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._