

CASE STUDY

**THE ART INSTITUTE
OF CHICAGO**

AND THE DECISION TO START BUILDING



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This case was prepared for a class discussion rather than to demonstrate either effective or ineffective handling of an administrative situation, and is based on interviews with 12 current and former members of the staff and board of the Art Institute of Chicago, as well as financial documents and the public record. The authors would like to thank all of the people who graciously agreed to be interviewed.



Credit: The Art Institute of Chicago. View of Modern Wing from Monroe Street, Photo credit: Charles G. Young, Interactive Design Architects.

When Chicago's Millennium Park was selected to host the Pritzker Prize award ceremony in June 2005, leaders at the Art Institute of Chicago across the street felt apprehensive. Millennium Park was an urban rejuvenation project, a park of manicured gardens, spacious lawns, and displays of public art. The park and its outdoor performance amphitheater were designed by Frank Gehry and built atop a rail yard in the heart of Chicago. Despite public and private rumblings about cost overruns, and intermittent political tug of wars starting in the early phases of planning, Millennium Park became a sensation on opening day. Throngs of tourists and Chicago residents inundated the new facility. In the three days of opening festivities alone, Millennium Park was visited by 300,000 people. And shortly, the international architectural press and some of the world's most acclaimed architects were coming there for the Pritzker Prize ceremony.

Meanwhile, across the street, the Art Institute of Chicago was in its sixth year of planning a major expansion. To some of the project leaders, the opinion of the Pritzker Prize public mattered a great deal. On two of the three previous occasions when the Pritzker ceremonies had taken place in the city, the Art Institute had served as the site, and Pritzker Prize winner Renzo Piano had been selected as the museum expansion's architect in 1999. In the six years since, he had developed two designs for the new wing—one cantilevered across the railroad tracks that bisected the main building, and a second on a site directly across from Millennium Park's outdoor theater. The board had authorized Piano and his firm to proceed with construction drawings and complete them by February 2003, thus finally assenting to the proposed architectural concept. Yet even at this advanced stage, uncertainties about key aspects of the construction project—like its total square footage and price—still remained. Significant changes, such as an additional floor and a bridge across Monroe Street into Millennium Park, were now under consideration. Not including the pedestrian bridge, the design and construction of the project was at that point projected to cost approximately \$200 million. The Art Institute finance staff estimated an incremental increase in annual operating costs of approximately \$4 million a year which, under conventional payout terms, would require an additional endowment of \$87 million. Of this \$287 million capital campaign target total, \$120 million was pledged by September 2004.

At this time, two people were pushing for the project to begin. The first was the chairman of the board, John Bryan, the retired CEO of Sarah Lee Corporation. His

predecessor and one of the project's progenitors, John Nichols, thought Bryan's election as chair was pivotal for the project. "That was the best move that I made in the whole thing," Nichols said. Bryan was a longtime advocate of Chicago civic pride projects and had raised over \$200 million in private funding for Millennium Park. "John's impact on the change in the whole center core of the city is huge," Nichols said. "John had a talent for thinking that raising the money was always feasible."

The second advocate for a proximate start date was the new president and CEO of the Art Institute, Jim Cuno. In 2004, Cuno replaced James Wood, who had led the Art Institute since 1980. Just like Wood, Cuno was trained as a curator and had previously led the Harvard University Art Museums and the Courtauld Institute of Art in London. Cuno had also worked with Renzo Piano before, on a new museum for Harvard that was ultimately scuttled. The Art Institute expansion was begun by Wood and Nichols in 1999, but Wood had always proceeded with extreme financial caution. Wood "was a great director, but was very conservative on fiscal matters. [He] was always very nervous about the money," said Nichols. Jim Cuno "was very conscious of it, but he was more of a builder than Jim [Wood] was." With Cuno joining the leadership team, Bryan gained a fellow optimist. "Jim Cuno never saw a building he didn't want to build," he joked. The difference in leadership approaches taken by Wood and Cuno was subtle, yet the change added some pressure to proceed.

Cuno described this moment as follows: "We were less than half money raised, and there was no indication of when we would get trustee approval to go forward with the building. To break ground. To really commence." And now the architectural world was coming to the Art Institute's front door. "We were sitting here, stalled, with this dynamic success across the street, a site from which you looked on to the worst side of the Art Institute—a derelict building on the corner, a loading dock, a railway. It was just not what you wanted to do."

The pace of fundraising was increasing, however, and Cuno was anxious to start. The construction work would take three and a half years—a significant period in which to finish fundraising. Given its favorable financial condition, the Art Institute would be able to secure bridge financing, or a bank line of credit, to cover initial construction costs, a strategy that would help alleviate any cash flow challenges. Cuno believed the capital campaign would pick up speed once construction started. "It's one thing for me to say 'Please support this project—we might build a building some day.' It's another thing for me to say 'Please support this project—we *are* building a building.'"

Thus, the selection of Chicago as host for the Pritzker Prize ceremony added urgency to the ongoing discussions by the board's executive committee about exactly when in the planning and fundraising process they should start the actual building. Certainly, they could hold a purely ceremonial groundbreaking when the press arrived, and then continue to debate the actual start date for construction. But according to our interviews, the success of Millennium Park across the street made many of the trustees eager to finish their own new building and partake in the same acclaim and public elation. How much in signed pledges did the Art Institute need in order to commit itself fully and then actually begin construction? What financial and planning benchmarks did the proponents of moving forward need to meet in order to get a green light? How did the possibility of significant changes—like the pedestrian bridge and the added floor—factor into this decision?

The most committed holdouts of the executive committee argued for a financially conservative plan. Then-treasurer David Vitale summarized their position: "You should raise the money before you commit the museum to that big a financial exposure." His finance committee wanted to see the financial challenges of operating in the existing building—both the severe losses in the endowment in 2001, and an existing operating deficit—fully addressed first. "We had more complexity to the financial situation than just the building of a new building," he said. "We had a bunch of financial stuff that created some anxiety about this project on the part of those who were more fiscally conservative."

In addition, people were concerned about the fact that the total cost of the project had seemed like a moving target. How could they authorize starting if they didn't know how large the project was actually going to be? Piano and Wood had kept the cost of the design of the new Modern Wing itself under the initial cap of \$200 million, but now additional enhancements and changes, many with unclear costs, were under discussion. These additions included the pedestrian bridge across Monroe Street to Millennium Park. In order to ensure that the bridge's slope was gentle enough for wheelchairs, the new building needed another floor so that the bridge had a viable terminus. And Piano still wanted to include some of the components of his initial design for the other side of the museum. Notably, this entailed replacing a wall of an existing hall with glass. "Frankly, as the building went on, it started to get more expensive, at least in aggregate," said Vitale.

Last but not least, some trustees were concerned about the overall scope of the campaign. Despite the Art Institute's significant size, reputation, and history, nothing of this scale had ever been attempted there before. The largest campaign to date had been for less than \$60 million. "All of a sudden, the conversation about how much this whole project was going to cost...was going well north of \$300 [million], and that created some anxiety in people's minds when we'd only raised \$50 [million] before, even if we'd crossed \$150 [million] at this point," said Vitale.

"There were plenty of people who said we'd never raise over \$50-60 million," said then-chairman John Bryan. "You can't raise \$200 million—\$200 was the presumed amount. I had letters from the trustees—good friends—saying, 'You can't do this, John. It's not a good idea. Please stop this.' Good friends. And I tried to explain to them that I thought it was okay."

"We pushed hard with the trustees," said Cuno. "John Bryan and a few other key trustees pushed hard, saying, 'We have to do it. Millennium Park is a big success. Look how it looks from Millennium Park. Architectural press is coming in nine months. Let's go forward. We've got to do it.'"

The museum's current structure was begun in 1893, as a Beaux-Arts building (designed by the well-known architects Shepley, Rutan, and Coolidge) for the World's Columbian Exposition, and was intended to pass into the museum's hands after the Exposition was finished. Since then, the Art Institute's approach to expanding its physical plant has been incremental, with six expansions to the museum building undertaken by the end of the 20th century. The latest such expansion was the Rice Building, finished in 1988, amidst another worldwide boom in museum building. Designed by Chicago architect Thomas Beeby, the expansion intentionally blended in with the original Beaux-Arts idiom. A *Chicago Sun-Times* architecture critic wrote that the addition "makes no effort to be original and every effort to look as though it always has been there." This contrasts starkly with Beeby's controversial post-modern design for a new home for the Harold Washington Chicago Public Library a few blocks away.

The Beeby expansion cost the Art Institute \$23 million and contained 66,640 square feet of galleries (some of them replacing galleries demolished to make room for the expansion). The total space of the museum after its completion was 750,000 square feet, 183,000 of them occupied by galleries. For Renzo Piano's expansion, the Art Institute was breaking both with its tradition of a piecemeal approach to the expansion of its facilities, and of privileging the Beaux-Arts aesthetic of its origins. "We were looking for an architect who could make a great modern building," said Wood.

From a financial point of view, the Art Institute's position was relatively strong, but like most major museums, the organization faced some challenges. It was comprised of two distinct business units: the museum and the School of the Art Institute (SAIC), which offered both undergraduate and graduate programs. For fiscal year (FY) 2004, the total operating revenue for both was \$143 million, with the museum accounting for \$75 million of that amount. The total operating expenses for both came to \$146 million, with the museum accounting for \$74 million. The museum had a \$1 million operating surplus for the year, while the school incurred a \$4.5 million deficit. The institution as a whole was in the midst of implementing a multi-year plan to eliminate deficits, largely through reductions in non-programmatic administrative costs. Board chair John Bryan had replaced the institution's administrative head with a handpicked successor—Patti Woodworth—to design and execute this plan to streamline elements of the museum's administration. These included outsourcing security and food service, lowering energy costs, improving staff benefits to enhance competitiveness in hiring, and staff reductions at the central office. Many of the changes were made based on benchmarks and "reams of

data" on other museums and nonprofits in Chicago. A few were controversial—outsourcing of the café operations was unpopular with some trustees and subscribers. The changes, however, did improve the Art Institute's financial performance. They put the school on track to eliminate deficits by FY 2007 and improved the financial stability of the museum.

The museum's balance sheet was bolstered by its endowment, massive even after substantial losses during the collapse of the technology boom in 2001. In the fall of that year, the public was shocked to discover that the Art Institute had placed 60 percent of its \$700 million endowment in hedge funds. The Art Institute was suing one of those funds for mismanagement after a loss of about \$40 million by that fund alone. Following these losses, the board had revised its investment policy to diversify the Art Institute's holdings. By late 2004, the endowment had basically made up these losses and reached the level it had before the technology stocks crashed.

The Art Institute also had significant debt—\$226 million in bonds and \$43 million due on lines of credit as of the end of FY 2004. All these bonds were issued between 1992 and 2000. The 2000 issues went toward paying for new buildings for the SAIC and a renovation of the museum's front entrance, as well as initial designs for the museum's new wing. The Art Institute planned to remarket the bonds as they came due. The new buildings for the SAIC had been intended to provide more dormitory, gallery, and studio space for the expanding student body, but according to Bryan, the school had been unable to raise the total needed. This was seriously straining the budget of the school—and the Art Institute as a whole. Additionally, since the unexpected deficit and drop in endowment in 2001, the Art Institute board had been re-examining these building projects and selling some of the new facilities—at a loss—in order to pay down the loans. In FY 2004, the museum paid interest of \$2.3 million on the debt, while the school paid \$5.6 million.

So, by the end of FY 2004, the Art Institute was contemplating adding the funding and operation of a substantial new expansion to a financial situation that was both complex and evolving. Many other projects that would affect the Art Institute's fiscal health were underway, but of these the new wing was the largest. As part of the planning process, the finance staff made detailed estimates of the expansion project's budgetary impact. First, operating cost estimates were made by calculating how much the museum's existing facilities cost to run per square foot, and projecting upward to the post-expansion size. Since then, however, the estimates had been refined further, with the final estimates based on a detailed plan for expanded

operations, including increases in staff, energy consumption, and other costs. The operating estimates also encompassed planned reductions in costs that would come from improvements to the conservation and storage facilities during the expansion. The staff also projected an increase in attendance and built in an increase in admission fees once the new wing opened. The operation of these additional facilities was projected to increase the museum's operating budget by approximately \$4 million a year.

Despite projecting an increase in annual revenues, as well as an increase in costs, the finance staff planned to cover the increase in costs entirely through an increase in the endowment. This would make it possible for them to use the additional revenues to improve the museum's financial position rather than count on them to cover a portion of the deficit. The additional endowment of \$87 million needed for these plans to work was to be raised during the capital campaign.

FIGURE 1
NET INCOME FOR MUSEUM
(USD MILLIONS)

Source: Art Institute of Chicago
Annual Statement, FY 2005, Letter from
the Treasurer

Annual Income (\$ millions)

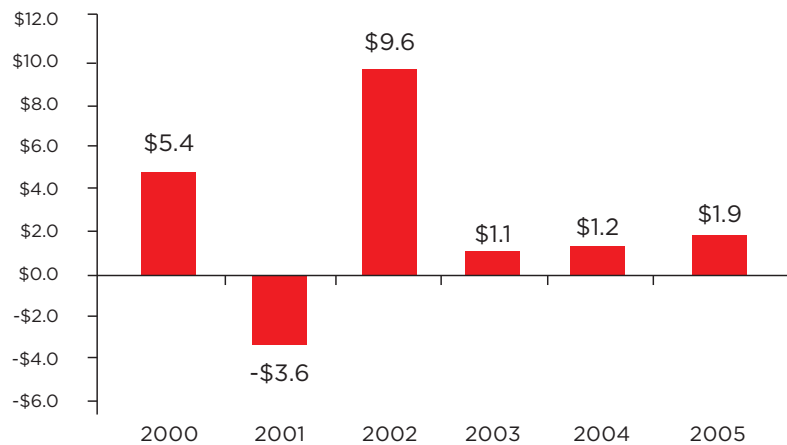


FIGURE 1.2
MUSEUM ATTENDANCE
(THOUSANDS OF PEOPLE)

Source: Art Institute of Chicago
Annual Statement, FY 2005, Letter from
the Treasurer

Museum Attendance (000s)

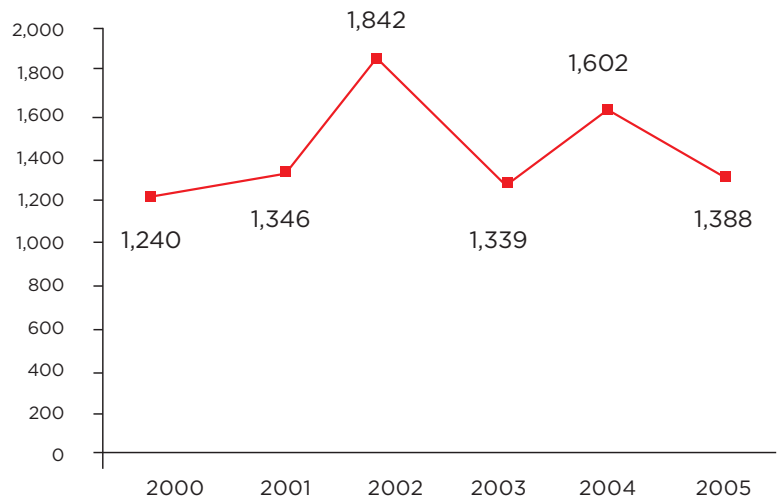


FIGURE I.3
MARKET VALUE
OF ENDOWMENT
(USD MILLIONS)

Source: Art Institute of Chicago
 Annual Statement, FY 2005, Letter from
 the Treasurer

Endowment Market Value (\$ millions)

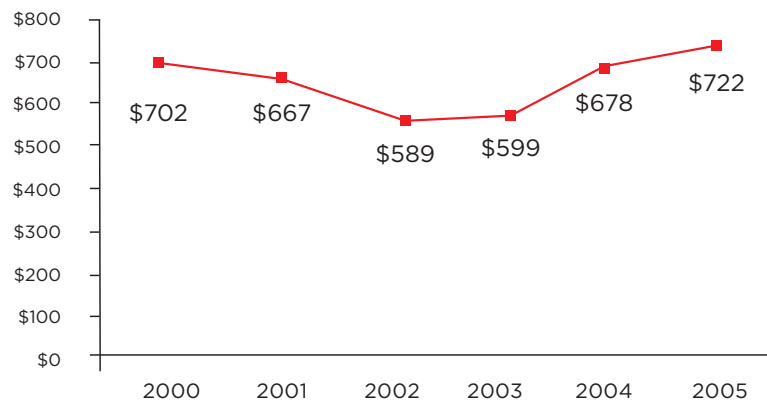


FIGURE I.4
STATEMENT OF OPERATING
ACTIVITIES FOR THE MUSEUM
OF THE ART INSTITUTE OF
CHICAGO, FY 2003 AND
FY 2004

Source: Art Institute of Chicago
 Annual Statement, FY 2005, Letter from the
 Treasurer

	FY2003	FY2004
Operating revenue, gains, and other support:		
Contributions	\$ 9,731	\$ 9,148
Chicago Park District tax	\$ 7,295	\$ 7,421
Museum admissions	\$ 4,590	\$ 6,414
Annual membership dues	\$ 5,183	\$ 5,453
Special exhibitions	\$ 993	\$ 1,059
Other program revenues	\$ 3,135	\$ 4,448
Investment return designated for current use	\$ 13,745	\$ 12,275
Auxiliary activities	\$ 15,458	\$ 15,023
Other program revenues	\$ 1,436	\$ 1,060
Net assets released from restrictions	\$ 12,731	\$ 12,415
Total operating revenue, gains, and other support	\$ 74,297	\$ 74,716
Museum expenses	FY 2003	FY 2004
Program services		
Curatorial, libraries, and collections	\$ 25,010	\$ 26,838
Special exhibitions	\$ 3,839	\$ 4,326
Museum education	\$ 2,953	\$ 2,877
Other programs	\$ 2,069	\$ 3,142
Auxiliary activities	\$ 15,499	\$ 12,675
Managerial and general		
General administration	\$ 9,406	\$ 9,679
Depreciation	\$ 6,486	\$ 6,097
Interest and debt issuance cost	\$ 2,238	\$ 2,341
Development & Fund-raising		
Member development	\$ 2,036	\$ 1,819
Fund-raising	\$ 3,761	\$ 3,785
Total operating expenses	\$ 73,297	\$ 73,579

The Modern Wing project was born in the late 1990s, when a handful of Chicago philanthropists who had long supported the Art Institute of Chicago told the museum's president, James Wood, that they were ready to contribute to another capital project. "It's quite Chicago, in a way," said Wood in an interview. "Loyal supporters of the institution saying, 'If you're getting to that point, we'd like to try to help, but we're not sure what the amount could be.' It was the first inkling that people to whom we would go for money wouldn't be averse to the idea." Wood was responsive to the suggestion. The U.S. economy was booming. The high-tech sector was growing at a particularly quick rate, churning out IPOs and overnight millionaires. The economic situation boded well for funding an expansion.

John Bryan described the idea, as first mentioned to him, as follows: "Jim Wood had an idea that he wanted to do a small, jewel-like building on the south side of the railroad tracks there. Not quite sure what for, but it was time to build." Bryan added: "He [Wood] was not an expansionist...he was not someone who wanted to do something grand. He wanted to do something reasonably small and high quality and was very interested in the architecture." Indeed, architecture and travel were two of Wood's great pleasures in life. Now, as he was approaching the end of his career, the board would offer him a chance to do both.

There was also an ever-present internal rationale for building: the need for more gallery space. "It was clear given the scale of our collections that we desperately needed more space to do justice to the things you'd like to have on view relatively permanently," said Wood. "There's this sense of responsibility—are we making the most of our collections?" The Art Institute's encyclopedic collection was one of the most renowned in the United States, certainly the best in the Midwest, with only a portion of its approximately 225,000 separate objects on public display at any given moment. The majority of these objects belonged to the fragile photography, print, or textile collections, items that could be displayed only for short periods of time in order to comply with conservation guidelines. Some had significance, but were not of the caliber that justified permanent display. The curators' view on space needs was that the African, pre-Colombian, and Contemporary art collections needed more gallery space. Also, additions to the collections would inevitably lead to a space shortage for other departments at some point in the future. For these reasons, the curatorial staff was enthusiastic about the initial plans for a small addition to the museum. After an interview with the official spokeswoman, the *Chicago Sun-Times* described the Art Institute's view of itself as "not overly cramped but can

always use more room."

A third reason to build was ensuring continued relevance of the Art Institute and its renewal. "I think if we hadn't done that, we would be in the class of the venerable but not very exciting," said Nichols. All around them, the city of Chicago was changing. The museum building boom in Chicago and across the United States also influenced the decision to build. "Certainly, the environment everybody knew was okay," said Bryan. "I must say that I think a lot of it is that you'd look a bit lazy if you didn't [build] at that time because it was popping out all over. The museums in Chicago—all of them—did something to their infrastructure in that period of time. Museums around the country were announcing here and there. And Jim [Wood] sort of caught the fever." Wood in turn thought that the optimistic spirit of the time influenced the board: "This was in a climate where many museums were contemplating expansion....The board was confident they could do something. Then the question was really going to be to define the scale of the ambition."

The first step in moving the project forward was selecting an architect. Bryan believed that Wood, whose taste he fully trusted, was better qualified to select an architect than a committee of trustees. Bryan had seen the board committee model misfire at Chicago's Museum of Contemporary Art, where a new building—picked by a committee—was savaged by the architectural press. After visiting museums built around the world and meeting with various architects, Wood settled on Renzo Piano, who had just won the Pritzker Prize in Architecture in 1998.

Before Piano's involvement, Wood and the staff thought the building would be about 70,000 square feet.ⁱⁱ A site development study conducted by Skidmore, Owings, and Merrill in 1996 identified three potential sites for additions, and Wood and his team chose one of them—an extension of the existing building southward of Gunsaulus Hall. The new wing would sit on a platform over the rail lines, thus providing both additional gallery space and a loop for visitors to take while seeing the galleries on both sides of the tracks. However, all of these ideas would be subject to alteration during the collaboration with Piano. Even the programmatic vision for this addition—which collections would go where, how much gallery space there would be, and how the new galleries would alter the flow of visitors through the museum—would be up for discussion.

Like most visionary architects, Piano came to the project with his own set of expectations. "He certainly had no interest in a jewel-box stuck on the side of the Art Institute," said Bryan. In interviews with the press, both Piano and fellow Pritzker Prize winner Frank Gehry joked about their buildings competing with each other from the two sides of Columbus Drive—Piano with his Art Institute addition and Gehry with his Millennium Park. From the start, Piano pressed Wood to expand the scale of the museum's ambition. They eventually settled on a wing of approximately 290,000 square feet. However, Wood was nervous about the size. He wrote to Piano that he wanted a plan that would allow for the construction to be staged "so that our board of trustees will have choices as to how much we would need to commit at the outset."

This expansion in scope also worried some among the Art Institute staff. When the expansion was first proposed—as Wood's "jewel-box" of a building—the staff was united in its enthusiasm. However, according to a report by a former senior administrator, as the planning continued and the scope and budget for the building expanded, the staff grew increasingly worried. The administrator said that the project always seemed motivated mainly by external considerations, like the nationwide museum building boom

and the Millennium Park project, whereas the Art Institute's main institutional need, in this interviewee's view, was the continued building of the endowment. He said that as the project progressed, and its scope expanded, more and more staff became concerned. At this time, museums like the Milwaukee Art Museum and the Cleveland Art Museum were opening new buildings and expansions only to find that their financial projections had been overly optimistic. As a result, they had been forced to curtail programming and lay off staff. Troubled by these institutions' experiences and the Art Institute project's growing size and cost, the staff expressed their misgivings confidentially, to trustees with whom they were close.

From the time of Piano's selection in 1999 to the fall of 2004, the design underwent a number of changes, some small and some not so small. After 12 months of work and eight workshop meetings with the Art Institute representatives, Piano produced a design for a building sited on the railroad tracks. However, the complexity of the engineering challenges involved in covering the tracks and the associated costs were daunting. With work progressing on Millennium Park to the north, the new wing was moved to the northeast quadrant of the Art Institute campus. At first, five floors were planned for this building, but soon the number of floors was cut to four. The entrance to the new wing was moved from Columbus Drive to Monroe Street, bringing about the first discussions of how to get pedestrians across that street from Millennium Park and its new underground garage. A sub-basement meant for preservation and storage purposes was removed from the plans. Many of these changes were made, at least in part, because of Wood's nervousness over the final price and the worsening economy. "Clearly, the building was becoming more rational, as was the program," Cuno wrote in his article about the design process.

In September 2002, citing the difficulty of fundraising in the post-9/11 economy, Wood wrote to Piano to say that the production of construction drawings would be put on hold.ⁱⁱⁱ Piano greeted this news unhappily, but continued refining his concept nonetheless. He revised continuously, producing a new version every few months, sometimes to the consternation of the building committee of the board of trustees, whose members would become concerned over the growing list of alterations, and the impact of these on the construction schedule and budget.^{iv} Nonetheless, every month of the delay seemed to give Piano more time to sharpen his ideas. "These were not minimal changes, but they were brilliant," wrote Cuno about one such revision.^v

CAPITAL CAMPAIGN

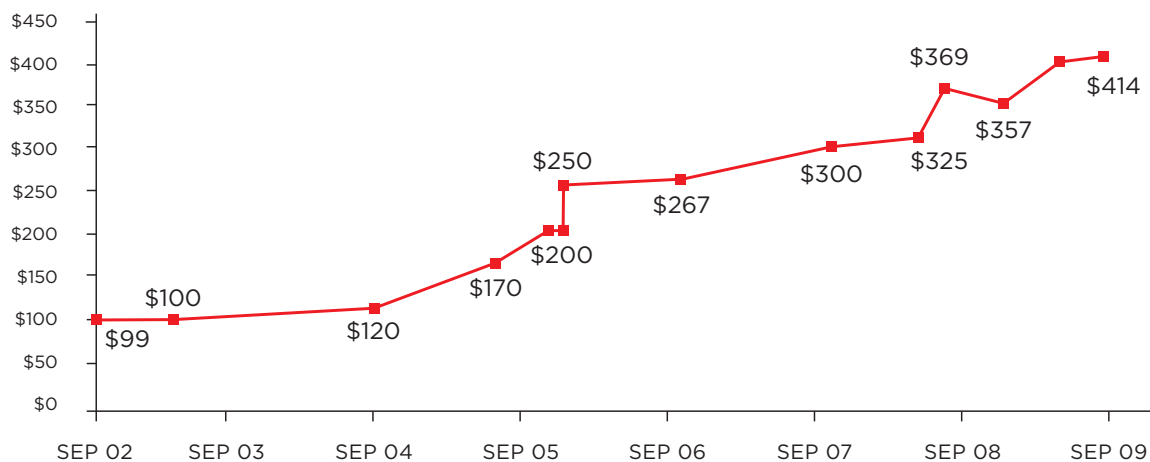
Whether the price tag rose or fell, then-chairman John Bryan seemed undaunted by the fundraising task. He thought that “value engineering” efforts—revising a design in order to bring down costs—tended to produce buildings with problems. “I’m not someone who meddles,” he said of his leadership style. “I’d rather the professionals do their work and boards find the money.”

Finding the money was exactly what Bryan concerned himself with as the design proceeded. Another trustee crucial in the fundraising efforts was capital campaign chair Lou Sussman, much of whose fundraising experience came from the political arena, where large sums are amassed through many smaller contributions that are “bundled,” and gifts are solicited and received in a matter of minutes, not months. Sussman had been extremely successful as a fundraiser for both the Kerry and Obama presidential campaigns. He was rewarded for his tenacity with an ambassadorship to Great Britain. Both Sussman and Bryan were helped in fundraising by the Art Institute staff.

The first stage of the campaign was difficult. The Art Institute had decided to seek \$50 million for the naming rights to the new wing, but for years no one stepped forward with a gift of that size. Unlike traditional campaigns, which proceed from the largest gifts to the smaller ones, the Art Institute did not secure its lead gift until 2005—six years after Piano’s selection as architect and the beginning of the planning process. The largest capital campaign undertaken by the institution up until this time was the \$55-60 million raised for the endowment and various small projects in 1995. Despite the Art Institute’s size and venerability, the Modern Wing capital campaign was thus unprecedented in scale for the organization. After the first \$50-60 million was pledged, the money became easier to find, Bryan said. In fact, he said, he was skeptical of the idea that the campaign was affected by the national economy’s fluctuations (he once joked to a reporter that the tech bubble bursting did not matter for the campaign because the newly minted high-tech millionaires had not had time to become philanthropists). However, other project leaders, like Cuno and Wood, attributed the acceleration and deceleration in funds raised to the economic situation.

FIGURE II
CAPITAL CAMPAIGN
PROGRESS
(USD MILLIONS PLEDGED)

Based on public sources*



The board gave Piano the go-ahead to produce construction drawings in February 2003. By November he had written to Wood, urging that the proposed May 2004 start of demolition work be approved by the board, too. But the board had set a preliminary target of \$150 million in pledges they wanted to raise before construction work actually started, calculating that having commitments for 75 percent of the building budget would be sufficient for the trustees to feel confident that the capital campaign could be finished by the proposed opening date. The demolition date was not approved.^{vii}

In September 2004, Cuno replaced Wood as president. In Bryan's estimation, Cuno was less anxious than Wood about the ambitious scope of the expansion. From then on, Cuno, Bryan, and Piano all urged the executive committee to approve a May groundbreaking for the project, in part so that the Pritzker Prize ceremony could be leveraged for the project's public relations purposes. But the \$150 million that the board wanted had still not been raised.

In addition, Piano had continued to produce proposals for enhancements and refinements. The latest of these was a design for a bridge and an added floor on the west side of the building. The extra floor was necessary for the bridge to work because of ADA requirements for both slope and elevation—otherwise, the bridge would end in a staircase that led down to the building. The new concept was inspired by Piano's first visit to Gehry's completed Millennium Park. The straight, slim bridge was meant to be reminiscent of the hull of a sleek sailing yacht, and it would constitute an answer, architecturally, to Gehry's serpentine bridge over Columbus Drive. Piano's bridge would also, Cuno hoped, bring in thousands of new visitors from Millennium Park. The additional floor would hold a restaurant and a sculpture terrace with a view of the city's skyline. In a way, the addition of this floor reinstated spaces cut by Wood during one of the early workshops on the design. For their part, the Art Institute staff hoped these spaces would be popular rentals for hosts of social events, thus boosting the museum's income statement.

The drawings for these proposed additions were not yet final, and the changes had not yet been incorporated into construction blueprints. This, in turn, meant that the board had no reliable way to know the cost estimates for these changes. The trustees thus faced a choice: to delay the start of construction until the drawings and merged blueprints could be finalized and costs estimated, or, alternatively, move forward and approve the commencement of construction, knowing that costly changes to a building already in progress might well be required. Cuno wrote: "[T]here was much discussion in meetings of the executive committee in February and March over whether we should

delay the start of construction until we could integrate the bridge and the third-floor restaurant and sculpture terrace into the project's construction documents to get a single estimate and bid. Some executive committee members thought this more efficient and less expensive; others thought just the opposite: that delaying the project would cost more in general conditions by adding a year to the construction schedule."

Bryan eventually proposed a process for deciding which of the possible additions to the project to include, and which to exclude. "They were all very nervous about the notion that we would not have the money raised," said Bryan about his fellow trustees. "So I said, 'Look, what if we get the money from someone who would not have given money otherwise except for the bridge?'" Besides the bridge and the additional floor, Piano was advocating other ideas, like renovating Gunsaulus Hall by stripping its walls down to their trusses and then sheathing them in glass (at an estimated cost of \$30 million). The process for deciding whether to proceed with projects like the renovations of the Gunsaulus, in the end, centered on finding a donor willing to pay for that specific component of the expansion. Throughout the process of raising money for the projects, poaching gifts from one facet of the project to pay for another—such as taking from the endowment to fund the bridge—remained a concern. "Everything had to pay for itself," said the Art Institute's current CFO Eric Anyah. Anyah also projected the costs of operating the additional facilities, estimating a positive impact on the operating statements from the added revenues generated by the restaurant and sculpture terrace and a neutral impact from the bridge, which required little operational funding. Bryan hoped the bridge would in fact help improve the institute's operating statements by bringing more visitors to the museum from across the street.

Faced with these stakes, even Piano got involved in fundraising. During one visit to Chicago, he went to dinner with the former chairman John Nichols and his wife (and current Art Institute trustee) Alexandra Nichols. At the restaurant, Piano drew them a picture on the tablecloth of the bridge he wanted to build. "We have a tablecloth all framed at home," said Nichols. The story became a legend at the Art Institute, where many thought that the dinner with Piano was the moment that finally convinced the family to increase their gift by another \$10 million. John Nichols, however, disagreed with this interpretation. "The driving concept for my wife and myself was connecting to Millennium Park. That to me was the driving force more than Renzo. I like the story, but there was more of a rational reason than the wine and the dinner."

* * *

In early 2005, the trustees of the Art Institute were asked to decide whether they were prepared to begin construction on their new Modern Wing expansion. The planning had gone on for seven years. The bulk of the design was finished, although several peripheral elements were still being developed. The organization's financial situation involved several challenges unrelated to the construction that had nonetheless created further uncertainties and distractions. The fundraising effort was ongoing. In the early stages, the campaign had stalled, an event which many attributed to the contraction in the economy, but then the pace of incoming pledges had once again increased. Though the scale of the campaign was unprecedented for the Art Institute, the two trustees leading the campaign were highly experienced fundraisers. According to what criteria and in response to what developments would the trustees of the Art Institute decide to begin? And when?

In April 2005, once the capital campaign had \$162 million in pledges booked, the majority of the trustees of the Art Institute voted to approve a plan for ground-breaking and demolition. Soon, with the inclusion of the bridge and the third floor, the capital campaign goal for the Modern Wing was revised to \$375 million, with \$84 million of that targeted for the endowment. In addition, the renovations to the old building—including a scaled-down \$13.2 million version of Piano's proposal for Gunsaulus Hall, as well as gallery reinstallations—required another \$39 million in funding. John Bryan's term as chairman of the board ended in November 2006, and Thomas Pritzker took over the role, overseeing the rest of the project. Now a lifetime trustee, Bryan continued to raise money. In the end, by opening day, \$414 million was pledged. Much of the money came in multi-year pledges, which required the Art Institute to borrow \$150 million in bridge financing through bonds in order to have cash on hand to pay for construction. At the end of FY 2011, the total of its outstanding debt was \$296 million.

The new Modern Wing opened in March 2009, to widespread critical acclaim for Piano's understated design. Now the Art Institute of Chicago has the space to display 1,000 additional works of art, with each of the museum's curatorial departments benefiting from the gallery expansion. A longtime curator who was recently appointed president and director of the Art Institute, Douglas Druick, noted that the new and renovated galleries are better suited to the collection as well, with more light and more space. "The Modern Wing allows us to show works to their best advantage, in a thematically coherent arrangement," he wrote in an email.

As of October 2009, \$312 million had been contributed in cash and \$102 million in pledges were still outstanding. Almost no one reneged on pledges, a fact trustees like Vitale attribute to the campaign largely being kept in the "family," among donors with long-term relationships to the Art Institute.

Financial sustainability is the main challenge for the new wing. "In a way, thank God it's built and done and paid for, but there'll be a struggle now to maintain, particularly until the economy picks up, ability to absorb all the new costs," said Wood. The Modern Wing has cost the Art Institute about \$6 million per year to operate. In the first year after opening, the annual attendance for the museum increased, from 1.4 to 1.5 million, then in subsequent years fell back and held steady at the usual level. The admission fees were increased as well, and admission and membership revenues rose by \$4.4 million from FY 2009 to FY 2010. Overall, even after a decrease in endowment income due to a market drop, operating revenue for the museum increased by \$10

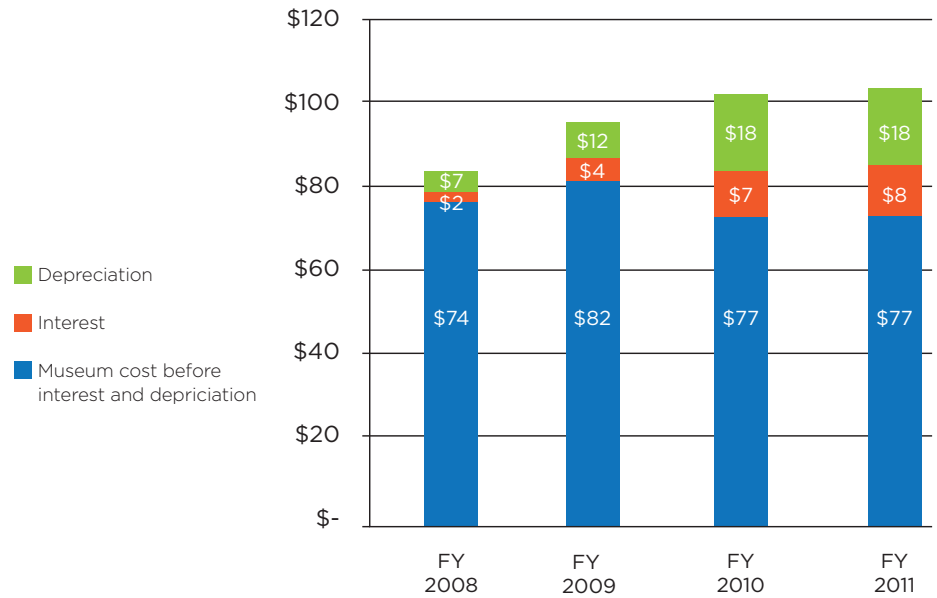
million (11 percent year-over-year) in FY 2010.

However, a precipitous drop in endowment income loomed on the horizon for FY 2011. Due to market conditions, the endowment had dropped from \$842 million at the beginning of FY 2009 to \$618 million at its end, and FY 2011 would be the first time the impact of these losses would be fully absorbed by the annual budget. The additional endowment funds that the Art Institute finance staff counted on to support the expanded building's operations were delayed. Raising the money for the building was always a more urgent priority, and money for the endowment was solicited last. This was why, at the time of the opening, most of the pledges towards the endowment were promised but still outstanding, and the Modern Wing opened with little of its \$84 million endowment in cash. This meant that for the first few years, the museum had to bear the expanded cost of operations without the benefit of additional investment income. "Analysis was based on \$80 million on Day One," said Anyah. This has been "causing some stress on current operations," he added. "At the point where we collect the gifts, that will go away."

Soon, austerity measures followed. After pay cuts, furloughs, a salary freeze, and other cuts, two rounds of layoffs were still necessary, one in June 2009 and another in May 2010. The first round of cuts was distributed across the departments, with 22 people losing their positions, while the second round of cuts was focused on retail operations, facilities, education, and security. The second round of layoffs was precipitated by the anticipation of a \$10 million deficit for the organization in FY 2011.

These cuts in costs put the expansion of the Art Institute's organizational footprint, a measure once viewed as necessary to keep up with the expansion of its facility, on hold. Instead of expanding its budget as expected, the Art Institute was forced to contract instead. The museum's total operating costs before depreciation and interest first rose from \$74 million in FY 2008 to \$82 million in FY 2009 (the year of the Modern Wing's opening), then dropped to \$77 million in FY 2010 and FY2011, after the cuts took effect. Approximately \$6 million of that \$77 million budget was spent on the Modern Wing. Over the same period, interest and depreciation expenses increased sharply because of the new building. Thus, even as the total annual operating budget soared to over \$100 million, the financial resources available for programming and other activities stayed about the same, despite the significant expansion in physical size. Overall, the museum finished FY 2009 with a \$4.4 million deficit, FY 2010 with a \$1.3 million operating surplus, and FY 2011 with a surplus of just \$78,000.

FIGURE III
MUSEUM OPERATING
BUDGET
(MILLIONS OF DOLLARS)



The leadership of the organization was also transformed. In June 2010, James Wood died of a heart attack at the age of 69. He'd been coaxed out of retirement to become the CEO of the Getty Trust in 2006 and was mourned by his colleagues in both Chicago and Los Angeles. Yet again, he was succeeded in his job by Jim Cuno, who resigned from the Art Institute in May 2011 to take the top job at Getty. With Cuno's departure, both of the Art Institute directors who had spearheaded the project were gone.

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