to recommend corrective action.

Then lottery proceeds began growing faster than expected and the problem disappeared.

Endowment. Haslam wants to create a \$350 million endowment for Tennessee Promise by taking more than \$300 million in reserves — leaving \$110 million — and combining it with a nearly \$50 million Tennessee Student Assistance Corp. endowment that the legislature set up last year to provide grants to low-income students.

The plan also would draw on recurring lottery funds, made available through savings that would come from a change in the scholarship structure. Lottery scholarships for students at four-year institutions would drop from \$4,000 to \$3,000 in the freshman and sophomore years and rise from \$4,000 to \$5,000 for upperclassmen. Although over four years a student would receive the same amount either way, the change would save the state money because many students don't finish college.

The idea of tiered awards has come up before. Tennessee Higher Education Commission executive director Rich Rhoda suggested it to Gresham's task force.

The plan presumably would steer more students to community colleges. Lottery grants at those schools would rise from \$2,000 to \$3,000, the same as for four-year schools in the first two years. Haslam points out that the "pipeline" to universities from community colleges will be bigger, but some higher education officials worry the overall enrollment impact will be negative.

On the other hand, under the outcome-based higher education funding formula, juniors and seniors draw more dollars to a school than do underclassmen.

Sales pitch. After laying out the plan Monday evening in the annual State of the State address, which was well received by legislative leaders, Haslam met with newspaper editorial boards from one end of the state to the other and pitched it in several public speeches, including one to the Tennessee Press Association Thursday. He spoke to the Knoxville Chamber of Commerce this morning.

The plan would not pay all tuition and fees of students. Rather, it would pay the balance not covered by lottery scholarships and other available financial aid.

Implementation would be delayed until the 2015-16 school year because by the time it could be enacted this year, the deadline will have passed to file Free Application for Federal Student Aid (FAFSA) forms for 2014-15.

The proposal is modeled after *tnAchieves*, a privately funded program spearheaded by Knoxville businessman Randy Boyd, who spent the past year as a full-time, unpaid higher education adviser to the governor and this week was appointed to THEC. Like *tnAchieves*, which is in 27 counties, Tennessee Promise would use volunteer mentors to work with students.

Haslam's plan anticipates that *tnAchieves* and other organizations will help with administration and coordination of volunteer mentors.

Earlier plan. Seven years ago, a more limited proposal by Gov. Phil Bredesen to provide free community college was defeated in the Senate Education Committee. It also would have used lottery funds. One of Bredesen's goals was to improve the college completion rate. He argued that community colleges, cheaper than four-year institutions, were an under-utilized resource.

His plan differed from Haslam's, though. Only high school students with at least a C average, a 19 on the ACT, and a 19 on both the math and English components of the ACT would have been eligible for the deal.

Haslam's plan doesn't set academic requirements other than those of the schools.

Ground rules. Under the 2002 constitutional amendment that enabled the legislature to establish a state lottery, proceeds must be used "to provide financial assistance to the citizens of this state to enable such citizens to attend post-secondary institutions located within this state." The "excess after such allocations" — an occasional topic of dispute — can be appropriated for capital outlay projects for K-12 schools and early-learning and after-school programs.

Haslam's proposal, while certainly not what Cohen had in mind nor what originally was envisioned, would seem to meet the stated purpose.

TEA, with statistical razzle-dazzle, presents case that TVAAS is unreliable

Four years ago, under pressure from Gov. Phil Bredesen to help the state obtain Race to the Top funds, the Tennessee Education Association agreed to the use of Tennessee Value Added Assessment System (TVAAS) data as 35% of a teacher's evaluation.

The stakes have risen since then, as under Gov. Bill Haslam evaluations have been tied to tenure. And last August the state Board of Education adopted a policy, recommended by Education Commissioner Kevin Huffman, under which teachers with very bad evaluations could lose their licenses at renewal time.

A teacher who in two or more of the past three years had received a TVAAS score of 1 — on a scale of 1 to 5 — would be denied license renewal. TEA, which already disliked the evaluation process, went ballistic over that provision. The board, while adopting the policy, delayed implementation until 2015 to allow time for tweaks.

Then, last Friday, after a TEA presentation disputing the reliability of TVAAS scores, the board rescinded the policy. It will consider in April a revised plan under which TVAAS scores could be a factor, but not the sole determinant, in a license revocation.

Growth. The basic concept of the value-added system, developed by University of Tennessee statistician William Sanders and adopted by the state in 1992, is that the true measure of how well a district, school, or teacher is doing is not the achievement level of the students but how much their level improves.

The idea is that with testing at the end of a school year, what students know at that point can be measured — or at least estimated. Then, when they're tested the following year, their gain — what that year's teacher taught them — can be assessed. For reliability, Sanders stressed that at least three years of data should be used.

But TVAAS isn't as simple as the basic concept, as TEA lobbyist Jim Wrye and attorney Rick Colbert emphasized in a presentation Tuesday to the House Education Committee. To calculate a "teacher-effect estimate," they said, TVAAS uses a rolling five-year calculation that pulls in data from a broader pool of students than those the teacher has taught.

For a non-statistician, the process is hard to follow, but the TEA representatives argued that the "standard error" — somewhat akin to the margin of error in a poll — is so high that a score of 3 could be a 2 or a 4, making the data virtually worthless. They dazzled, or perhaps dazed, the audience with slides showing such things as a value-added algorithm summary and cited a Weakley County teacher whose TVAAS level was 5 in 2008, 1 in 2009, 4 in 2010, 5 in 2011, and 1 in 2012.

They argued it was inconceivable such radical differences in a teacher's effectiveness could actually occur and that a teacher's career should not be put in jeopardy over a "statistical estimate." Several committee members were sympathetic. Rep. Ron Lollar (R-Bartlett) said he had not "totally drunk the Kool-Aid" and was willing to review the issue. Several bills have been filed to lessen the importance of TVAAS scores.

Crucial element. Huffman says there is no way to know which of multiple reforms contributed the most to Tennessee's best-in-the-nation improvement on the National Assessment of Educational Progress last year. But he believes teacher evaluations were the most important factor.

It is widely believed the evaluations made teachers more accountable and focused, but Huffman argues teachers have sharpened their skills and improved their methods because of professional development programs and feedback from evaluators.

Observations. Wrye in effect questioned the validity of the entire evaluation process. He said supervisors have been told observation scores for teachers cannot be inconsistent with TVAAS results and argued that TVAAS, therefore, drives observation results.

The presentation and questions from the 15-member committee pushed the meeting well beyond two hours,

Tennessee News Digest

- Both Lt. Gov. Ron Ramsey and House Speaker Beth Harwell said Thursday they expect passage of the bill repealing the authority of cities and counties to ban guns in local parks. Harwell said the House may make an exception for parks primarily used by children.
- Gov. Bill Haslam's reelection campaign reported it raised \$2,939,573 from last July 1 through Jan. 15. The campaign spent \$572,423 and ended the reporting

period with a balance of \$4,554,634. Haslam so far has no serious opponent.

- David Mansouri, previously communications director for the State Collaborative on Reforming Education, was named executive vice president.
- House Minority Leader Craig Fitzhugh (D-Ripley), as promised, filed a bill this week providing that no one can be commissioner of education unless he or she is a licensed teacher for at least 10

years immediately preceding the appointment. Commissioner Kevin Huffman taught for three years in Teach for America, later practiced education law, then became a Teach for America executive before Gov. Bill Haslam recruited him to Tennessee.

- A Middle Tennessee State University poll conducted Jan. 23-26 found 58% of Tennesseans have not heard of the Common Core standards while 38% have.
-

and by the time Assistant Education Commissioner Stephen Smith was invited to offer a brief rebuttal, only five members were left.

Smith said it isn't true that the department forces evaluators to correlate observation scores with TVAAS results. What it does do, for the 10% of schools with the widest variation between the two scores, is require additional training. He said a fluctuation in TVAAS levels like that for the Weakley County teacher is not the norm, that less than 1% of teachers show such dramatic change.

The administration believes TVAAS is the best system in the country for measuring teaching impact and that performance-based evaluations are crucial to continued progress. In defending them, it will try to put the focus back on children.

Budget includes TennCare rate cut, salary equity bump for teachers

The 2014-15 spending blueprint unveiled Monday by Gov. Bill Haslam calls for a 1% reduction in reimbursement rates for TennCare providers, a 2% raise for teachers, and a 1% pay hike for state employees.

State workers last year got an average 5.3% increase thanks to adjustments based on a compensation study. After the 1% raise, the administration plans to move away from across-the-board hikes to performance-based raises, Finance Commissioner Larry Martin said.

The \$32.6 billion budget, down about \$600 million from the current year, adds \$40 million to the rainy day fund, bringing it to almost \$500 million.

In addition to \$48.6 million budgeted for a 2% teacher pay hike, the proposal calls for \$14.5 million in extra salary funding for teachers to address pay disparities among school districts, which in the past have been a subject of litigation. The money is to be divided among school districts that are below the Basic Education Program's average teacher salary of \$40,477.

TennCare is projected to cost an extra \$180 million, including \$77 million to cover an estimated 52,000 people, already eligible, who are expected to enroll because of publicity and eligibility screenings flowing from the Affordable Care Act. The state's saving from the provider rate cut is put at \$18.5 million, but the combined state and federal loss for providers would be \$53 million.

The budget eliminates 664 positions, 100 of which currently are filled. It adds \$7 million for the Department

of Intellectual and Developmental Disabilities and \$6.4 million for the Department of Children's Services.

Despite interest by some Republican legislators in further relief for senior citizens from the Hall income tax on investments, the budget anticipates no changes.

Treasurer's proposal would force local entities to fund their pensions

A new report from State Treasurer David Lillard shows at least six local entities paid less than 75% in 2012 of the actuarially required contribution (ARC) for their pension funds.

The biggest was the city of Memphis, which put in \$20.4 million, or 22.6%, about \$70 million less than was actuarially required. But some of the entities that paid 100% of ARC are in even worse shape in terms of their funded status. For example, the Chattanooga Fire and Police pension, based on a market value analysis, is 51.8% funded. The Memphis plan is 72.2% funded.

The largest ARC, that of Nashville, paid 90.5% of its ARC in 2012. Nashville's plan is 75.4% funded.

Lillard is proposing to require political subdivisions that are outside the Tennessee Consolidated Retirement System — and there are at least 31 of them — to contribute 100% of their ARC each year. Senate Majority Leader Mark Norris (R-Collierville) and House Insurance and Banking Chairman Steve McManus (R-Cordova) are sponsoring legislation to that effect.

It will be reviewed Monday by the joint Council on Pensions and Insurance.

Under the bill, governmental plans would have six years to phase in 100% ARC funding. In theory, Lillard says, with a closed amortization period this eventually would raise the funded status of the plans to 100%.

The proposal would empower the state finance commissioner, at the direction of the state comptroller, to withhold state-shared taxes sufficient to pay the ARC when a political subdivision fails to fund it.

The report shows that both Memphis Light, Gas & Water and Nashville Electric Service paid 100% of ARC in 2012. Memphis LG&W is 81.1% funded, NES 71.6%. Shelby County, which paid 100%, is 78.7% funded.

Ten political subdivisions paid more than 100% of their ARC in 2012, according to the report. The only plan 100% funded is an old, small Hamilton County plan with a funded status of 215.8%.

Tennessee Notes & Quotes

■ “I think it is our business. . . . The state of Tennessee put a whole lot of money into that plant.” — *Gov. Bill Haslam, when asked if it's really the state's business what happens in next week's secret ballot vote by workers at the Volkswagen plant in Chattanooga on affiliating with the United Auto Workers.*

■ Haslam hasn't been bashful about stating his opinion. He believes unionization of the plant could discourage some suppliers from locating near the facility.

■ A proposed constitutional amendment to make the state attorney general popularly elected received 15 votes in the Senate Thursday, two fewer than needed for adoption. Fourteen senators voted no, including Lt. Gov. **Ron Ramsey** (R-Blountville). Sen. **Mae Beavers** (R-Mt. Juliet) sponsored the measure, which the House hasn't considered. The Senate approved a different amendment last year calling for the attorney general to be chosen by the General Assembly. The House hasn't voted on that one either, and even if it were to approve it, the proposition would need to pass again in 2015 or 2016 by two-thirds votes. Under the Tennessee Constitution, the attorney general is chosen for an eight-year term by the state Supreme Court.

■ It was a tough week for Sen. **Beavers**, whose bill to block any state entity from doing anything that assists or facilitates the Affordable Care Act ran into a problem in the Senate Commerce Committee, which deferred action because of the fiscal note. The note, based on information from the TennCare Bureau, estimated the bill would cost Tennessee \$6.5 billion in federal participation funds because it would require breaking federal law.

■ “That's the largest fiscal note I've ever seen.” — *Senate Commerce Chairman Jack Johnson (R-Franklin).*

■ “Surely there's some kind of award for this one.” — **Sen. Beavers.**

■ The language of the wine referendum bill, as expected, was folded into the main wine-in-grocery-stores bill in the House Budget Subcommittee this week. The measure is set for consideration Tuesday in the full House Finance Committee. The train is rolling.

■ “I hesitate to speak to the formula, honestly because I'm not a statistician. I'm not a scientist that deals with these types of formulas any more than Mr. Colbert or Mr. Wrye. I think the difference is I'm not going to . . . stand up here and act as though I am.” — *Assistant Education Commissioner Stephen Smith, to the House Education Committee, in response to a presentation by TEA lobbyist Jim Wrye and attorney Rick Colbert on the Tennessee Value Added Assessment System.*

■ Rep. **Richard Floyd** (R-Chattanooga), who has served since 2007, announced he won't seek reelection.

■ The House Republican Caucus has retained former state GOP chairman **Chip Saltsman** as its political consultant for the 2014 races.

■ McMinnville Democrat **Kristopher Gore**, a former aide to Rep. **John Mark Windle** (D-Livingston), will

run for representative in House District 43, where Republican **Robert Dunham** also is seeking the seat vacated by Democrat **Charles Curtiss**. Rep. **Paul Bailey** (R-Sparta), the interim representative, is running for state senator in District 15. Gore, who works at Edd Rogers Automotive, is an Iraq War veteran.

■ House Minority Leader **Craig Fitzhugh** (D-Ripley) has filed a request with the federal government under the Freedom of Information Act for documents related to communications between the Department of Health and Human Services and the state of Tennessee regarding potential Medicaid expansion. He wants both written and electronic messages, records of phone calls, “any notes taken during conversations,” and so forth. Fitzhugh is an advocate for expansion, which Gov. **Bill Haslam** has rejected unless he can negotiate an agreement with HHS on a privatized approach that incorporates provider payment reforms and other cost-saving measures. Democrats have questioned, from time to time, how serious the discussions have been.

■ In 2011, when Sears was considering a headquarters relocation, the fledgling Haslam administration made a pitch for Tennessee. A wacky proposal was hatched in the Department of Economic and Community Development to turn over the 31-story Tennessee Tower. WTVF-Channel 5 obtained a copy of a script drafted for the governor to read in a videotaped message offering the building. It aired the story this week. The station's chief investigative reporter, **Phil Williams**, who has reported extensively on controversies involving the state's real estate management contract with Jones Lang LaSalle, found another JLL connection: The company represented Sears in its site search. Sears ultimately stayed in Illinois. Gov. **Bill Haslam** says the tower proposal was never seriously considered and wasn't made to Sears. ECD Commissioner **Bill Hagerty** says that even under the rejected idea, the building was to be offered only as temporary space until a headquarters was built for the company.

■ The Wacky Bill of the Week, SB1592/HB2033, would require all TV, radio, print, and other advertisements for the Tennessee Lottery to include this language: “Warning: You will probably lose money playing the lottery.” Sen. **Jim Summerville** (R-Dickson) filed a nearly identical bill last year but didn't have a House sponsor. Now with him is Rep. **Barbara Cooper** (D-Memphis).

■ If the warning is needed, the state's education system is in more trouble than we thought.

■ Speaking of wacky bills, we mentioned last week but neglected to honor appropriately a joint resolution by Rep. **Andy Holt** (R-Dresden) that invites conservative commentator **Sean Hannity** to move to Tennessee. The **Phil Williams** report got us thinking. If Holt and his co-sponsors are serious about luring Hannity to the Volunteer State, they should come up with an incentive, such as offering him a site for a home.

■ Hmm. How about Frozen Head State Park?