

[< Back](#) | [Home](#)

Rice & BCM: Point/Counterpoint

By:

Posted: 11/20/09

The possible acquisition of the Baylor College of Medicine is one of the biggest decisions Rice has faced in its 97-year history, and dozens of variables are to be taken into consideration before a final verdict is reached. President David Leebron, a high-ranking proponent of the merger, and professor Moshe Vardi, one of its most outspoken opponents, debate the merger's merits.

Read [President Leebron's argument](#) below, or skip to [Professor Vardi's](#).

Point

We are considering perhaps the most important question this university has faced in more than 50 years: Should Baylor College of Medicine become part of Rice University? Ultimately, this is a decision that will be made by our Board of Trustees, the group charged by our charter and under Texas state law with the governance of and responsibility for our institution.

Such a decision would impact many: our present and future faculty, our students and staff, our alumni, the city of Houston, the Texas Medical Center and, of course, all of those involved with BCM. From the outset of merger discussions more than a year ago, we designed processes to hear from these groups. We have listened carefully to the full range of views and concerns of many - especially the faculty.

Why do many of us think a merger with BCM would be in the best interests of Rice?

First, it would enable us to build on collaborations that already exist between Rice and BCM and to capture additional academic synergies that are significantly harder to realize when institutions are separate. These might include building strong neuroscience, global health and medical humanities programs. A merger could also enhance our efforts in bioinformatics and health policy, and contribute to the scope and quality of the Rice undergraduate experience. These synergies, like everything we do, are not only for our own benefit, but extend much further as we seek to discover, teach and apply knowledge that will help mankind.

If the merger occurs, we will institute a faculty-guided process to identify and set the priorities for funding and developing these opportunities that are essential to a successful merger. At the same time, we also recognize that success does not mean that a majority of faculty would be engaged in medically oriented activity. Rather, we might expect that somewhere between 15 and 20 percent of our faculty would benefit from this new relationship, and information gathered from the faculty to date suggests that is indeed the case.

Second, a merger would expand Rice's intellectual scope into a field that accounts for more than 17 percent of the GDP and which is expected to be a wellspring of basic and applied knowledge in the coming century. A merger would also enable us to compete for major interdisciplinary grants in biomedical fields, where Rice is now at a strong disadvantage.

Third, as it increases our research footprint, a merger would also increase our visibility and reputation, especially in the life sciences. It would position Rice more securely for the future as one of the leading research universities in the world. Based on figures from 2007, for example, a merger with BCM would raise our ranking in federal research funding from 130th to about 23rd, just a bit behind Yale University.

Fourth, although a merger would involve financial risks, the cost of merging with BCM would be only a small fraction of what it would take to start a medical school from scratch. A merger is by far the most cost-effective opportunity for Rice to have a medical school, and indeed Baylor presents very likely the only such opportunity we will ever have. Without adding a medical school, even a lesser expansion of our research efforts in the life sciences would cost far more. The scope of philanthropic support we expect for a Rice-BCM merger would not likely be forthcoming for either of these other alternatives. And we should realize that maintaining the status quo of our relationship with Baylor is not an available alternative; even our existing relationships, such as the Rice/Baylor Medical Scholars Program, may be at risk.

Finally, a merger would serve our home city of Houston by helping and enhancing a renowned institution which is admittedly now struggling. A Rice University that includes Baylor College of Medicine would put Houston and the Texas Medical Center at the center of the biomedical research and educational map. Although our first responsibility is to Rice, we should be mindful of our chance to make a larger contribution to the world beyond our hedges.

Given these attributes, it is not surprising there has been strong support across the city and state for the merger discussions. There are also deep concerns, which must be carefully weighed in our decision. Many of these have been raised in the 90-plus meetings I have had with various parts of the Rice community, most with faculty, to discuss both the benefits and risks.

Concerns especially include the potential financial consequences, the impact on Rice's priorities and culture and the challenges of effective implementation. Based on discussions with trustees, schools, departments and individual faculty members and the work of the Faculty Merger Review Committee, we developed with the board a set of preconditions for any merger. These include, for example, a strong private adult hospital partnership for BCM and significant philanthropic and other resources. We also have required that BCM be on a path to eliminating its operating deficit, because Rice's resources cannot and will not be used to subsidize future BCM deficits.

Some faculty have argued that it would be too risky and expensive to undertake this merger on our own, and they are right; in fact, no one has ever argued that we should. When they assert that we cannot assume that the necessary resources would be forthcoming after a merger, they are also right; that is why we have spent more than a year in a process to obtain the commitments required for a merger to proceed. While Rice will, if we go forward, make a significant investment, most of the resources needed for a merger must come from outside the university.

Some have also expressed concerns about the impact on faculty and student experiences because of the larger size of Baylor, measured by faculty or budget, for example. It's not clear those are the relevant criteria. One need only look at the two smallest schools at Rice - Architecture and Music - whose distinctive impact is felt strongly both within and without the university.

It is understandable and appropriate that such a momentous decision for our university produces deep disagreements and vigorous debate. We must all continue to engage in this conversation in the spirit of community and civility that has been central to Rice as an institution, with respect for those who might reach differing conclusions. However, despite the magnitude of this decision, we should be careful not to overstate its impact on our campus and our faculty and students. Those of us who have been at universities with large medical schools, reinforced by our recent consultations with such universities, can say that the medical school has little impact on the large majority of faculty members who will continue their present endeavors without change.

The possibility of a merger with BCM makes many understandably nervous, as change often does. But we should be driven by our ambition and mission as a university, by our sense of history and of destiny, and not by fear. Some have suggested that a merger would cripple Rice financially and even threaten the tenure of our faculty. That is simply not true. Indeed, merger discussions have gone on for over a year precisely because we recognize the absolute necessity of being prudent, cautious and thoughtful. This possibility comes at a challenging economic time for Rice and higher education more broadly, but it is often in difficult times that such opportunities arise.

John W. Gardner once said, "We are continually faced with a series of great opportunities brilliantly disguised as insoluble problems." Over the next couple of months, we will undertake the hard work of addressing those problems to see if it is indeed possible to seize this extraordinary opportunity.

David Leebron is the university president.

Counterpoint

The famous astronomer Carl Sagan once wrote, "Extraordinary claims require extraordinary evidence." A merger of Rice University with Baylor College of Medicine is surely an extraordinary proposal. Such a merger would bring about one of the most profound changes at Rice in its 100-year history. It is appropriate to ask whether the "extraordinary evidence" bar has been reached. A sober examination reveals that it has not.

On its face, the Rice-BCM merger proposal may seem enticing. Proponents of the merger argue that combining two prestigious Houston institutions would create a "super-prestigious" institution, and that Rice would gain larger international visibility, see its rankings increase, expand its educational mission, increase its relevance to Houston and gain strength in the biosciences, which may dominate the sciences in the 21st century. It is no wonder that the Houston Chronicle referred to the proposed merger in a Nov. 12, 2008 editorial as a "Promising Pairing," but even that enthusiastic endorsement referred to "financial challenges." BCM is two-and-a-half times larger than Rice in terms of annual operating budget and three times larger in terms of faculty, and it is today an institution in great financial distress.

Over the last several years, BCM has accumulated operating deficits of hundreds of millions of dollars, and liabilities of over half a billion dollars. How did a premier institution in the Texas Medical Center find itself in such dire straits?

The decline of BCM started in 2004 with the unraveling of its 50-year partnership with Methodist Hospital. Following that, BCM signed a 50-year partnership agreement with St. Luke's Episcopal Hospital, started merger negotiations with St. Luke's and then proceeded to terminate this partnership, all in the span of two years. BCM then embarked on the construction of a new hospital on its McNair campus, considered necessary to maintain its status as a top-tier medical school. BCM issued close to \$1 billion in bonds to finance the hospital project, but this proved insufficient, and this March BCM announced the freezing of the hospital project.

This leaves BCM in a precarious state, as income from the hospital is needed to repay its debt. In July, BCM announced that it is in "covenant default," no longer meeting the conditions stipulated in its bonds. Simply put, BCM is facing insolvency.

There are no public numbers available for the expected cost of the merger for Rice, but BCM's current financial condition suggests a cost between \$500 million and \$1 billion for a successful acquisition. Rice cannot and will not bear this cost alone, but has said it "will make a substantial one-time investment to support the merger" and rely on philanthropy and other sources of financing to make up the difference. Rice has always relied on philanthropic gifts to support its growth, but this resource pool is finite, and to the extent that it supports the BCM acquisition, it would not be available for other Rice needs.

There is a perception that Rice is a "rich" institution that can afford a substantial investment in the merger, but the reality is that Rice is undergoing its own financial difficulties. Because of the economic crisis, Rice's investments, which finance close to 50 percent of its operational budget, shrank by around \$1 billion over the past year. At the same time, its debt has increased over the last three years by \$500 million, financing a \$900-million construction boom.

The "crown jewel" of this construction boom is the 10-floor BioScience Research Collaborative, a \$300 million project launched in 2006. While the initial vision saw Rice occupying only a small fraction of this building, with the rest leased to TMC partners, execution has proved to be challenging, and so far Texas Children's Hospital, with half of a floor, is the only non-Rice tenant in the building.

The BRC debt burden of \$315 million is currently falling, essentially, on Rice alone. The outcome of reduced investments and ballooning debt is that Rice is undergoing a series of painful budget cuts, expecting to terminate programs and lay off staff next year. It is clear that Rice will be facing painful choices in the coming years.

Beyond the up-front cost of the merger, Rice is likely to face increased financial volatility in the future. BCM depends crucially on three volatile sources of income: federal research funding, clinical care and state subsidy. BCM's present \$50 million subsidy from the state government may well become problematic if it were to merge with Rice. The ratio between BCM's and Rice's budgets implies that increased stability for BCM would likely come at the cost of increased volatility for Rice.

Downplaying these financial considerations, Rice's top administration has promoted this merger in terms of "remarkable opportunities that exist in terms of synergies between the two institutions" and "a wide array of academic benefits." In March, Rice faculty members asked the administration to substantiate these claims. In September, the Subcommittee on Academic Matters, consisting of both Rice and BCM faculty, issued a report that concluded that "numerous potential academic benefits" (emphasis in original) exist in terms of new collaborative programs.

The report, however, contained no analysis of what it would take to turn potential benefits into actual benefits, failing to address many fundamental questions: Are there current administrative barriers to collaboration between Rice and BCM? Would the merger lower these barriers? Can they be lowered without a merger? The independent Rice Faculty Merger Review Committee concluded in its August interim report that "many of the benefits could be realized without a merger." The SAM Report also did not ask how much it would cost to develop its wish list of new collaborations, nor what the "opportunity cost" of this new investment would be to Rice; that is, the loss of new research investments (e.g., in energy, nanotechnology and other crucial fields) that would otherwise have been available to Rice.

In short, the SAM did not perform "academic due diligence." The financial risks of the proposed merger have been underplayed by its proponents, and its academic benefits have been overplayed. Neither "extraordinary," nor even "preponderant," evidence has been provided.

It must be recognized that there is a divergence of interests between Rice and BCM. The latter must regain financial solvency, but the price it may have to pay is giving up its top-tier status - its ranking has been declining over the last few years. A medical school can attain or maintain such a status only by having a high degree of control over its adult-care facility. BCM had such control in its pre-split relationship with Methodist, and would have regained it had it managed to complete the hospital project.

Rice has been adamant about not owning the hospital, and, so far, no scenario has emerged for an arrangement that would allow BCM to regain the required level of control. It would be a tragedy for Rice to incur the costs and the risks of the merger only to end up with a second-tier medical school.

The Rice Board of Trustees will soon have to make the most significant decision that Rice has faced in its history. Neither the financial nor the academic consequences of the proposed merger have been adequately addressed. Prudence dictates that the proposal be declined.

Moshe Vardi is the George Professor in Computational Engineering.

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