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Baylor merger is risky for Rice

Nov. 28, 2009, 10:01PM

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Rice University and Baylor College of Medicine (BCM) are in the midst of historic negotiations that would merge these storied institutions. As institutions that have helped shape the Houston community for nearly a century, their merger has profound implications for the city's future. Together, they account for nearly \$1.5 billion that flows annually into the Houston economy and they employ many thousands of workers and professionals. The proponents of the merger point to its potential benefits, including increased opportunities for collaboration in biomedicine and allied fields and enhanced visibility in the world of research universities.

But are the potential benefits of merging worth the risk of serious financial damage to Rice, or the risk of losing contact with the essence of what has made Rice unique? We don't think so.

The proposed merger is actually an acquisition by Rice University. BCM is on shaky financial footing and its current situation is not financially tenable (see publicly available financial documents at <http://www.bcm.edu/oor/> and <http://www.dacbond.com>). Over the past six-year period from 2004 to 2009, BCM's operating expenses have exceeded its revenues by more than \$300 million; the largest annual loss (\$72 million) was incurred in the most recent fiscal year, ending June 30, 2009. Meanwhile, its debt has ballooned eightfold, to more than \$850 million, an amount exceeding its endowment. The reasons for this precipitous drop are surely complex, but BCM's financial difficulties began in 2004, the year the 50-year relationship with The Methodist Hospital as one of BCM's primary teaching hospitals was dissolved. Every year since then, BCM has lost significant amounts of money.

We don't doubt that it's possible to get BCM's financial house in order, but it is worth examining its sources of revenue. About half of the \$1 billion-plus budget comes from hospital contracts and medical services, that is, from fees collected from insurance companies, Medicare, Medicaid and others, to provide medical treatment to patients. Another third comes from grants and contracts to perform biomedical research; most of these funds are from the National Institutes of Health (NIH). The rest comes from a variety of sources, including an annual payment from the state of Texas that currently amounts to \$50 million, return on the endowment that is around \$60 million, and philanthropy, which varies in the range of \$20 million to \$40 million annually.

The problem, as we see it, is that these revenue sources are fundamentally unpredictable. The health care reform bills currently under consideration by Congress may result in significant changes to health care receipts. In these trying times, will the federal government continue to fund the NIH at its current rate? Will the state of Texas be able to afford BCM's subsidy in the future? No one knows the answers to these questions with certainty.

What is certain, however, is that Rice cannot afford to support BCM as is, and will certainly be unable to do so if there is a significant decline in any of these revenue sources. Rice derives approximately half of its operating budget from earnings on its endowment. Because of the recent financial crisis, Rice has seen its operating budget reduced by 5 percent in each of the past two years. While the magnitude of the cuts is small in comparison to BCM's operating deficits, the cuts are deeply felt at Rice. Departmental budgets have been cut to the bone, and most seriously for the longer term, faculty positions open due to retirement and normal attrition are going unfilled, with potentially severe impact on the quality, or even the viability, of academic programs.

Merger proponents argue that if the BCM financial crisis worsens, then Rice can simply cut BCM loose. But once a merger occurs, it will be very difficult to walk away from an investment in the hundreds of millions of dollars. Such an event would be disastrous for Rice and could set the institution back by decades. A financially strapped university cannot hire the most promising young faculty, and its ability to retain highly talented mid-career faculty is compromised.

Rice has long been known for excellence in education spanning the spectrum of knowledge, from the sciences to the arts. Moreover, in the past two decades, Rice has steadily and deliberately improved its standing as a research university by calculated investment, and by hiring and nurturing outstanding young scholars. Irrespective of their opinions of the proposed merger, the Rice faculty, administration and board all agree on one thing: We aspire to stand among the world's greatest universities. Can this vision be attained more quickly by diverting our course and merging with BCM, or will

Rice simply become a medical school with a small, and possibly impoverished, university attached? Nobody knows for sure, but we firmly believe that merging poses an unacceptable risk to Rice University.

This article was written by Rice University professors Michael M. Carroll (Burton J. and Ann M. McMurtry Professor of Engineering), Arthur Gottschalk (Chair of Music Theory and Composition, the Shepherd School of Music), George Hirasaki (A. J. Hartsook Professor in Chemical Engineering), Randall G. Hulet (Fayez Sarofim Professor of Physics & Astronomy), and Alan Levander (Croneis Professor and Chair, Department of Earth Science).

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(2)

sss wrote:

Many thanks to the professors who wrote this piece. As a Rice alumnus, I am against the merger. I maintain that if Rice is to proceed, it scrap the Baylor name and fire Baylor's entire and entirely incompetent administration. A fellow alumnus, a practicing internal medicine specialist who had completed a fellowship at Baylor prior to finishing his residency, referred to Baylor's administration as "those weasels." The other institutions in the Medical Center apparently share that low opinion of them after Baylor has repeatedly proven itself incapable of "playing well with others" by cutting or restricting their ties with Baylor. How can President Leebron consider that Rice could raise its stature and grow by taking on a billion dollars in debt, adding hundreds of unneeded hospital beds and bailing out a bureaucracy of weasels?

11/29/2009 5:12:09 AM

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baylorloyal wrote:

The administration at Baylor has undergone a major change. Baylor is fixing its own problems and does not need rescuing by Rice or any other institution. It is time for the people in Houston and the faculty at Rice to make note of this and to recognize the prestige that Baylor College of Medicine has brought to Houston. If there is a merger, it should be for the right reasons. It is time to stop the Baylor bashing and recognize that Rice University will never move into a top tier university without Baylor College of Medicine, but then, maybe some of the faculty at Rice prefer to remain a small second tier university. This is certainly their privilege, but Baylor College of Medicine will continue to pursue excellence.

11/29/2009 10:22:34 AM

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(2)

sss wrote:

AND fire the board!

11/29/2009 5:16:02 AM

Recommend: (30) (16)

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housurg wrote:

Baylor is on the way down. Its' residency programs are in trouble. Its' finances are a disaster. Its' medical students are unhappy and dissatisfied. Its' adult clinical programs are in complete disarray. The Baylor slide to obscurity is in full swing and probably cannot be stopped. On the other hand , Rice needs to be a major factor in the Medical Center or it will become a small player in Houston, not the major research university that it should become (and Texas needs a large private research university).The University of Texas institutions in the Medical Center will be vastly wealthier and larger than Rice if Rice does not absorb Baylor. The University of Texas will become the driving force in Houston, to the detriment of Rice. Rice needs to absorb Baylor giving Houston two healthy large balanced medical institutitons. Baylor is not "too big to fail". Let's learn from the disasters on Wall Street and let Baylor College of Medicine go the way of all failed institutions that made poor choices.

11/29/2009 9:34:16 PM

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gasworks wrote:

As a BCM alum and current faculty member, I can certainly understand Rice's faculty and their concerns about Baylor. However, Baylor and its partners in the medical center have worked tremendously hard to meet the financial and political goals established by Rice's Board for the merger to go forward: establish financial solvency, engage in a long-term contract with an adult hospital, and terminate the construction of the Baylor hospital facility. The Baylor - Methodist divorce did not occur in a vacuum and is not entirely Baylor's fault. It is almost impossible now for a medical school to operate in a financially viable fashion without owning not just the faculty but also the facilities. I think the comments like those of sss and housurg have no absolutely no basis in fact: UT Houston is one of the weakest of the Texas medical schools and is not really competitive on any level with Baylor as a medical school, graduate school, research institution or training program. The only other institutions in the medical center nearly as well respected are MDA and TCH - both of which have only tightened their affiliations with Baylor over the years. No one knows what will happen with any medical school with the coming changes in health care reform, but Baylor is well-situated with its established NIH funding lines and a long history of philanthropic support in Houston and the world. As a small, private institution Rice cannot step up to the next level without growing beyond its ivy/oak borders and BCM is a natural merger partner. Sure, there are risks, but as the posters at the airport say: Know Risk, Know Reward.

11/30/2009 1:16:27 PM

Recommend: (22) (24)

[\[Report abuse\]](#)**CaptainCulpepper** wrote:

This article is written by Rice faculty who appear to be more interested in the status quo for their own personal careers than with the best interests of the university for the future. All of the analyses done independent of either Baylor or Rice see this as a win-win for both institutions and our city. Change is always risky to individuals and the reluctance of these Rice faculty is understandable from a personal standpoint. We are fortunate to have two such outstanding institutions in our city, institutions that will remain outstanding without a merger but far better together as a single institution.

12/4/2009 7:14:22 AM

Recommend: (5) (0)

[\[Report abuse\]](#)**kctipton** wrote:

Right on! Baylor is a sinkhole and Rice can't fill it.

11/30/2009 10:10:31 PM

Recommend: (9) (10)

[\[Report abuse\]](#)**Leonard_Kramer** wrote:

Oh Dear; Not agani. That's the old Rice-Baylor merger joke that appears every few years. It gets more elaborate every time I see it. Last time they were going to merge the engineering with the medical school.

11/30/2009 2:44:10 PM

Recommend: (5) (12)

[\[Report abuse\]](#)**gasworks** wrote:

As a BCM alum and current faculty member, I can certainly understand Rice's faculty and their concerns about Baylor. However, Baylor and its partners in the medical center have worked tremendously hard to meet the financial and political goals established by Rice's Board for the merger to go forward: establish financial solvency, engage in a long-term contract with an adult hospital, and terminate the construction of the Baylor hospital facility. The Baylor - Methodist divorce did not occur in a vacuum and is not entirely Baylor's fault. It is almost impossible now for a medical school to operate in a financially viable fashion without owning not just the faculty but also the facilities. I think the comments like those of sss and housburg have no absolutely no basis in fact: UT Houston is one of the weakest of the Texas medical schools and is not really competitive on any level with Baylor as a medical school, graduate school, research institution or training program. The only other institutions in the medical center nearly as well respected are MDA and TCH - both of which have only tightened their affiliations with Baylor over the years. No one knows what will happen with any medical school with the coming changes in health care reform, but Baylor is well-situated with its established NIH funding lines and a long history of philanthropic support in Houston and the world. As a small, private institution Rice cannot step up to the next level without growing beyond its ivy/oak borders and BCM is a natural merger partner. Sure, there are risks, but as the posters at the airport say: Know Risk, Know Reward.

11/30/2009 1:16:27 PM

Recommend: (22) (24)

[\[Report abuse\]](#)**Gregory_T** wrote:

Seems to me that Rice has done well for itself these past several decades. This is confirmed by its being the only private Tier 1 university, and one of three Tier 1 universities in the State of Texas, along with the University of Texas at Austin and Texas A&M at College Station.

Also seems that there are more bankruptcies filed every year than billion-dollar success stories. Time will tell whether a fine institution like Rice will stay the course that continues to build on their successes, or whether a management, isolated from the daily operation of their charge, loses sight of their responsibilities and squanders an institution already burdened by today's economic downturn.

If Baylor is an investment, it will remain so for another year or two, when the investment value becomes clearer. If Baylor sinks in the next few years, better that they do it alone than to bring Rice with it.

11/30/2009 12:54:35 PM

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