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A New Mega-University Expects to Earn Big Money Immediately. Are Its Projections Too Ambitious?

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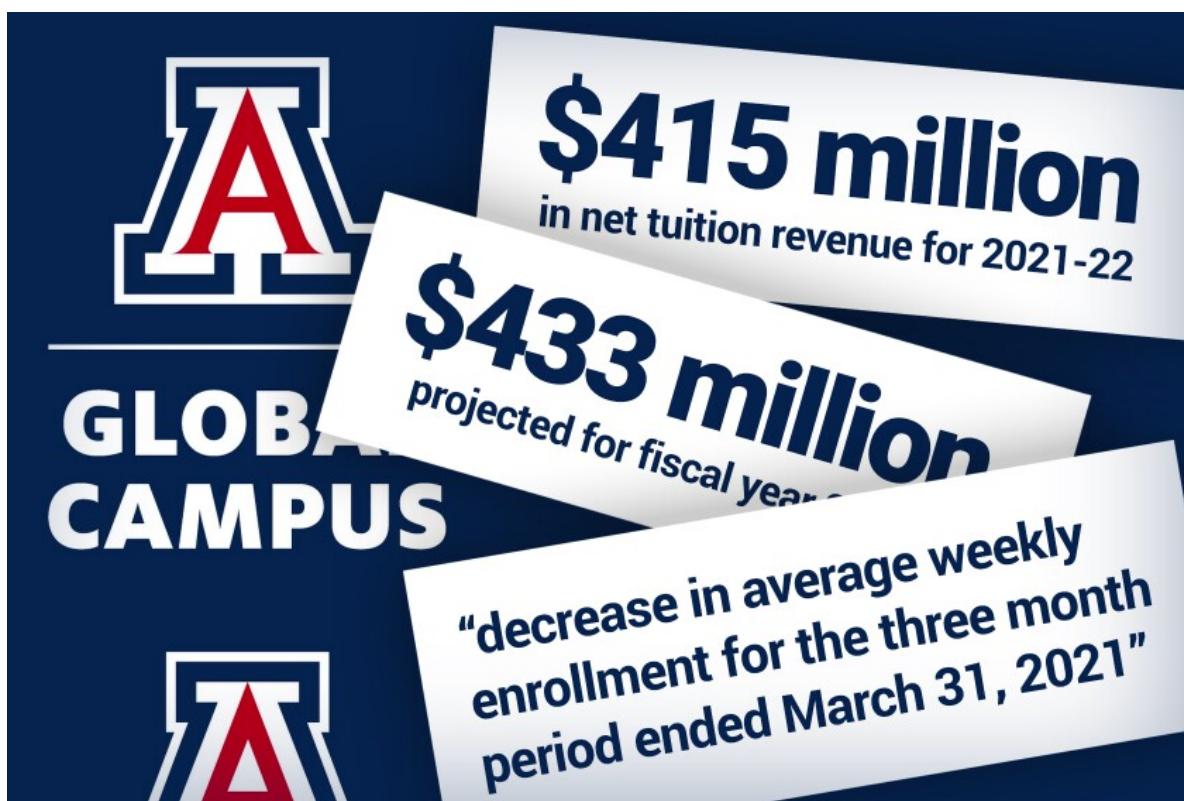


Illustration by The Chronicle

The University of Arizona acquired a troubled for-profit online institution, Ashford University, last August to create a new online mega-university that would extend the flagship university's reach, particularly into the market of working adults. The success of the

endeavor may hinge in the first few years on ambitious revenue goals in a challenging environment for enrollment, according to recently filed public documents.

The forecasts, which one observer described as “rosy,” are also evidence of the growing pains that public institutions have encountered in the first few years after taking over for-profit colleges, both before and during a historic pandemic.

The University of Arizona Global Campus is the nonprofit organization that was created after the University of Arizona agreed to take over Ashford’s operations, with the new entity finalizing the sale last December. The university and Arizona Global Campus are led by different chief executives and governed by different boards, but the nonprofit [considers](#) itself to be an affiliate of the traditional public university. In its first full fiscal year of operation, in 2021-22, Arizona Global Campus is [projecting](#) that it will generate more than \$415 million in net tuition revenue, according to the university’s communications with the Internal Revenue Service. Come 2022-23, Arizona Global Campus anticipates its net tuition revenue will grow to \$433 million.

Such an increase would represent a marked improvement over the recent financial performance of Ashford, as reported by Zovio, its former owner and the online-program manager of the new Arizona Global Campus. Zovio [generated](#) \$384.3 million in net tuition revenue from July 2018 to June 2019, when it still controlled Ashford. The idea that the new entity would generate at least \$30 million more during a similar 12-month period drew an incredulous response from Phil Hill, a partner at the ed-tech consultancy MindWires.

“Somehow [Arizona Global Campus is] going to be making more revenue than Ashford did in its last two years without any massive new investment?” Hill asked. “This one is more than just rosy projections. It almost comes across like they believed the rosy projections.”

A Zovio spokesman said the company would defer to Arizona Global Campus to provide comment on the disclosures. Officials at Arizona Global Campus did not respond to repeated requests, by email and phone, for comment.

[Recent disclosures](#) by Zovio also suggest enrollment struggles lie ahead for America’s newest [mega-university](#), at least in the short term. In May, Zovio [alerted](#) shareholders to difficulties with enrollment at Arizona Global Campus, referring to an unspecified “decrease in average weekly enrollment for the three-month period ended March 31, 2021,” compared with the same period of the previous year.

An official at Arizona Global Campus told [Higher Ed Dive](#) that enrollment at the new online institution “has been impacted by the time it takes for a new brand to gain traction,” but declined to offer more detail.

Shareholders were also briefed on Zovio’s plan to lay off

approximately 65 employees as a way to reduce spending and shore up cash reserves. Job cuts “centered primarily on administrative, non-student-facing functions to ensure the company is able to maintain the necessary resources to support our university partners,” Zovio reported in a filing with the Securities and Exchange Commission.

Betting on the Brand

The circumstances that brought the University of Arizona and Ashford University together may owe themselves to the quirks of fate. Were it not for an evidently slow-moving Trump-era U.S. Department of Education, the University of Arizona might never have acquired Ashford. Or at least that's [the story](#) Arizona Global Campus told the IRS in its application for tax-exempt status. Zovio originally [intended](#) to spin off its Ashford unit as an independent nonprofit institution of higher education, and relayed those plans to shareholders in March 2018. But while Zovio waited for the Education Department to approve the deal, leaders at Arizona and Zovio connected, “leading to a mutual recognition that [Ashford’s] changes for long-term prosperity would be enhanced through an affiliation with UA.” It’s not the first time the company has found Arizona’s state government to be a [hospitable partner](#) in recent years.

The deal followed a troubled stretch of years for Ashford. In 2016 the Consumer Financial Protection Bureau [ordered](#) Bridgepoint Education, then Ashford’s parent company, to pay an \$8-million fine “for deceiving students into taking out private student loans that cost more than advertised.” Bridgepoint was also ordered to forgive and refund \$23.5 million in student loans. And according to

its [latest quarterly filing](#) with the SEC, Zovio remains in litigation with California's attorney general and under investigation by the attorney general of Massachusetts.

Leaders of the University of Arizona have said the acquisition would yield immediate and long-term returns. University administrators [reportedly promised](#) that the new venture not only would provide much-needed revenue to an institution starved of public investment by its state government, but also would allow the university to immediately compete with the nation's largest providers of online higher education by offering some 140 degree programs and [reaching a market](#) of working adults. The sale of Ashford's assets and operations to Arizona Global Campus cost just a dollar. Upon the deal's close, Arizona Global Campus became the educator of approximately [35,000 students](#) across the country.

The [agreement](#) between Arizona Global Campus and Zovio created a "distribution waterfall" for the business partners, Hill said. Under the arrangement, Arizona Global Campus gets first crack at the revenues generated from tuition and fees, to cover its academic expenses. After that, Arizona Global Campus is guaranteed \$25 million each year over five years, with additional annual \$10 million payments for 10 years more. Only after those obligations are satisfied can Zovio be reimbursed for its services as online-program manager. And if there are any residual funds after those transactions, Zovio will be entitled to receive payments equal to, at most, 19.5 percent of Arizona Global Campus's net tuition and fees revenue.

The prospects for Arizona Global Campus may rely on the brand strength of the University of Arizona. The flagship institution's

confidence in the strength of its brand is evident throughout the application for federal tax-exempt status for Arizona Global Campus. The new online institution will pay fees to the University of Arizona to license the public institution's trademarks. Arizona Global Campus also told the IRS it would pay the university \$20 million in the 2020 fiscal year, under its [affiliation agreement](#) with the public institution, with additional million-dollar lump-sum payments of \$6 million to \$12.5 million and revenue sharing to be collected by the flagship after that, provided that Global Campus operates in the black.

If Arizona Global Campus were to equal Zovio's \$384-million performance in 2018-19, such a return would rival the net tuition collected by well-established public and private nonprofit institutions in the country, including the [University of Oregon](#) (\$385 million) and [Tulane University](#) (\$388 million).

But Tulane and Arizona Global Campus operate under very different business models. All told, Tulane [spent](#) \$15.8 million on advertising and promotion in 2018-19. By contrast, Zovio's spending on marketing, admissions, and recruitment during that same period [totaled](#) \$174.5 million — a figure on par with the \$139.9 million that Southern New Hampshire University, another "mega university," [spent](#) on advertising and promotion.

The flagship has, at times, emphasized that the new nonprofit is a separate entity while also saying that it will maintain oversight of it. A similar dynamic has characterized the role of the faculty at the University of Arizona. Melanie Hingle, vice chair of the faculty, said that appointments would soon be made to a Joint Academic Advisory Council that would allow instructors and professors at the university and Arizona Global Campus to provide greater input on

decisions related to the enterprise.

“We expect these colleagues to be tasked with understanding questions about enrollment, finances, and to address any program-overlap concerns between the two institutions,” Hingle wrote in a statement to *The Chronicle*.

Rocky Starts

The early growing pains of Arizona Global Campus bear certain similarities to another high-profile deal between a public university and an online provider, [Purdue Global](#), said Trace Urdan, managing director at Tyton Partners, an investment-banking and consulting firm. Purdue University Global is the nonprofit subsidiary set up by Purdue University in 2017 to acquire the assets and operations of the for-profit online-education provider Kaplan University. Purdue Global was heralded early on by Purdue’s president as potentially a “very substantial revenue stream” for the university, but its early performance has not measured up to expectations. From March 2018 to June 2020, Purdue Global posted \$82.5 million in losses, according to the nonprofit’s most recent available [financial statement](#).

Urdan advised against speculating on the long-term fortunes of either Purdue Global or Arizona Global Campus based solely on each institution’s rocky start. But he suggested that some administrators might need to reassess how much confidence they place in their respective public-university brands, and the ability of those brands to weather the kind of market disruption that the Arizona Global Campus and Purdue Global deals created.

“In general, this market for degree-completion programs and

online degree programs at scale is going to find its way into public institutional hands,” Urdan said, “but you can’t always assume it’s going to be a smooth transition.”

In many ways, Arizona is better insulated than Purdue from any large or unexpected costs that might arise from its deal with its own online-program manager, said Hill, the ed-tech consultant. But much will depend on what kind of investment is made in Arizona Global Campus’s operations. Poor enrollment ultimately persuaded leaders at Purdue Global to spend more on marketing. Since that advertising blitz, Purdue Global’s enrollments improved even as its advertising budget reverted to the mean — evidence, the institution [argues](#), of heightened brand awareness. If Zovio’s spending on marketing needs to be supplemented, Hill asked, is that an investment the University of Arizona is prepared to make?

“I hope,” he said, that “Arizona is prepared to do that type of investment, as needed, to make this work out in the long run.”