THIRD WAY

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Q&A: Examining Instructional Spending in Higher Ed

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With the vast array of institutions in the higher education ecosystem comes a wide range of outcomes and even more ways to look under the hood to measure the quality a school or program is delivering for students and taxpayers. Yet when institutional outcomes aren't entirely up to snuff, understanding *why* necessitates additional nuance, raises more questions, and complicates means of measurement. That's where an examination of a school's instructional spending can be useful. Instructional spending is the percentage of a student's tuition dollars an institution spends on teaching and learning. We've previously written about instructional spending and how it can be a tool to understand institutional decision-making and resource allocation, ultimately impacting a student's return on investment (ROI). [1] This memo answers five common questions about instructional spending and how it could be used to advance greater federal accountability in higher education.

1. What is Instructional Spending—and Why Use It?

Instructional spending is a percentage measure of how much of a student's tuition check is allocated toward their teaching and learning. This metric allows researchers and policymakers to follow a student's tuition dollars and how they are split among the larger financial pie. The volume of taxpayer dollars higher education receives each year is no small change, making the case for the paper trail of how those funds are spent. During the 2021-22 academic year, higher education institutions received over $106 billion from the taxpayer-funded Title IV program, mainly through federal student loans and need-based Pell Grants. [2] In aggregate, that amount doesn't tell how an institution spends that money, much less what it spends on instruction—the reason why a student goes to college in the first place. An instructional spending ratio allows policymakers to see the proportion of tuition dollars that higher education institutions allocate to a student's learning experience, which is related to their ability to complete college, get a good job, and repay their student loans. Instructional spending is also a valuable tool for institutions, allowing them to reassure their students of how their tuition dollars are spent, helping to shore up perceptions of value and demonstrating teaching and learning as institutional priorities. [3]

2. How is Instructional Spending Calculated?

Institutions must report data annually to the Department of Education to be eligible to participate in the Title IV federal financial aid program. [4] These data comprise the Integrated Postsecondary Education Data System (IPEDS), College Scorecard, and other databases used by researchers, higher education advocates, and policymakers to understand the behavior and performance of institutions and the students they serve. As part of annual IPEDS data collection, colleges and universities submit various surveys that collect information about enrollment, completion, other student outcomes, and human resources, among other institutional attributes.

The IPEDS Finance survey, conducted every spring, collects data on various financial measures and how institutions spend their money. Data collected through the Finance survey include revenues by source (like tuition, fees, grants, and contracts), expenses by function (like instruction, research, and academic support), assets and liabilities, and scholarships and fellowships. To calculate an instructional spending metric, we can divide the sum of instructional expenses per full-time equivalent student (FTE) by the net tuition and fees per FTE reported through IPEDS to yield the percentage of overall tuition income spent on instruction. [5]

Additional spending categories within the IPEDS Finance survey—like student services and academic supports—could allow for even greater nuance by recognizing other meaningful indicators of investment in student success. However, as currently collected, data within the student services category encompass pre- *and* post-enrollment spending. This means an institution's student services measure can be easily skewed by marketing, advertising, and other expenditures focused on recruiting prospective students rather than serving currently enrolled students. [6] Advocates, including Third Way, support updating the definition of IPEDS survey categories to understand better how an institution uses its resources to support enrolled students. [7] Yet despite the limitations of currently available data, instructional spending measures can already shed light on how colleges spend their financial resources and whether those decisions support student success.

3. What Does(n't) Instructional Spending Measure?

Instructional spending is just what the name implies—a measurement of how much of a student's tuition an institution spends on classroom instruction. It is an element of the student experience that falls within an institution's control while a student is *in* college. The adage of a budget being a statement of priorities undergirds the philosophy of instructional spending, and the metric helps ensure that institutions not only talk the talk by prioritizing instruction but walk the walk and allocate students' tuition dollars to educating them. It provides an additional data point to help understand how well an institution prioritizes its students' learning.

Instructional spending on its own is *not* a proxy measure for the value an institution provides to its students or the quality of instruction. While it doesn't directly measure value, it can help answer questions *about* value, quantifying institutional decisions that may impact student outcomes and be of interest to policymakers and taxpayers. A larger percentage of instructional spending doesn't necessarily correlate with higher quality teaching or better outcomes. Still, a low ratio puts the ball in a low-performing institution's court by asking whether the money that students and taxpayers provide them is put toward their core mission of teaching and learning.

4. What Do You Mean by an Instructional Spending "Screen"?

The go-to accountability stick for institutions and programs in higher education is the threat of cutting off access to Title IV financial aid. In certain circumstances, that may be appropriate. However, when it comes to ensuring a return on investment for students and taxpayers—and helping get more students across the finish line into well-paying jobs that allow them to pay back their student loans—cutting off financial aid has repercussions for students and for under-resourced institutions working to deliver for their students. The idea of an instructional spending "screen" is similar to an annual physical with your doctor. If you show up and get a clean bill of health, you're good to go—and the same applies to institutions with positive outcomes. If what you're doing is working and provides ROI to students, an instructional spending screen isn't needed.

However, if the doctor sees that something isn't quite right, they may need to run more tests to find the root of the problem. An instructional spending screen is a secondary test that can help determine what prescription might be most effective in addressing the scope and depth of poor student outcomes. For institutions with low instructional spending and lackluster completion rates, repayment rates, or post-college earnings, the absence of investment in teaching and learning is a red flag—showing that their low performance isn't a question of resources but one of institutional decision-making. On the other hand, poor outcomes and high instructional spending may indicate an institution has limited resources but embraces student-centered priorities, perhaps indicating a need for further support to see improvement in those outcomes. These circumstances warrant different responses, allowing policymakers to understand whether the stick or carrot is the correct instrument for problem-solving. Such nuance provides for a tiered approach to accountability and assistance *before* harsh sanctions, allowing institutions a chance to improve if they've demonstrated that their priorities are in the right place.

5. What Do Voters Think of Using Instructional Spending for Accountability?

Voters want to see more accountability for higher education institutions to deliver positive outcomes for students and taxpayers. Recent polling from Third Way of voters coast to coast found that 68% recognize higher ed has its problems but believe it can be fixed by making changes to what's broken and leaving what's working in place. Accountability plays a vital part in fixing those issues and improving outcomes, and voters believe that schools must be held accountable to ensure that costs and debt are worth the price. Voters see instructional spending as one lever to accomplish this goal, with over 70% showing support for withholding federal funding from institutions that do not spend at least a third of a student's tuition on teaching. This agreement holds firm across political affiliation, with 74% of Democrats, 69% of Republicans, and 58% of Independents in favor, along with 79% of voters who had or currently hold student debt and 69% of those who didn't. The takeaway? Voters see the connection between how an institution spends students' tuition money and stronger outcomes throughout and after college, and they want to ensure that the vast sums invested in higher education are being spent well and paying off.

Conclusion

Policymakers have several tools and metrics at their disposal to understand higher education institutions' performance and promote accountability for the ROI on student and taxpayer dollars.

An instructional spending screen may be one of the most common-sense metrics in the toolkit—examining whether low-performing institutions spend an appropriate percentage of tuition dollars on fulfilling the mission of why students go to college in the first place. In an era where more Americans lack trust in higher education but still see the value of a postsecondary credential, instructional spending lets institutions show their receipts for how they are investing in their students, the priority they place on teaching and learning, and whether they direct resources appropriately to ensure students end up across the finish line and in a good-paying job.

ENDNOTES

1. Whistle, Wesley and Lanae Erickson. "Using Instructional Spending to Test for Value in Higher Ed." *Third Way*, 18 April 2019, https://www.thirdway.org/memo/using-instructional-spending-to-test-for-value-in-higher-ed. Accessed 25 July 2024.

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3. Cecil, Ben. "Voters Want Less Talk and More Action on Higher Ed Value." *Third Way*¸14 May 2024, https://www.thirdway.org/report/voters-want-less-talk-and-more-action-on-higher-ed-value. Accessed 25 July 2024.

4. Institute for Education Sciences, National Center for Education Statistics. "About IPEDS." https://nces.ed.gov/ipeds/about-ipeds. Accessed 26 July 2024.

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7. Third Way, et. al. "IPEDS Technical Review Panel #66 *Revisiting the Purpose of the Finance Survey Component.*" Letter to Amy Barner, IPEDS Technical Review Panel Task Leader, *4 November 2022*, Veterans Education Success, 4 November 2022, https://vetsedsuccess.org/wp-content/uploads/2022/11/Advocate-Comments-on-TRP66-Finance-Survey.pdf. Accessed 9 September 2024.