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Rice & BCM: Inside the Merger

By: Josh Rutenberg and Cindy Dinh

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Also be sure to read the [Point/Counterpoint between President David Leebron and Professor Moshe Vardi on the merger.](#)

When talks of a merger between Rice and the Baylor College of Medicine began last year, discussions were held in private, but one thing was clear: Both institutions verged on a frontier of unknown possibilities.

For years, Rice and BCM, intertwined through both proximity and the highly successful Rice/Baylor Medical Scholars Program, have held discussions on a range of topics, with the merger always being considered as a possibility, Rice President David Leebron said.

"The idea of a merger was put forth more forcefully two summers ago," Leebron said. "[BCM] approached us and suggested that because of the number of issues it was facing, we should take conversations to a more serious and focused level."

Rice and BCM share a number of qualities that led to such conversation. The institutions run side by side - literally. Each institution is private, and therefore both rely heavily on obtaining funding through grants for research.

The talks have recently begun to pick up, with meetings, discussions and differing opinions becoming more evident. While a decision has not yet been reached on the future of the two institutions, it is necessary to examine the fiscal variables and the inter- and intra-institution conversations to gather a fuller picture of the situation between Houston's intellectual behemoths.

Progress to this point

The first step evidencing the possibility of a merger came in March, when Rice and BCM signed an initial Memorandum of Understanding. Rice and BCM extended the MOU in September to keep open the

possibility of a merger, effective until Jan. 31, 2010. In the MOU, Rice outlined conditions BCM must meet before a merger can take place. In addition to finding "substantial" philanthropic support, BCM must agree to stay on a sustainable path to eliminate its operating deficit, cement a partnership with adult private hospitals, and find a solution to the debt it incurred constructing the McNair campus hospital project.

"BCM has run a substantial operating deficit and taken a large amount of debt from the [McNair] hospital and we need plans to deal with these concerns," Leebron said. "We are not willing to merge unless we can assure BCM won't be a drain on Rice."

The MOU also calls for the enhancement of non-medical-related endeavors, funding to plan and maximize academic benefits of a merger, a continued commitment of Rice to undergraduate and graduate student ventures and clear implementation plans that include faculty engagement and external advice. Under the MOU, the combined institutions would be governed by the Board of Trustees and Leebron, with its own smaller Board of Trustees appointed by Rice.

On April 23, the Faculty Senate voted to form a committee of 15 Faculty Senate members spanning a wide cross-section of departments, tasked with identifying potential benefits, risks and costs associated with the merger and to offer advice to the Faculty Senate, the administration and the Board of Trustees. The group, known as the Faculty Merger Review Committee, submitted an interim report Oct. 12 detailing four benefits of the proposed merger: research, teaching, preserving BCM as a stable partner and expanding Rice's position in the educational world. The FMRC's report also indicated several risks, such as the possible creation of a fiscally unbalanced institution.

The committee also speculated that the benefits of a merger could be possible through the establishment of an Office of Cooperation and acknowledged that without enhancing Rice in some way, the university's future standing as a major research university would be in danger.

A day after the FMRC was formed last April, the Steering Committee for the Rice-BCM transaction, co-chaired by Leebron and BCM Interim President William Butler, tasked four separate committees - academic, clinical, financial and regulatory matters - to develop recommendations related to the merger. The Subcommittee for Academic Matters, comprised of 32 deans, chairs and faculty from both Rice and BCM, submitted a final report Sept. 7 that called for the consideration of an Office of Integration should a merger occur. The SAM also called for the advancement of academic synergy through the engagement of faculty, the administrative structure to manage the integration process and transparent processes to assess and implement the best available and proposed initiatives.

Financial questions

On the surface, the pairing of the two institutions seems logical, as Rice exists without a medical school and BCM, which separated from Baylor University 40 years ago, stands as one of the few medical schools without an attached undergraduate university. However, if the details of the pairing are parsed, problems, namely fiscal in nature, quickly rise to the surface.

When Rice and BCM first signed the MOU in March, the schools both faced challenges of an economy in

recession. Rice made significant cutbacks over the past year to deal with financial losses. To compensate for a \$1 billion loss in endowment for Fiscal Year 2009, Rice instituted a 5 percent budget cut across all departments, limited pay raises to faculty making below \$60,000 and reduced the library budget. Despite the substantial drop in the endowment, Rice maintains the losses will have no impact on merger discussions.

Regardless of a merger, Leebron said Rice will have another round of budget cuts in the near future.

"Next year, we will cut the budget 5 percent and those savings will restore us to where we need to be," Leebron said. "It is a loss on the endowment that has caused that."

Rice's endowment fell to \$3.61 billion for FY 2009, down from a high of \$4.61 billion in FY 2008. In contrast, BCM had an endowment of \$778 million in FY 2009, down from \$954 million in FY 2008.

But the economy was not the primary reason for BCM's financial troubles.

In September, BCM issued a report stating it defaulted on technical covenants, or contractual obligations to keep its capital ratio below a certain percentage, in part a result of BCM's unsuccessful efforts to construct an independent clinic after separating from Methodist Hospital in 2004. BCM signed a 50-year agreement with St. Luke's Episcopal Hospital in 2005, but the two organizations terminated the agreement in 2006, citing St. Luke's new direction as a primary factor in the decision. Later that year, BCM began work on its independent clinic, and began constructing the McNair campus hospital in 2007. However, due to fiscal turmoil, construction on the hospital ceased this March, two years from its scheduled completion.

After Rice signed the MOU with BCM, the Moody's Investor Service placed Rice's long-term investment grade of Aaa, the highest possible quality grade with the smallest degree of risk, on a watch list for potential downgrading, citing the negotiations with BCM and the \$760 million and \$735 million in outstanding debt accrued by Rice and BCM, respectively. Despite the apparent fiscal issues, as of September, BCM had a long-term rating of Aa1, the second-highest rating and one indicating very low credit risk.

Despite these financial concerns, Rice and BCM have found other financial aspects that make the merger appealing. In 1969, BCM entered into an agreement with the Texas Legislature to double its class size in return for state funding, an effort to increase the number of physicians in Texas. The agreement still stands: For fiscal years 2010 and 2011, BCM's state funding will total more than \$50 million per year. In 2007, the National Institute of Health awarded Rice \$11 million in grants, and awarded BCM \$211 million in grants. BCM garnered another \$44 million in stimulus funding for 2009.

This trove of shared research grants present one of the main attractions of a merger, Rebecca Richards-Kortum, member of the FMRC, said.

"One of the challenges that Rice faces for competing for grants is that we're one of the smallest research-intensive universities," she said. "Merged together, we are much stronger in the competition."

Though Richards-Kortum said it is still possible for joint research opportunities and an increase in grants to occur without a merger, having both institutions under one governance would make it easier to achieve both ends. In particular, she said a merger would make both institutions more competitive for grants from the NIH

and the National Science Foundation.

In 2007, Rice ranked 130th for federal research grants, having received more than \$54 million, while BCM ranked 32nd, having received \$263 million in federal research grants. Had the two institutions been combined, the total research funding grants would have summed to \$317 million, placing the merged institutions at 23rd in the nation, narrowly behind Yale University's \$349 million but ahead of Vanderbilt University's \$312 million. By merging into a single institution, Rice and BCM could streamline their efforts and become more competitive for major federal sponsored research.

Preserving the culture

Raw numbers are one variable any discussion of a merger has had to detail and delineate. However, the numbers do not present the only variable that may impinge any movement between the two institutions.

Concerns have been raised over possible effects the merger would have on academics and culture at Rice, by students and faculty alike. Views on the university's focus toward the life sciences have been mixed, as certain departments are perceived to benefit more than others.

"As a senator [on the Faculty Senate], my constituency is overwhelmingly negative about the impact of the merger," Computational and Applied Mathematics Professor Steve Cox said. "They are worried about financial implications at a time of budget cuts and realignment of resources toward bio-centered research."

Faculty member Moshe Vardi conducted two independent polls to gauge faculty response, one in April and another in September. Of the roughly 300 faculty members who responded, those who felt the merger of Rice and BCM was a "very good idea" dropped from 21 percent to 13.9 percent, while those who felt the merger would be a "very bad idea" increased from 15.6 percent to 24.5 percent. More than 56 percent viewed the merger as either a somewhat or very bad idea.

Michael Emerson, a sociology professor, said while these concerns are valid, the most important benefit for Rice is increasing its visibility and impact in the community, which will benefit all departments.

"It doesn't matter if you do research," Emerson said. "It matters that we have a bigger footprint in Houston and nationally."

If Rice does not step in to merge with BCM, the medical school's impact on the Houston community would not necessarily be lessened, as a possibility of merging with other undergraduate institutions in the city of Houston have also been floated. But none of these other undergraduate institutions have gone as deeply into discussion as Rice and BCM have thus far.

Although there are a number of individual collaborations between Rice and BCM faculty, the probability of increasing these connections without a merger would be slim, Cox said. He contended that while there are individuals in every department who could draw connections to collaborative efforts with BCM, at least three-fourths of the faculty will not have direct ties to BCM.

"People who don't see possibilities of collaborations are worried their resources will be compromised [because of] Rice's emphasis on biolife sciences," Cox said.

For fall 2008, Rice's student enrollment numbered 5,539, including graduate students, to BCM's 1,385 students. Although Rice has 772 faculty members, BCM has 1,932 faculty members associated with its facilities. The numbers are disparate and distant, and a regression toward balance would be inevitable.

However, Cox pointed out that the biggest impact will be on departments that currently do not exist at Rice, such as neuroscience. While there is a focus on neuroscience in terms of classes offered within the cognitive sciences department, Rice does not currently have a neuroscience department. Still, Cox said there are about 100 students who are interested in neuroscience and can greatly gain from the resources BCM has.

Another proposed benefit of the Rice-BCM merger is increased synergistic efforts between the two institutions. Under the current partnership of Rice and BCM, there are a select number of joint programs, notably the Rice-Baylor Medical Scholars Program, and the ability of BCM graduate students to enroll in advanced undergraduate and graduate classes at Rice.

"We have very small joint programs [with Rice]," BCM Professor Huda Zoghbi said. "The things we do now are small and incremental advances, and it really takes a lot more to make us transformational and great."

Whether or not those "transformational and great" strides are made is yet to be seen. But if and when they are, Leebron said it would be hard for him to find a downside for students given the potential growth in courses offered.

"The core undergrad experience would not be expected to change except for new opportunities the merger would create," he said, noting the possibilities of new courses offered in global health and medical humanities, alongside new internship opportunities.

Zoghbi said she feels it is important to consider a more holistic picture when approaching the merger, and said she encourages Rice and the city of Houston to work towards a greater good.

"There are financial issues, but they are not unique to BCM," she said. "[BCM] is often neglected by Rice when talking about liabilities, but when stimulus grant funding calls came about, BCM obtained \$44 million in six months. It's important to recognize, beyond grant money, who is publishing in the top-tier journals."

Zoghbi said she believes one of the biggest assets to come from the merger would be strengthened ties among the medical school and the various disciplines.

"It's becoming abundantly clear that for biomedical research to really impact human health and knowledge it must work much closer with mathematicians, psychologists, physicists and other people from totally different backgrounds," Zoghbi said. "Only with this understanding that all disciplines must come together can we make our schools outstanding."

It is clear that the two institutions, parallel in their desire for financial stability and national prominence, have moved beyond cursory conversations and have begun to hammer out details of a shared future. The decision

will not necessarily be reached by the Jan. 31, 2010 MOU deadline. After all, the MOU has already been extended once, and there is nothing stopping it from being extended once more.

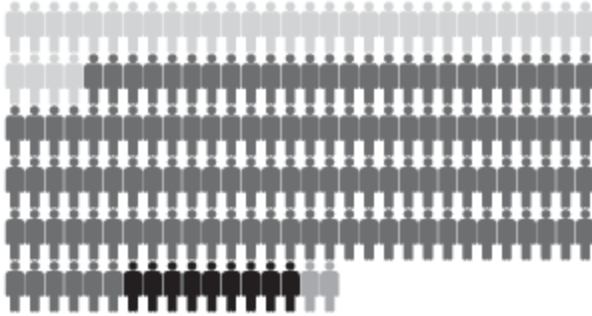
Whatever decision is reached, one thing is clear - the future of these two institutions will remain intertwined. The extent of this relationship, however, remains to be seen.

SURVEY RESULTS

Last week, the *Thresher* conducted an informal survey of students, faculty, graduate students and alumni. We asked them whether they supported the merger, and why they did or did not. Here are the results:

355 OF 534 SAID THEY ARE IN FAVOR OF THE MERGER.

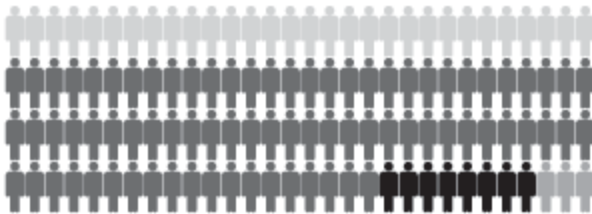
... 167 support the merger because of the potential rankings/prestige boost ...



... 20 are in favor of university expansion ...



... 120 cite increased research profile and opportunities ...



... 36 want the increased opportunities for pre-meds ...

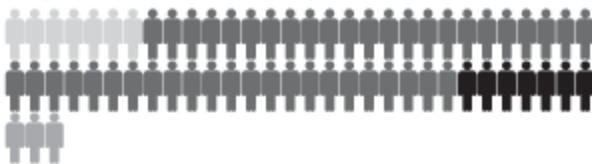


... and 12 said "other" or "all of the above."



172 OF 534 SAID THEY ARE AGAINST THE MERGER.

... 63 fear that Rice cannot handle BCM's financial troubles ...



... 62 worry about a significant change in culture ...



... 23 are concerned that the humanities will be overlooked ...



... and 24 said "other" or "all of the above."



MEANWHILE, SEVEN PEOPLE SAID
NEITHER "YES" NOR "NO".



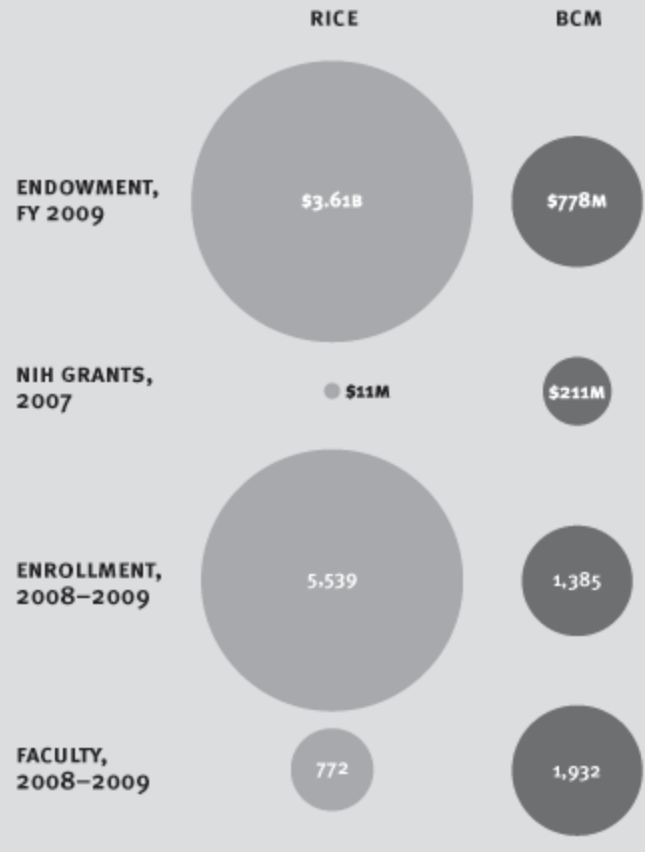
ALUM

UNDERGRADUATE



A COMPARATIVE GLANCE

One of the important things to consider in any merger or acquisition is the relative size of the two institutions. Here's a look at a few parameters of size, financial and otherwise, between Rice and Baylor College of Medicine.



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