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/](http://www.bcm.edu/oor/) and [http://www.dacbond.com](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.

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