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The Pennsylvania State University  
Presidential Leadership Academy

**Balancing the Operating Budget:  
Creating a Healthier Penn State and Expanding World Campus**

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Submitted May 3, 2013

## **I. Abstract**

“When we stood at childhoods gate, shapeless in the hands of fate, thou didst mold us Dear Old State, Dear Old State, Dear Old State...” These elegant lyrics of our great Penn State University alma mater have been sung year after year, arm in arm by so many faculty, staff, students, and alumni. The words bring to light how the University makes and shapes its members into the thinkers and leaders of tomorrow. However, while the University plays an important role in shaping our future as students, we can play an important role in shaping the future of the University in return.

Penn State is currently in a time of transition. As perceptions from inside and outside are shifting, administrative positions left vacant are filled, and the immediate Penn State community tries to redefine and prove itself as one of the top research and academic institutions in the country, it is crucial that students take part in shaping the future. After all, as the Vice President for Student Affairs Damon Simms claims “ Student are the number one priority of the University.” The road to the future is not lined with gold, though. In addition to increasing diversity, restructuring the leadership, and developing faculty, student relationships one of the major challenges facing the University in the next five to ten years is the budget. The Penn State Budget Office said it best “ All elements of the budget are under pressure right now.” In other words, savings are hard to find.

As a result of the increasing financial burdens we were tasked with designing recommendations that will help put Penn State where we want it to be within the next five to ten years through budgetary policies. In order to accomplish this goal the key budgetary issues needed to be identified and explored. After reading the Penn State Strategic Plan and speaking with President Rodney Erickson about what he saw as the major budget issues

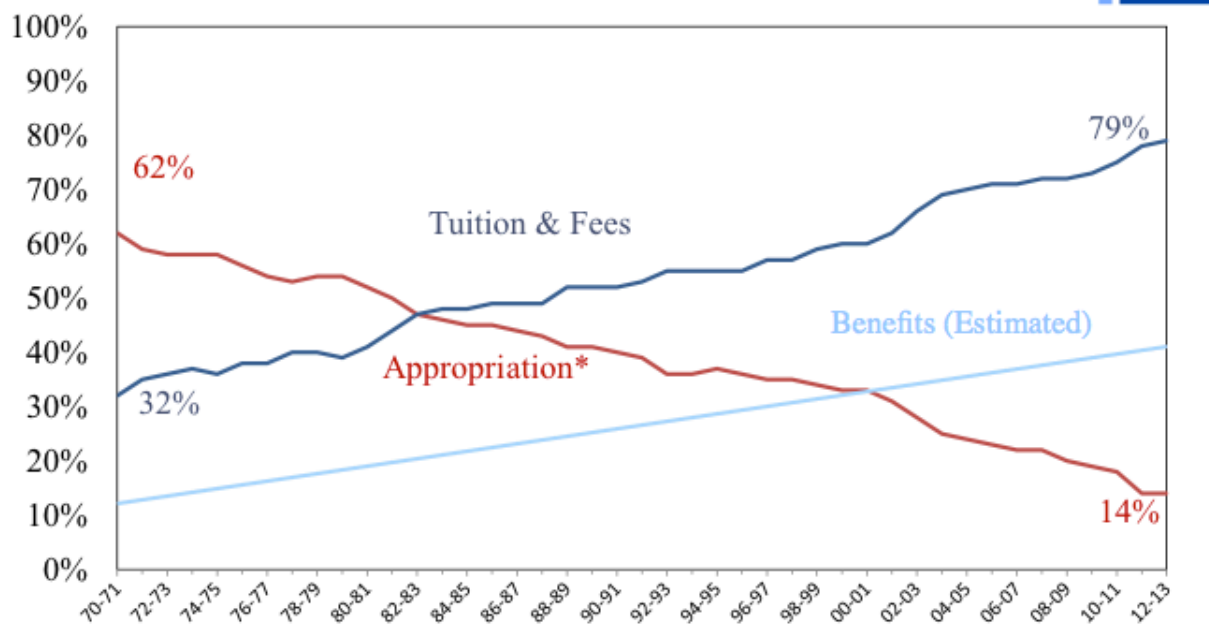
moving forward we decided that the skyrocketing prices of employee healthcare benefits presented a problem. At the same time, it was clear that the Penn State World Campus program had been steadily growing since its inception five years ago and could potentially be expanded as a main revenue generating entity of the University. Therefore, we ultimately broke down the overarching theme of the university budget into two distinct sections where we thought considerable improvements could be made: employee healthcare benefits and world campus. The first two policies regard restructuring the benefits program and expanding employee health services in an effort to provide savings associated with health care costs to the university. The last two recommendations stem from the idea that Penn State's world campus can be used as an additional source of revenue for the University's general funds.

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### III. The Current Employee Health Benefits System

Healthcare benefits for faculty and staff have been a major stressor on the Operating Budget for many years. Resources for employee benefits, specifically healthcare, come from the University's general funds. The general funds pot has three main sources, the largest of which are tuition and state appropriations. Below is a graph that describes the relationship between these three elements, tuition, state funding, and tuition:



Includes Federal Stimulus Funds for 2009-10 and 2010-11.

Budget Office Website

As is obvious from the visual, state appropriations have been significantly decreasing, student tuition has been rising and is expecting to plateau, and the cost of healthcare benefits is rising exponentially. Eventually, if changes are not made, there will be a huge gap between the funding available for faculty and staff healthcare and the funding needed to maintain a competitive benefits system. One answer may be to drastically cut the employee healthcare system. However, if Penn State wants to remain a “World Class”

institution, then the school will need to maintain a quality employee healthcare system. Therefore, in the next five to ten years, the University will need to introduce new policy that encourages new behaviors in an effort to control the costs.

When asked about employee benefits in relation to the fiscal budget of the University, President Erickson's initially pointed to the sheer magnitude of the issue. Employee benefits account for around a quarter of a billion dollars per year in costs, which makes up 30% of the entire operating budget in a given year. Current, full time faculty and staff are not the sole recipients however. Of that 30%, half of the funds go to retired employees and, due to the Affordable Health Care Act, which will go into effect in 2014, Penn State is expecting \$20 million in additional costs to cover part-time workers. According to the Penn State Budget Office, employee benefits are the "number one reason for tuition increase," with an overall projected increase of 33.7 million dollars in 2013-2014 alone. Unfortunately, Penn State is self-insured, with Highmark insurance company merely managing the processes on a 10 year contract. As a self-insured institution every dollar paid for employee health benefits comes directly out of the Penn State operating budget, specifically the general funds. The Vice President for Finance and Business David Gray made a good point when he stated " [The University] Cannot work outside the macro-economic forces. However, we can work to decelerate or mitigate the increase." While much of the rising cost is a result of the national healthcare issue, Penn State must work to implement new strategies and policies that don't simply shift the cost to the employee but rather encourage a change in practice and behavior that will save money in the long run.

## **Evolution of the Health Benefits System**

When employee benefits were first instituted at the University they operated on a flat rate system for health coverage. Therefore, every employee, no matter how much money they earned, paid 20% for a single person and 30% for a family. This system helped those on the higher end of the salary scale and disadvantaged those at the lower end as they were paying a larger percentage of their smaller income. Furthermore, according to the head of the Human Resources Department Susan Basso, the University quickly realized that 20% of the employees were causing 90% of the total health care cost, with the three main expenses coming stemming from health issues related to smoking, diabetes, and cancer. As a result, within the past three years Penn State has switched to a salary indexed contribution system, which is projected to save the school 3 billion dollars over the next 30 years. This system is quite simple, the more an employee earns in a year the more they pay for health care. The main motivation behind this policy is the idea that, generally, the older employees are the ones earning more but also the individuals that need more in the form of health care; the more an individual uses the system the more they should pay. In addition to the salary indexed contribution system Penn State implemented a tiered benefits system, which provides different pricing options based on how many individuals are covered under the Penn State employee plan. For example, an employee with a spouse and two dependents will pay more than an employee with just a spouse. This system helps to fairly distribute the overall costs.

## **New Health Benefits Policy for 2014**

Even with these two major changes to the contribution and payment system though, the cost of health care for the University continues to rise exponentially. The University acknowledges this reality through the statement about benefits and insurance in the Strategic Plan:

Health care insurance costs are a large and growing component of Penn State's operating expenses. The University continues to aggressively pursue efforts to mitigate its health care costs while maintaining a quality program for our employees and graduate assistants.

Historically, increasing copays and deductibles has been a way to somewhat mitigate the costs. However, as staff and administrators both mentioned, that merely shifts the financial burden to employees. Therefore, in order to see significant decreases in health care costs for all parties, University employees must begin to take a more active interest in their personal health by participating in physical activities and avoiding high-risk behaviors. In other words, there needs to be a fundamental change in the culture. When speaking with President Erickson about the issues that Penn State faces with respect to healthcare and actions the University is taking to control the costs, he agreed that the campus environment and attitudes towards health needed to transform. To get this process started, he mentioned the administration has set an ambitious goal for the University of maintaining the increase in cost of health care below CPI + 2% in the next couple of years. In order to accomplish this goal the University has already established new surcharges, cost/risk options, and eligibility requirements that are expected to take effect in 2014. The first is a smoking surcharge. This policy charges a rate premium to employees that engage in high-



risk behavior such as smoking. In fact, if an employee smokes they will end up paying \$900 more per year than a non-smoker. Another surcharge will be established for employees who fail to complete an online Health Risk Assessment. The online Assessment is a form of biometric screening that helps make individuals more aware of their basic medical conditions. If an employee smoked and failed to complete this assessment the individual would end up paying \$175 more month than a compliant, non-smoker. A final surcharge to be implemented is a spousal surcharge. Many times spouses that could receive health care benefits from their personal place of work elect to be covered under the Penn State plan. This significantly increases the health care costs Penn States pays each year. Therefore, if a spouse chooses to be covered by Penn State and is not a Penn State employee the employee will be charged extra in addition to what they already contribute. The spousal surcharge is part of cost shifting efforts of the University. Similar to the spousal surcharge, the Office of Human Resources is requiring each employee to declare their dependents by presenting multiple forms of paperwork. This policy was first enacted last year and since then 400 dependents voluntarily dropped from the system and 200 more were established as ineligible. In addition to the surcharges Penn State is introducing a value-based insurance program. This program helps to reduce the financial barriers for costly health conditions, such as diabetes, so that patients will be more compliant to doctors orders. In insurer in a value-based system, in this case Penn State, pays for the costs of the doctors visits, medication, and any other supplies needed so long as the patient follows the routines and protocols set forth for their condition by the medical professionals. By removing the barriers, the insurer then encourages best care for the individual who in return becomes much healthier and saves the insurer money in the long run by decreasing the severity of

their condition and avoiding hospitalizations. With two of the most expensive health care services Penn State pays for being emergency room visits and chronic illnesses such as cancer and diabetes, introducing this value-based system should incentivize the employees while at the same time lower costs long term for Penn State.

Clearly the University has recognized the increasing burden of health care costs on the operating budget and is taking steps towards lowering the cost while at the same time revamping the very fabric of the work place. Instead of simply shifting the cost to the employee, the school needs policies that will encourage people to participate in healthy activities and make healthy choices and discourage them from participating in high-risk activities. This is especially important because of the recent Sandusky scandal, subsequent negative perceptions about the University, and low salary increases in the past few years. Penn State needs to establish a positive community where faculty and staff are proud of where they work. We need to market Penn State as an upbeat, active, and healthy workplace, shifting the mindset and moral of the employees, to significantly impact health care costs.

#### **IV. Policy Proposals for Health Care**

*Recommendation 1: Expanding Exercise and Urgent Care Facilities on Campus for Faculty and Staff.*

In an effort to support the current initiatives of the University and generate a healthier workplace atmosphere the first recommendation is to expand and support exercise and urgent care facilities physically on grounds and solely for faculty and staff. Again, this is to motivate employees to be more interested in their health. Therefore, the first area of critical importance is physical activity. How can Penn State help encourage employees to be more active? The first step in the implementation process would be to continue the wellness programs already in place. Health Matters offers classes in two, seven-week periods throughout the semester that only cost \$42 to cover the cost of the instructor. However, if employees who sign up and pay at the beginning actually attend the required amount of classes they are reimbursed at the end of the period. Other wellness programs in place now include personal nutrition assistance from a registered nutritionist, which includes seven personal consultations over the course of the year. This service is paid for by Penn State upfront, and Highmark pays Penn State back should the employee successfully complete the 7 visit program. At Commonwealth Campuses there is a Wellness Ambassador program that pays nurses to host appointments on campus. In addition, the Ambassador program advertises fitness classes offered in two, seven-week periods at the Commonwealth Campuses for only \$27, a program very similar to the one run at University Park. Some Commonwealth Campuses have such successful Ambassador programs that they are able to give money to another campus' program that may be smaller. Finally, Penn

State offers free flu shots for employees, free CPR recertification classes, free over the phone coaching service for those interested in quitting smoking known as Health Advocate, and a free weekly newsletter called “Wellness Weekly” that details healthy eating habits, exercise tips, and information about classes and trainings being offered that week around campus. In order to encourage a healthy and environment and decrease health care costs all of the above programs need to continually be supported.

In addition to the existing wellness programs though, faculty and staff should be able to use the current exercise facilities, such as White Building and Rec Hall, for free. Right now they have to pay an additional membership fee of \$75 in order to obtain a pass to use the facilities. While in the short term this would create a small decrease in revenue for those buildings the long-term savings in health care costs would be worth it.

Furthermore, Penn State needs to establish a faculty and staff health system, parallel to the University Health System available to students. This system would ideally be located on campus either in a new building or a restructured space such as an office in the HUB. But, another potential location could be downtown on College Ave. This facility would offer acute and preventative care from physician’s assistance but not services provided by general practitioners. This facility would help to encourage and maintain a healthy environment as faculty and staff would have a place to visit to check up on their health or check in if they feel a larger problem arising, without going through the long and tedious trip off campus and into the greater State College area just to see a nurse. Hershey employees, not Geisinger doctors, would staff the department to help decrease the cost of the services provided. This faculty and staff Health Services facility would also house exercise equipment, the faculty and staff seven-week classes, and rehabilitation resources.

Again, this would decrease the cost of health care by bringing the services closer to the people, who would then be motivated to engage in their health and cost the University less in the long term.

A final piece of this policy recommendation is the enhancing of the public relations and marketing of the current and potential programs and facilities. Currently in State College there are 4 urgent care facilities staffed by Hershey employees that offer the same services as an emergency room and general practitioners office just at half the cost. There are also no long wait times. However, it is clear that most faculty and staff are unaware or reluctant to use the facilities.

*Recommendation 2: No Smoking on Penn State campus.*

We recommend that Penn State University adopt a smoke free campus policy. We recommend this policy for several different reasons but the major one being that the savings for the university could be quite large in the next ten years. The costs associated with smoking are high. If State College is consistent with the national average, approximately 19.3 percent of people over age 18 smoke. This data comes from the Center for Disease Control survey in 2010. From a meeting with Cassandra Kitko, we learned that smokers cost on average over fourteen hundred dollars (\$1429.00) more per year for the university than nonsmokers. According to Penn State's Economic Impact Statement, the university employs about 30,000 people full time at University Park and the Commonwealth Campuses. The total cost of smokers to the university health care system using these numbers is over 8.27 million dollars.

Imagine if every smoker working for Penn State quit. Enacting a no smoking policy that changed the cultural perspectives on tobacco for the faculty and staff could help to increase the number of people who decide to quit smoking and potentially save millions of dollars for Penn State. While it is not reasonable to assume everyone will quit smoking if such a policy is enacted, it is well known that making smoking less convenient will increase the percent of people who decide to quit.

In addition to savings in health care costs, a smoke free campus would generate additional savings with regard to facilities and maintenance. A smoke free policy would save valuable time that the staff would otherwise spend picking up cigarette butts, emptying ashtrays, and handling complaints about smoke. Also, a smoke free campus would eliminate fire risks caused by cigarettes and decrease risks associated with the university's liability to provide accommodation for those with asthma and other medical conditions. Lastly, with a tobacco free campus, there will be a reduction in environmental impact, further advancing sustainability initiatives. Besides the numerous cost effective advantages of a policy prohibiting smoke, Penn State would provide a healthier environment to the faculty, staff, students, and entire community

Across the country, schools are deciding to prohibit smoking on campus. According to Americans for Nonsmokers Rights, about 1,159 college or university campuses in the United States have adopted 100% smoke free campus policies. These policies eliminate smoking in indoor and outdoor areas on campus. This trend is also evident in the Big Ten as Michigan State University and Indiana State University already have smoke free campuses. At Penn State, some have difficulty seeing smoking as a problem; however, there are countless examples where smoking has interfered in nonsmoking students and

employees' daily lives. For example, Damon Sims discussed complaints from people working in Bouke Building. People smoke outside on the steps and the wind blows towards the windows into the building exposing people to secondhand smoke. Also, staff has to continuously clean up cigarette butts off of the grounds to keep the campus looking nice, especially for prospective students. Smoking at Penn State is a problem not only among the students but among the employees as well. Nonsmokers have the right to live in a smoke free environment, especially the children visiting campus and those with asthma or other health concerns.

As a part of the upcoming changes to the University health care system in 2014, a smoking surcharge will be required for those who smoke on a regular basis. Smokers will have to pay 900 dollars more per year if they smoke. This policy aims to encourage smokers to quit by imposing a financial disincentive. From our interview with Linda LaSalle, from University Health Services, we learned that the majority of smokers come from lower socioeconomic backgrounds and hence, may not be able to afford the costs of smoking. According to human resources, only 4 people in the past year went through the smoking cessation program offered by the university. With the new surcharge in effect, this number is expected to increase greatly. The smoking cessation program and health advocates program will need to be revamped to account for the likely increase in people deciding to quit. Programs such as "PA Quitline" can also help smokers through the withdrawal process.

It is evident from the upcoming changes in the university health system that Penn State supports a smoke free environment. In addition to the surcharge a smoke free campus policy would be helpful in increasing the wellness of employees and those exposed

to secondhand smoke. While the benefits are clear, there are many obstacles to implementation of such a policy.

### **Challenges and Solutions in Implementation**

This next section aims to discuss some of the challenges and possible solutions to a policy that would prohibit smoking on all Penn State campuses. The main concern when discussing a university wide smoking ban is enforcement. How will Penn State be able to enforce such a policy in a non-discriminatory way? We propose that we follow similar methods as other schools and implement a soft enforcement. This includes peer enforcement, supervisory support, and a community initiative to address compliance. The policy would be clearly communicated through emails, media releases, newsletters, and would be posted on websites and handbooks. Tobacco free signs would be put in place as well as creative decals and posters. Also a compliant procedure as well as non-compliant consequences would be discussed prior to implementation so that the students, faculty, staff, and community are well aware of the expectations. Over time a cultural shift will take place.

Another concern about a no smoking policy is the student reaction. Before a policy would be put in place students would be surveyed on their opinions of such a policy. We would see how many students smoke, if they have witnessed negative consequences as a result of smoke on campus, and generally if they would support a smoke free environment. Penn State Employees would also be surveyed and the results would be displayed openly. Discussions between students, faculty and staff would have to ensue to come up with a fair



proposal. The next step in increasing student support would be to get organizations to support the policy. Penn State fraternities, sororities, athletic and academic organizations would have the opportunity to declare support for a smoke free policy. Also Penn State employee organizations as well as fitness and wellness programs could show their support.

Essentially, this policy would focus on changing the lifestyle of employees and students while providing resources to do so in a way that encourages self-efficacy. A clear and compromising transition period would be necessary with a focus on confidence, health, and positive peer encouragement

### **Additional Benefits to the Penn State Community**

In addition to cost savings of such a policy there are other positive consequences. First there are obvious health benefits, as we already know. Evidence indicates that people exposed to secondhand smoke on a daily basis are at least 20% more likely to develop lung cancer. Smoking also makes workers less productive: they are absent from work more often and need health services more often than nonsmokers.

Second, since the majority of the population does not smoke, and most likely enjoys smoke free air, a smoke free campus would attract health conscious students. Lion scout, Steve Payne discussed the perspectives visiting students and their parents had on smoke at Penn State. He mentioned the discomfort and disapproving behavior when he led a tour group through a cloud of smoke. He stated "cigarette smoking is a great turn off for students and their families to the university." A smoke free campus could help market Penn State to students looking for a health-wise university.

## **V. An Introduction to World Campus**

The Penn State University Strategic Plan very clearly states the vision for the World Campus in the larger context of the Penn State picture. Strategy 6.1 states:

“Growth of the World Campus and other forms of online education should include a continued leading role for the faculty, academic units, and the University Faculty Senate. The long-term success of online programs, including the World Campus at Penn State, is linked to how well these programs can draw upon the unique strengths and academic capacities of the enterprise.”

Furthermore, their overarching mission for World Campus is supported with the ideas of expansion and increased funding:

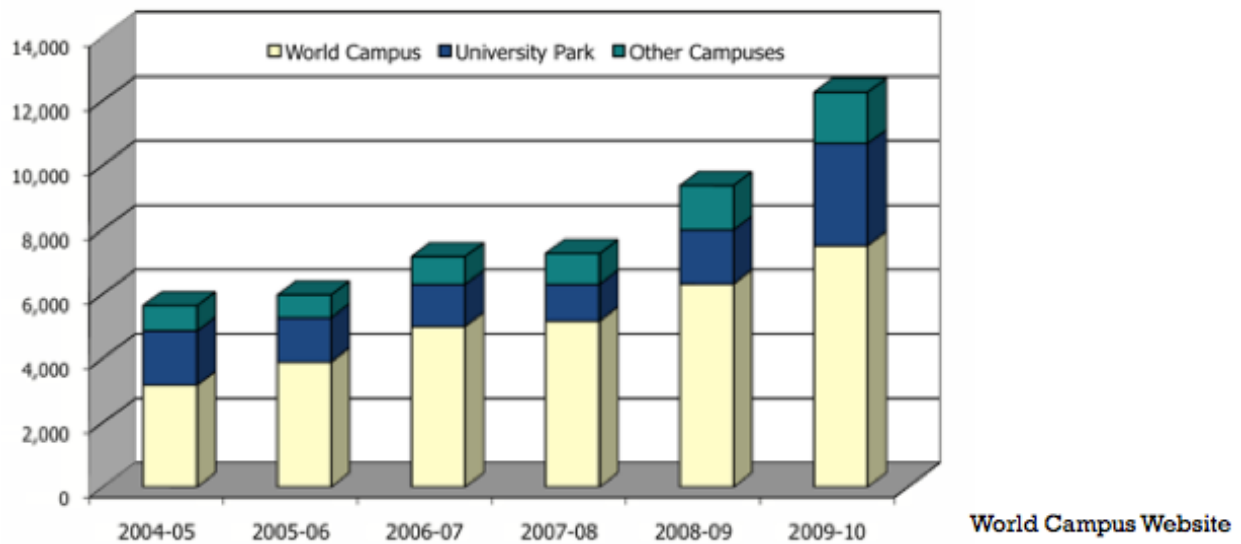
“The budget models supporting the World Campus have evolved considerably over the past decade of operation. For example, considerable simplification of budget and revenue-sharing models has occurred, and some Penn State colleges are now hiring faculty members based in part upon their expected contribution to creating, teaching in, and/or managing World Campus programs. We need to ensure that the budget models provide adequate incentives for units to bring forth programs with the greatest market potential, and that faculty with the requisite skill sets can be engaged to support those programs at a high level of quality.”

One of the most progressive and informative outreach efforts that the World Campus takes on are the Student Town Halls that are held every semester. They offer a

chance for students of the World Campus to get their questions and concerns addressed by senior World Campus administrators. This allows for a civil discourse to take place, resulting in a dialogue leading to a better understanding of the needs of students who learn online. Wayne Smutz, Executive Director of the World Campus at Penn State, mentioned that the primary goals for the next few years are to open doorways of opportunity, ensure the success of students and not just simply provide access to courses for students, to act as one Penn State, to create lifetime learners, and to impact the educational needs of the nation and of the world. His intent is that Penn State ensure their students make it through the program and provide outlets to help their students strive as opposed to just offering as many online options as they can. The quality of education in World Campus is to support the quality of education that Penn State has become known for, and students are to feel the same connection and pride that goes with a World Campus degree as they would if they attended another campus.

The World Campus currently has 11,000 enrolled students and they have a 2021 goal of 20,000 students (see graph below). It is a self-sustaining entity at Penn State, and revenues support academic colleges all over the school. Currently, some of the concerns that students mentioned were in relation to internships, mentoring, and an Honors Program that would be geared toward online learners. They also mentioned that World Campus classes are not nearly as numerous or as comprehensive as courses at other campuses; a concern with Dr. Smutz responded to by pointing to the high costs of investment to bring on a new course. Generally, courses take about 8 months to develop due to discussions with faculty members, conversations with existing students in the curriculum, and also due to market research the World Campus conducts with potential

employers. This 8 month time period is preceded by an 18-24 month time period to bring a new degree to the World Campus. World Campus is a partner with the academic colleges and so both have to agree to do the program. They must conduct adequate market analysis to ensure enrollment, and then are subject to the same Faculty Senate procedures to add a course as any other academic department or college at Penn State would be subject to. This is done in order to maintain the high standard that comes with a Penn State degree. Undergraduate degrees have to go through ACUE and Faculty Senate, a thorough vetting process that takes time. As a result, many of the programs offered through the World Campus are identical to programs offered on the ground.



One area that could be explored to improve upon would be the process that courses must go through in order to get a class online in order to keep up with World Campus growth. Another area of concern to students during the Fall 2012 Town Hall was internships and tutoring; there is currently one faculty member in charge of placing students in internships or careers. For a campus that has enrollment of 11,000 students,

this might be an area that could partner with the Career Services at University Park to better provide opportunities to online learners. A new position is being created to work with employers to bring employees into the world campus system as well as to place students in jobs as well. Students also mentioned that tutoring for World Campus students could be improved upon; embedded tutoring works well in the limited number of classes that it is offered in. Students mentioned a potential need to have learning centers in different cities so that students can build spirit and get to know each other.

An important aspect of this discussion is higher education in the context of the nation. There are shifts taking place due to the rising operational costs of these institutions, changing technology and the effective use and implementation of this technology, and reduced state support. The World Campus is the only campus at Penn State that is growing at the rate that it has been growing consistently. Furthermore, the cost of tuition is the same for international students and out-of-state students as it is for students that learn online in Pennsylvania. Even so, there is not as much financial aid available for international students – these students must work through the office of global programs. The World Campus has a financial aid office – the Director of this office works out of an office in California – and in 2012, \$1.3 million were offered in scholarships from the Jane Ireland Fund. Wayne Smutz, Director of the World Campus, sees a need for this endowment to grow in order to sustain the growth in the campus enrollment.

After meeting with President Erickson regarding World Campus, it is clear that he sees huge potential in the collaboration and integration with the commonwealth campuses. He projects that University Park tuition will stay flat at between \$40,000 to \$45,000 per year with World Campus students displacing resident campus enrollment. Over the last

decade, there has been a dramatic shift of graduate students on campuses decreasing as the total number of graduate students at the University has increased due to various World Campus options. World Campus is putting aside \$5 million per year for the next four years from their revenue so that they can establish much more effective marketing and recruiting practices. President Erickson also projects that the World Campus will reach an enrollment of 45,000 students in the next 5-10 years, a number, which corresponds to the targets, and goals that the World Campus has set in their vision statements. One area that can be improved, according to President Erickson, is the collaboration between World Campus and commonwealth campuses. While this has been successful at some commonwealth locations, he would like to see further integration of World Campus curriculum. He mentioned that the campuses in Northeast Pennsylvania are so close in proximity, that they could reasonable share faculty members and courses. Finally, President Erickson is convinced that World Campus will more and more become part of the Penn State experience, citing that students that graduate from World Campus join the Alumni Association at higher rates than students at physical campuses.

When talking about potential drawbacks and problems that World Campus faces, President Erickson mentioned the University of Illinois and how their faculty was not responsive to their own version of online learning. He says that Penn State has been lucky because many faculty members have embraced the opportunity. One of the issues that hold up the development of new courses for the World Campus is the fact that the Faculty Senate does not meet from April to September. This might be an area that could be targeted so that a special committee could meet during the summer to expedite World Campus courses. Furthermore, some campuses have been better than others at embracing World

Campus courses into their curriculum, mostly due to cost. Others have been reluctant to embrace this collaborative effort due to the fear that World Campus is competing for students.

When asked about the manner in which the Faculty Senate creates policies toward adding new courses to the University curriculum, Dr. Spanier stated that academic departments are largely conservative places. Many faculty members feel as if they are connected with a course and there can often be politics that go into the curriculum process. Regardless of these aspects, the curriculum process is complicated. There are committees that represent each and every campus to review a new course – a measure intended to ensure that the quality of courses across all campuses is upheld to the Penn State standard. Many departments get around this process by offering experimental courses that are on paper, not designed to be permanent. However, these classes can often be offered for years at a time and are not subject to the same vetting process that courses must generally undergo.

Dr. Spanier suggests that the entire process could be streamlined if the time that each step in the process was examined further. Since course approval must go through the department, the college, and then the Faculty Senate committees, some of those steps might have the potential to be eliminated or done in a more efficient manner. It would also reflect areas in the course approval process that might be short-staffed.

Having created the World Campus at Penn State, Dr. Spanier says that most universities have failed in their pursuits in online learning. Many schools and universities thought that online learning would be an easy and effective manner in which they could boost revenues but since their methods did not always succeed, tens of millions of dollars

were lost in their attempts. Penn State took a more slow-and-steady approach and gradually adding funding and course offerings to build the foundation of today's World Campus. Since the founding, the World Campus has experienced growth of 20% per year.

One of the underlying objectives that Dr. Spanier envisioned for the World Campus was that "a Penn State credit would be a Penn State credit." This meant that unlike most other schools and universities at the time, where online learning was an entirely different operation or business entity, Penn State could offer online classes that met the same rigorous vetting and high standards of quality as class offered at its physical locations. A course in the World Campus would have to be approved the Faculty Senate and the normal course approval processes. Another vision that Dr. Spanier held early on was that the most rapidly growing portion of World Campus students would be resident students. That is a trend that has been upheld, and students that attend a physical campus often take classes that are offered through the online learning system. As a result, many students have much more contact in these online courses than they would in a large lecture hall setting. Dr. Spanier envisions that world campus will head in the direction of "hybrid learning," where students would receive some resident instruction and some online instruction in any given class. This would offer more flexibility with calendars as classes could vary between in-class instruction and online instruction times provided that the brand name and quality is maintained.

Penn State is unique compared to the 14 schools in the state system of higher education. Since the faculty there are unionized and have collective bargaining contracts that often forbid or control online teaching, they see Penn State as a threat due to the flexibility that the University has. They also push back against that kind of education



reform and therefore state support can often be limited. Commonwealth Chancellors were at first opposed to the World Campus due to the idea that it might reduce campus enrollment numbers, but that has more to do with the demographic shift in Pennsylvania than anything else, according to Dr. Spanier. When asked about an honors college, he mentioned that grade point average already gives graduates distinction, but it would be an idea worth exploring.

Many incentives were offered to Penn State employees when the program was launched due to the hesitation to move in the direction of online learning. Employees were paid during the summer and online courses taught were counted in their normal teaching credit load so that they would be incentivized to join online learning. Instructional designers that worked with the faculty were provided and many professors soon realized that the content they produced for their online classes could easily be applied to their physical classes. Penn State was able to secure millions of dollars in grants from the Sloan Foundation to develop these courses as a result of their faculty support.

The World Campus follows a very business-like model and therefore adapted along the way. They currently have a revenue sharing program so that each college can take a portion of the revenue that is generated from offering a given course. All of the revenue from World Campus is recirculated into the University. The commonwealth campuses also have a revenue sharing program that leads to higher revenues for those locations. Since the very beginning, Penn State conducted national marketability studies to look at the unmet needs in higher education. The result of these studies was the World Campus. Penn State found that students wanted degrees in majors such as Turf Grass Management (the first course offered through the World Campus) and matched those needs up with areas of

expertise at Penn State. Dr. Spanier suggests that in order to sustain growth, they must continue to match the needs of the nation and of the world in online higher education.

When interviewing Gary Miller, the former Director of the World Campus, about the history, vision, and challenges that were faced during the birthing stages, he had the following to say:

“The original vision for the World Campus focused on its potential to provide access to new students who otherwise might not be able to attend Penn State. However, it also envisioned that the World Campus would help to transform the Land Grant mission. Here is the vision statement that was presented to the University community by the World Campus Study Team in April 1997:

The World Campus is the mechanism by which Penn State will respond to the educational needs of individuals and organizations by using distance education technologies and methods to extend the University’s academic strengths to learners worldwide. Through the World Campus, Penn State will become a national leader in the integration of distance education into the fabric of the 21st-century land-grant university.

The Study Team Report, which was the foundation on which the World Campus originally developed, also noted:

In the process, the World Campus will help Penn State pioneer this new teaching and learning environment and partnering with academic colleges, departments, institutes, and centers to support their educational missions in fundamentally different ways. Through the creative combination of new

instructional approaches made possible by technology, the latest knowledge and practices about how students learn best, and a team approach to curriculum and program planning, the World Campus promises, in cooperation with other University-wide innovations, to become a laboratory in which Penn State faculty develop and implement exciting new technology-based pedagogies that also or similarly can be applied to their resident instruction work.

The decision to open World Campus courses to on-campus students was left to the individual academic units. From the beginning, it was not unusual for resident students to take World Campus courses. We also developed a mechanism—the Campus Course Exchange—to allow Commonwealth Campuses to include selected World Campus courses in their local course schedules. The idea was that this would make it easier for students to get access to courses that might not be scheduled regularly on campus. The Campus Course Exchange allowed campuses to list a World Campus course in the local campus course schedule. The Campus collected tuition and then returned an instructional fee back to the World Campus to help cover instructional costs.

Ultimately, more complete integration of World Campus courses into the mainstream curriculum will depend on two things: (1) the development of a financial system that ensures appropriate costs and benefits to all parties—the sponsoring academic unit, the receiving campus, and the World Campus—including the basic question of which campus “claims” the student enrollment headcount for budgetary purposes, and (2) a cultural change that allows Commonwealth

Campuses to be confident that they still control their schedule and relationships with faculty members. One option, with regard to the latter issue, might be for Commonwealth Campuses to be able to offer their own sections of World Campus courses, using campus-based faculty members as instructors.”

Finally, when asked about the future of World Campus in relation to expansion and the possibility to offset costs in the overall budget, Gary Miller stated that:

“The World Campus has several kinds of costs. Some are more easily recovered as the World Campus achieves scale. While some costs (the cost of registering a student, for instance) remain the same regardless of the number of students we enroll, other costs (marketing, the technological infrastructure as examples) become less costly on a per-student basis as enrollments grow. So, over time, the World Campus should be able to generate an increasing amount of after-cost revenue as it grows. Typically, these costs are being re-invested in new programs, and it is important that, in the future, an adequate amount of net revenue be re-invested to keep the World Campus growing and up-to-date. However, there should come a day when a share of the net revenue could be used to help offset other costs.

The administrative challenge will be to do avoid treating the World Campus as a ‘cash cow.’

Two external issues were (1) that many potential students did not yet have adequate access to the web and (2) acceptance of online learning by employers as being credible equivalents to in-class learning. For the most part, those concerns

have vanished. However, we did lose one constituency when we moved all correspondence courses to an online environment: for years, incarcerated students were able to take Penn State courses via correspondence and earn credit toward associate degrees; the decision to shift these to an online environment meant that these students no longer had access to Penn State. For the most part, incarcerated adults still lack adequate access to the web.

Another early factor was the lack of generally accepted standards of quality for online materials and interactions. Today, this concern has been dealt with. Penn State participates in Quality Matters, a nationally tested peer review system for ensuring quality in online courses. We also have the benefit of several well-tested instructional models that give us standards for faculty-student and student-student interaction.”

For the 2012-13 year, World Campus will generate about \$90 million in revenue.

When asked how he sees this value changing over the course of the next five to ten years, Wayne Smutz stated:

The answer to this question depends on many different variables. How many students can we recruit? How many does the University want us to recruit? How many can we retain? How much is tuition? And, many, many more. However, as a wild guess, I'd say our revenue is likely to grow by \$10 to \$20 million a year. So in 5 years--we could be at \$150 to \$175 million. In 10 years---perhaps \$250 to 300 million. But, these are very, very speculative numbers that depend on a lot of

different things happening. All student tuition has to contribute to the costs to run the University. So, certainly the World Campus could and should be one of the contributors to helping to solve the University's financial challenges in the years ahead.

## **VI. Policy Proposals for World Campus and Implementation**

### *Recommendation 1: Expand World Campus, Integrate Commonwealth Campuses*

Academic Units will continue to develop new programs for this rapidly growing area of Penn State. It would be in the best interest of the administrators to allow these academic processes to unfold naturally. The revenue-sharing model only magnifies the viability of World Campus. However, while the administration has the opportunity to further solidify World Campus as a part of a network of academic units, a policy to support the instructional costs of any hybrid or blended learning initiative would be most timely. In order to achieve this collaborative goal, the administration must take the lead in communication, logistics and budget allocations.

The first part of this policy involves communication between the course or program creator and the host campuses. While some courses may require specialized facilities, many blended learning courses may only require an instructional forum for end-of-the-semester presentations. Providing active lines of communication between the student, the instructor, and the host campus will streamline the residential learning portion of the blended learning. To facilitate this communication, the administration could create a monthly electronic newsletter compiling World Campus courses that will require specific facilities. Thus, a campus administrator may provide that short residential learning experience to World Campus students. Hosting a course may further publicize the host campus and may simplify logistics in the long run.

Blended learning, a mixture between online and traditional learning, will require newly structured courses. World Campus students should have the option to take a fully online course or a blended course, if possible. The logistics of such a loosely structured course could cause more than one course to schedule times at the same time. To avoid an overflow of World Campus students onto Commonwealth Campuses, the administration of each campus can establish convenient weeks on campus.

Lastly, the budget may require some form of a facility fee if the facility is expensive to operate, however, hopefully the growing revenue from World Campus can help offset these costs and expand these facilities.

#### *Recommendation 2: Online Learning as Regular Instructional Duties*

Penn State faculty and staff must be incentivized to make the transition from conventional learning in the classroom to online learning where it is possible. Employees must have reason to develop classes for World Campus so that the University can generate revenue to support these academic programs in a financial manner that resident instruction cannot compete with, and also to support the benefits that these employees receive. This will keep Penn State faculty and staff competitive and lesson the tuition burden on students. After speaking with members of the Faculty Senate, it is apparent that faculty promotions and the tenure process include a 21<sup>st</sup> century learning component in the consideration for better employment opportunities. Similar to how scholarly works such as publications and SRTEs contribute to the discussion for tenure boards, online instruction and the success that an instructor has had in those programs should directly



translate into higher consideration for better positions. Taking initiative in this manner demonstrates the ability to not only generate more revenue for an academic department to sustain and develop new programs, but it also shows the ability to adapt and improve the learning experience which is what every institution aims for. This cultural change will eliminate the notion that online learning is going above and beyond regular teaching duties, and will improve both the student and faculty and staff experiences inside the classroom.

*Recommendation 3: Incorporate Open Educational Resources (OER) in Marketing Strategy*

The Open Educational Resources movement has led many to believe that the online education would become completely free in the short-term. Certainly, this cannot be as there are costs that must be accounted for. However, OER may serve a greater role in World Campuses near future than previously expected. Some of the most successful online programs include some form of OER. The Massachusetts Institute of Technology, Harvard, Stanford, Carnegie Mellon, among other universities all boast successful “free courses” campaigns, while still maintaining their status as elite educational institutions. Penn State has some amazing OER material in place currently, including OER of the College of Earth and Mineral Sciences, so the capabilities and network of support are available.

One goal may be to have each degree or certification program in World Campus to have at least one OER module. The largest issue may be licensing, however, if the administration is determined to invest \$20 million dollars into this system, each program should be able to provide a marketable and useful tool that can exemplify the type of skills

one could attain through the program. The OER may contain information of only the introductory courses, as long as the material passes through a peer review system.

## **VII. Conclusion**

As a land grant institution Pennsylvania State University has a responsibility to support and sustain jobs in the Commonwealth of Pennsylvania. This means that not only should the institution offer opportunities for employment, but opportunities that come with competitive benefits and advantages. In fact, as such a large employer in the region Penn State sets the standard for employee health benefits. Therefore, if the school cut back on health care benefits the standard of living would decrease across the board. As a result, Penn State must continue to adequately fund and maintain quality health benefits for faculty and staff, which means the cost of health care will only continue to rise. However, by implementing no smoking policies and establishing new urgent care facilities for faculty and staff on campus, while continuing and further promoting current wellness classes, we can create a healthier environment for students, faculty, staff, and the entire community. Ideally, supporting a healthy community will cost the University less. At the same time, Penn State must find ways to advance and expand online learning, one of the University's most lucrative branches. By paying actual Penn State faculty to teach the online courses and offering more degree programs through the web a larger number of people from around the world will want to learn from Penn State. Then, hopefully, some of the revenue generated by the online offerings can be directed back into the general funds to help support high cost programs such as employee healthcare benefits. Overall, restructuring revenue streams and investing in future health and wellness will help ease the financial burdens on students while maintaining healthy and competitive faculty and staff. For The Glory.

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