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Arizona State U. Is Expanding to California. It's Been Rocky.

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22–28 minutes

Each year, one out of every 10 in-state high-school graduates attends Arizona State University, at a rate double the cohort-size at the next leading institution. It's one of the largest employers in Arizona, with a work force on par with Walmart's footprint in the state. And, though only around 15 percent of its annual revenues (\$3.4 billion in 2021-22) originate from local and in-state government appropriations, \$400 million is still a hearty subsidy from taxpayers to any public four-year university.

Few people are more well-versed in such facts than James O'Brien, Arizona State's senior vice president of university affairs and President Michael Crow's chief of staff. Still, ASU didn't become one of the largest public universities in the country by restricting its presence and plans to Arizona. As the university has contemplated a future for itself, Michael Crow's "[New American University](#)" — which "[transcends](#) state boundaries" and "[ignores](#) the idea of campus borders" — has targeted investment after investment and launched project after project within the borders of one particular state: California.

"ASU," O'Brien would write in response to *The Chronicle's*

questions, “is a California university with a long history of serving Californians.”

Such a bold declaration by O’Brien highlights how important the California market has become after 20 years to the long-term financial health of ASU. In an age of ever shrinking high-school graduate pools nationally, the recruitment of out-of-state students by institutions like ASU has grown ever more important to the business of public higher education — and stands in stark contrast to the in-state boosterism of yesteryear, when outsized out-of-state enrollments routinely earned college presidents tongue-lashings from lawmakers and editorial boards.

Evidently reassured by double-digit enrollment growth coming out of California amid the Great Recession, ASU’s designs for greater market share in the Golden State have since come to extend well beyond traditional recruitment, and now feature targeted asset purchases of buildings and intellectual property, repeated six-figure lobbying campaigns in Sacramento, as well as the multi-million-dollar backing of a financially unstable California film school.

Though it’s not uncommon in this era of widening haves and have-nots for well-resourced public universities like ASU to absorb

struggling [colleges](#), in many cases private universities have [simply](#) proved more [eager](#) to land such takeover deals. Still, there are few, if any, precedents for ASU and how it has approached expansion inside and outside of Arizona.

“Los Angeles is a behemoth place with three research schools,” Crow [remarked](#) to the *Los Angeles Times* in 2018 after ASU agreed to lease the city’s historic Herald Examiner building. “Who says that’s enough?”

But even the best-laid plans — including those designed and backed by a multibillion dollar [mega-university](#) in Tempe — can’t anticipate and neutralize the future [uncertainty](#) that can accompany expansion plans.

A little over a year removed from ASU’s takeover of Columbia College Hollywood — a long-beleaguered private nonprofit Southern California college since [rechristened](#) California College of ASU — its accreditor, the Western Association of Schools and Colleges (Senior College and University Commission), in [June](#) reaffirmed its December 2023 [warning](#) about the college’s finances and ASU’s oversight of the institution.

Left [uncorrected](#), additional sanctions would not only potentially endanger CC-ASU’s access to federal student-aid programs, but would also complicate ASU’s strategic goal of taking [advantage](#) of CC-ASU’s decades-long presence in the Golden State.

At their site visit in March, WASC evaluators questioned CC-ASU’s ever-plummeting enrollments and shaky finances. The accrediting team’s harshest criticisms concerned repeated observations of apparent institutionwide dysfunction and poor leadership.

“Over the course of the visit it became increasingly apparent that

the board has failed in its oversight of executive leadership to a degree that shared governance, trust, and effective information sharing has been deeply eroded,” WASC representatives [wrote](#), citing several pieces of evidence, including:

- “The [apparent](#) unilateral hiring of the acting CEO by two board members;”
- The unplanned absence of said acting CEO during WASC’s site visit;
- A lack of clarity about the future of certain academic programs that had long been offered by Columbia College Hollywood and were taken over by ASU;
- A lack of engagement from high-level [leadership](#) on facility needs and usage.

Such findings were echoed in a scathing [letter](#) in March from CC-ASU’s remaining faculty to the college’s board chair, admonishing leadership for allegedly favoring “the best interests of ASU” to the detriment of the employees, students, and legacy that ASU had inherited from Columbia College Hollywood.

“It is understood that we have had to undergo many changes to survive and that many of these changes have allowed for little to no time for discussion,” the faculty members wrote. “However, many of the challenges we are currently facing could have been avoided had time been made to follow our governance structure to come together and plan the best course of action as a community.”

What might have motivated ASU to take over Columbia College Hollywood — an institution that in late 2021 appeared to be running out of money, time, and options?

By 2021, a [half-decade](#) of [operational](#) cash-flow [losses](#) and

[pandemic-era](#) retrenchments had decimated Columbia's cash reserves, while its access to short-term credit — at one time lent to the college under favorable [terms](#) — had [become](#) more expensive and burdensome. Worse yet, millions of dollars of debt were due to be paid in full (plus interest) in only a couple of years, assuming the coming balloon payment didn't force CC-ASU into bankruptcy before then.

Columbia's board that December cited fallout from Covid as [justification](#) to shut down the college's Chicago branch campus, which was the [product](#) of a complicatedly [structured](#) deal in [2016](#) that saw [Columbia](#) acquire the [assets](#) and [liabilities](#) of Tribeca Flashpoint College, a media-arts for-profit [college](#), for \$1 (while in operation, the Windy City branch campus of Columbia College Hollywood had no relationship with Columbia College Chicago). With the overarching deal [terminated](#), Columbia College Hollywood would see its undergraduate headcount shrink to 291 students in fall [2022](#), a two-thirds [loss](#) from 2019. Not even the [millions](#) of dollars in Covid relief extended by the federal government to the distressed college proved meaningful enough to [reassure](#) Columbia's auditor of the college's ability to stay open and operational past December 2022.

Under such dire circumstances, ASU entered the picture — [initially](#) to ink a collaboration agreement with Columbia in May 2022 which released much-needed short-term capital to the college. Per the [terms](#) of the deal completed between Columbia and ASU, Tempe would eventually wire the college \$2.8 million within the year so that facilities, equipment, curricula, and instruction might be shared between the two institutions. Shortly thereafter, Columbia requested and won approval from its accreditor to affiliate with

Arizona State, allowing ASU to formally take control of the institution in May 2023 after Columbia Hollywood's board ceded control to ASU and to board members selected by the university. This second agreement released an additional \$2.5 million to CC-ASU, while also obligating both institutions to continue to share resources, property, and other assets; try to revitalize CC-ASU's enrollment; create new academic programs; and improve the student experience.

By agreeing to a takeover, Columbia Hollywood had seemingly managed to fend off its demise.

Columbia's location in the Los Angeles metropolitan area aligned with ASU's broader interest in [catering](#) to both a large urban-based population and the [needs](#) of the creative economy, ASU's O'Brien told *The Chronicle*. And, though California and Arizona have both seen significant declines in fertility [rates](#) in the last decade, Californians [continue](#) to simply produce more babies (and potential future enrollees of ASU and CC-ASU) than Arizonans, by a margin of five to one.

"ASU is focused on collaborating with and helping California College of ASU serve students with excellence," O'Brien wrote in an emailed response to *The Chronicle*'s questions. "The college wants to grow to meet the needs of L.A., Southern California, and the state more generally."

Of course, CC-ASU is only the latest project launched by the Sun Devils in the Golden State. [After](#) decades of [recruiting](#) in Southern California, ASU opened an [office](#) in 2013 for its four Golden State [recruiters](#) to work out of, instead of their own homes. It wouldn't be too long before ASU outgrew its digs in Santa Monica as well.

Come 2018, with six more [recruiters](#) added to its Santa Monica staff and 6,800 more Golden Staters attending ASU either online or across the border, ASU expanded its footprint in Southern California, leasing 80,000 square feet of office space in Los Angeles's historic downtown Herald Examiner building — “a starter facility,” Crow told local media — where students would be able to earn a degree through ASU’s various art and design programs, as well as its Walter Cronkite School of Journalism and Mass Communication.

Before the close of the year, ASU would file paperwork with California’s Secretary of State, [incorporating](#) “New College of California” as a nonprofit public-benefit [corporation](#) “dedicated to charitable, literary, educational, and scientific purposes.” The corporation was to be run by board members elected by the Arizona Board of Regents on behalf of ASU — perhaps the earliest indication that ASU’s plans for California extended beyond recruiting offices and satellite locations.

Shortly thereafter, in late 2019, ASU would [retain](#) the services of a Sacramento-based firm to lobby on the university’s behalf in the California legislature, initially seeking workarounds to state regulations — specifically, so that ASU and its outposts in California might be [treated](#) as if [operated](#) by a [private](#) nonprofit [corporation](#), and [thereby](#) empowered to [reach](#) certain legal agreements with state regulators. According to those agreements, students studying at one of ASU’s California locations would be able to subsidize their education using federal student-aid grants and loans. It was a novel request: For more than a decade, California law had envisioned that only privately held nonprofit and for-profit entities from outside the state would have any interest in

crossing the Golden State’s border to offer post-secondary educational services to Californians — not a publicly controlled out-of-state university.

Gov. Gavin Newsom, a Democrat, signed the proposed workaround into state law in September 2022. All told, ASU has [spent](#) since the start of the 2019-20 legislative session just over \$700,000 [lobbying](#) the California legislature as well as California’s Student Aid Commission, its Bureau for Private Postsecondary Education, and the Governor’s Office. On top of that, ASU [spent](#) an additional \$395,000 lobbying various units of California government during the 2023-24 legislative session.

Around the same time, ASU had identified another revenue-troubled college to make a deal with — the Fashion Institute of Design & Merchandising, or FIDM. WASC in 2019 warned the fashion institute about the risks that its waning financial viability posed to accreditation. Two years later, the Commission scolded FIDM for [moving](#) too slowly to counter compounding revenue [losses](#). And despite \$10 million in cuts to its [operating](#) budget, administrators continued to anticipate FIDM would run deficits [until](#) at least 2024. Under those dark portents, FIDM entered into a number of deals with ASU (after a 2022 [letter of interest](#) from the university) to both generate and free up positive cash flow, including:

- the [sale](#) of FIDM’s five-story, 172,000-square-foot [building](#) (with attached 271-space subterranean parking structure) for \$15 million, with certain areas to be [leased](#) back to FIDM;
- the [sale](#) of the “intrinsic rights” to FIDM’s intellectual property (the FIDM brand) for an undisclosed sum;
- the sale of furniture, equipment, and collections, among other

property, for an undisclosed sum; and

- the [guarantee](#) that all students enrolled in FIDM's fashion-and-design associate-degree program are to be offered transfer pathways to ASU bachelor-degree programs. Accreditor records indicate FIDM anticipated [discontinuing](#) offering its fashion and design program by 2024, though there is no indication that the terms of an agreement between FIDM and ASU spurred this termination.

With ownership of both FIDM's building and [intellectual](#) property [transferred](#) to [ASU](#) in [2023](#), Arizona State moved to [rechristen](#) its fashion program ASU FIDM. In contrast to the deal to take control of Columbia College Hollywood, Arizona State [did not become](#) the "controlling entity" of a [still-operating](#) and [independent](#) Fashion Institute of Design & Merchandising.

As for CC-ASU, [since](#) the [college's](#) takeover [both](#) ASU officials and [lobbyists](#) retained by the public university have petitioned California's legislature to advance the struggling institution's interests — even [securing](#) a [one-year](#) statutory [waiver](#) for the college after its outsized student-loan default [rate](#) had [repeatedly](#) disqualified it from accepting Cal Grants, a state [subsidy](#) available not only to Californians who decide to attend a public college in-state but also to those who study at qualifying California-based nonprofit or for-profit institutions.

Those who [advocated](#) on CC-ASU's [behalf](#) included Christian Osmeña, a former [executive](#) of California's community-college system, who ASU would go on to install as its vice president of enterprise planning, as well as CC-ASU's new board chair (as of January 2024). Like Osmeña, CC-ASU's chief financial officer also [earns](#) a paycheck from ASU, rather than the college itself.

Responsibility over the entire project, however, ultimately lies with ASU's provost and executive vice president back in Tempe.

Columbia College Hollywood's accreditor has taken note of ASU's role in the college's survival.

"The ASU affiliation has been a critical element in keeping the institution operating given cash balances are at critical levels," Commission representatives wrote in an assessment of CC-ASU in March, referring to the paltry \$400,000 in cash the college expected to have on hand at the end of the month.

ASU's O'Brien wrote to *The Chronicle* that the financing model used in the CC-ASU's deal echoed that of other arrangements inked by ASU, and that the university intended for its partnership with CC-ASU "to be revenue neutral over the medium term." During the 2024 fiscal year, ASU provided an additional \$3.7 million of revenue to CC-ASU.

For regulatory purposes, the U.S. Department of Education now understands ASU to be the "controlling party" of the nonprofit corporation formerly named Columbia College Hollywood. Some separation remains, however, to keep CC-ASU and its operations from being considered fully absorbed into ASU, an arm of Arizona's state government. CC-ASU will — for the time being, at least — report its finances, provide educational services, and confer degrees separately from ASU. The Higher Learning Commission will continue to act as ASU's accreditor, while CC-ASU's operations will remain overseen by WASC.

For all the additional complexity an affiliation agreement like the one between ASU and CC-ASU creates, there's a lot to like about such arrangements, said Ricardo Azziz, principal of SPH

Consulting Group, a boutique advisory firm catering to higher ed. Preparing two institutions for a traditional merger — that is, for the absorption of certain incumbent operations into another organization — can take a great deal of time to finalize, Azziz said. And such acquisitions risk the elimination of programs and bureaucracy that are necessary or can be advantageous in highly regulated markets like California.

Affiliation deals won't necessarily produce the same scale of cost savings that a traditional merger might, Azziz warned. In an affiliation, each partner's brand and unique operations requires some critical number of workers focused exclusively on that party's needs — making it more difficult to identify redundancies, reduce staffing, and generate sizable cost savings. This is why, when Azziz counsels his clients on college mergers and affiliations, he prods executives and board members to have realistic answers to three major questions.

"What's the debt you'll be taking on?" Azziz asks first about any potential deal. That's followed by "What resources are you willing to put up in order to make a deal viable?" And finally, "What's the strategic priority and value of this deal to your institution?"

In spite of ASU's considerable cash infusions, CC-ASU has thus far failed to regain the confidence of its federal regulator, auditor, and accreditor.

For instance, since June 2023, the Education Department has imposed stricter requirements (known as Heightened Cash Monitoring 1) on CC-ASU and its access to federal funds, citing concerns about the college's financial situation. Then in February 2023, CC-ASU agreed that the department could hold around

\$620,000 in escrow on behalf of CC-ASU — a means to satisfy financial-protection regulations that surfaced after the department's analysis of CC-ASU's finances. Later, in October 2023, CC-ASU's auditor reported that the college had ended the 2022-23 fiscal year with a working-capital deficit of around \$2.4 million, and a ratio of \$15 in financial obligations for every \$10 of assets — a shortfall that persisted even after CC-ASU sold its Tarzana campus for just over \$9.7 million and used the proceeds to neutralize a \$2-million-plus balloon-loan payment due in May 2023.

Representatives of WASC also expressed concern over CC-ASU's financial circumstances. The institution has been on the accreditor's radar since at least July 2021, when a "notice of concern" was issued against Columbia College Hollywood. Yet despite the post-takeover savings enjoyed from lower facility overhead, shrunken workforce costs, and the outsourcing of admissions, recruitment, and marketing services from ASU, WASC nonetheless raised its sanction against CC-ASU to a warning in mid-December 2023 — a decision it reaffirmed this past June.

Still, CC-ASU's financial troubles are unlikely to pose a substantial risk to ASU, because of the sheer size of its \$6.3-billion balance sheet. To put matters in perspective, CC-ASU's largest aggregate spending in a single year during the past decade was \$32 million. By contrast, ASU spent \$35 million last decade just to buy and renovate a District of Columbia outpost 10 minutes from the White House.

When WASC's representatives came to CC-ASU in March looking for responses to the faculty's no-confidence resolutions and concerns about campus leadership, they were disappointed to learn that CC-ASU's then-CEO would be unavailable for the

entirety of their time there. He [resigned](#) shortly thereafter. ASU declined to address that absence in its written response to *The Chronicle*'s questions, or to respond to criticisms regarding the conduct and effectiveness of CC-ASU's board and executive leadership. CC-ASU board members, executives, and other personnel didn't respond to *The Chronicle*'s questions on this subject, either.

In the wake of WASC's March 2024 visit, CC-ASU's remaining faculty members drafted and sent their letter to college leadership. When asked by *The Chronicle* to respond to the letter's accusations that the board and executives violated principles of shared governance, an ASU spokesperson cited the size of CC-ASU's current work force ("four full-time employees who have instructional expectations" — part of an overall labor force of "about two dozen employees"), but didn't offer many more specifics.

"Following the March 2024 letter, trustees met with a group of employees about the letter, and the board has held other meetings with employees more generally," the spokesperson wrote.

During that same March 2024 visit, the team of academics from WASC also expressed [reservations](#) that CC-ASU's plan to offer a new liberal-arts degree (part of an [overall](#) shift in focus towards the liberal arts) would prove as successful as ASU and CC-ASU hoped. As of mid-March 2024, just 95 students still attended CC-ASU, [according](#) to the faculty letter. Officials back in Tempe anticipate spending at least six figures to [promote](#) the new program, according to the commission's report, with hopes to eventually enroll [around](#) 230 students in the new program come fall 2026.

The launch of the new degree comes as CC-ASU has stopped accepting applications for two [legacy](#) bachelor's of fine arts [programs](#) — in graphic design and interactive media, and in visual effects — which had previously been offered by Columbia College Hollywood. CC-ASU also sold all of its production [equipment](#) to ASU, raising questions about access in the future. In their conversations with film students and faculty members, commission representatives also learned how substantial [commute](#) times between three core CC-ASU learning sites — CC-ASU's downtown campus, its filmmaking-equipment storage facility, and a studio film set [reserved](#) by the college — often resulted in students missing classes due to excessive travel times (assuming a student had a vehicle to begin with). The absence of transportation or delivery services on CC-ASU's sites "presents a significant impediment to achieving the program's core educational functions," the site visitors from WASC wrote.

"Despite the impact on student learning and experience for this signature program — and the Commission's warning," the WASC report went on, "there does not appear to be any concrete plan nor urgency to address the issue by the college."

Asked of ASU's responsibility to students from Columbia's legacy programs, O'Brien acknowledged the question, but did not respond specifically to what the commission had heard from film students and faculty.

"Students' needs and best interests are always at the forefront of our work," O'Brien wrote. "Current students' educational paths and ongoing enrollment at California College of ASU are unaffected."

WASC's accreditation team noted other deficiencies it had

discovered during its visit:

- CC-ASU's board failed to acknowledge or deal with complaints from "almost every constituency regarding the one-way communication from the acting CEO;"
- the board permitted CC-ASU's CFO and acting CEO to cease student recruitment for four months;
- ASU facilities staff were unaware of the release of a new master plan for ASU's California Center Grand location. What facility members knew of a "strategic refresh" was limited to carpeting;
- the board seemed uninterested in potential conflicts of interest borne from electing ASU's vice president of enterprise planning as CC-ASU's board chair;

In his email to *The Chronicle*, O'Brien wrote that the university and CC-ASU would work together to respond to those recommendations and any others raised by WASC — while also declining to further comment on them. Instead, O'Brien wrote about what was on the horizon for CC-ASU after a period of "substantial transition."

"Change can be difficult," he wrote. "The journey of California College has been complicated and it is now emerging into a new California institution of higher education in Downtown L.A. with a refreshed mission and a bright future."