



Anatomy of the GEICO Deal

January 4, 2004 Sunday, FINAL EDITION

SECTION: NEWS, Pg.A1

LENGTH: 1681 words

HEADLINE: ANATOMY OF THE GEICO DEAL/

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BODY:

With 2,500 jobs at stake, some high-powered players pulled out all the economic development stops.

State development officials working on the deal gave it the code name "Project Eagle."

The undercover agents included Gov. George E. Pataki and billionaire investor Warren E. Buffett.

The operation included closed-door strategy sessions with legislative leaders and high-ranking corporate executives, changes in state law, unprecedented swaps of tax forgiveness zones and clandestine trips to Buffalo.

The goal was to persuade insurance giant Geico to set up shop here.

"Project Eagle" made a very public landing two weeks ago, when Geico announced it will bring a regional insurance service center to Amherst, employing at least 2,500. Some of those involved describe it as the biggest economic development deal in the United States in 2003.

"To make something like this happen isn't easy," Pataki said. "Geico is going to invest \$40 million to make sure its facilities are the best in the world, so you have to do a number of things."

That "to do" list included: revising a state law that governs insurance agent licensing; creating a zone for huge tax breaks where none existed; clarifying state tax regulations regarding insurance sales; and getting an alphabet soup of development agencies and governmental bodies all on the same page so the necessary approvals will fall into place.

But the tax breaks that helped lure Geico are largely through the Empire Development Zone program, and those zones originally were designed to help neighborhoods in economic decline. Should communities such as Buffalo fear they will be bypassed by companies that view these zones as "movable feasts"?

Charles E. Webb, president and executive director of the Erie County Industrial Development Agency, said the regional employment potential attached to the Geico deal made Empire Zone benefits appropriate. It's not something he expects to see occur with any frequency.



"The circumstances of the Geico deal, the enormity of it, are so unusual," Webb said. "I don't think the rules have suddenly changed so it's open war on the range between urban and suburban communities."

Webb said the Empire Zone inducements notwithstanding, Geico chose the area for labor characteristics, and that choice will cause other companies to take a look at both urban and suburban sites for future expansions.

The local officials also had to convince Geico that it could find long-term happiness and profitability in Western New York.

"Large deals are never simple, but the number of moving parts and relationships that had to be pulled together to get Geico were unparalleled," said Thomas Kucharski, president and chief executive of Buffalo Niagara Enterprise, the Buffalo area's main economic development agency.

In the end, the deal will provide Geico \$100 million in tax breaks, primarily through an Empire Development Zone.

In return, Geico guarantees to create 2,500 jobs paying an average of \$40,000 a year. Most of the jobs are expected to go to local residents, and they will be hired to work as insurance agents, claims specialists, underwriters and customer service staffers.

Kucharski, whose 18 years in economic development includes deals with Sony and Lucent Technologies, called landing Geico "the deal of a lifetime."

"I can't emphasize enough how significant this is, not only in terms of the jobs it will create, but for the Buffalo region's image," Kucharski said. "When a quality employer like Geico picks Buffalo, it sends a very positive message and opens up future doors to economic growth."

A statewide competition

/ Efforts to persuade Geico to expand in New York date from 1998, when representatives of the Empire State Development Corp., the state's economic development agency, noticed how quickly the company's service center in Woodbury was growing. The state agency let Geico executives know it stood ready to help accommodate that expansion, on Long Island or elsewhere in New York.

Over the years, the lines of communication stayed open, but it wasn't until early 2003 that the nation's fifth-largest insurer decided it needed another center, and New York was a leading candidate.

Geico President Tony Nicely recalled the state's response to the expansion opportunity, which came in the form of an immediate phone call from Pataki.



"When he heard that Geico was thinking about expanding, he called me and Warren (Buffett)," Nicely said. "He made it clear that not only did he want Geico to expand in New York State, but that he, the governor, would do whatever it would take to make sure we did."

A laundry list of potential sites, stretching from Long Island to Buffalo, was offered by state development officials, and regional development executives quickly jumped in, each attempting to outpitch the others to attract the mother lode of new jobs.

Locally, Buffalo Niagara Enterprise, Erie County, the City of Buffalo and various development agencies swung into action, daring to dream that the area's hard-luck economic record could be reversed. In early August, a Geico team came to town to get a first-hand look at existing buildings that were being offered as the site for a call center.

But after two days of tours, local development leaders failed to turn Geico's head. At a couple of stops, the site selectors didn't even get out of their car.

Geico was believed to have zeroed in on sites in Albany, Syracuse and Rochester.

"It didn't look promising, but we never gave up," Kucharski said. "We knew there was a way for it to happen."

'Timing was everything'

Buffett, whose Berkshire Hathaway owns Geico and The Buffalo News, continued to play the role of "cheerleader" for the Buffalo area.

"I wanted it to be there, make no mistake about that," Buffett said, downplaying his influence on the final decision.

"I think it still would have happened if I hadn't gotten involved, but I was cheering on the sidelines, just in case," he said.

Buffalo News Publisher Stanford Lipsey, who had been monitoring the Geico situation for several months and acting as a behind-the-scenes facilitator, redoubled his efforts to keep Geico executives, Pataki and local developers talking to each other about Buffalo-area sites.

The Buffalo area got a second look from Geico brass in October, when an executive team, which included Nicely, toured potential sites after additional nudging.

In Geico's first trip to the Buffalo area, its site selection team was shown numerous building sites, but



what eluded them was an existing structure within short proximity to a potential permanent home that could be quickly converted to temporary quarters.

In August, Uniland was in negotiations with One Beacon Insurance for its building in Amherst's Audubon Office Park, but the deal wasn't finalized.

By October, the \$2.3 million deal was ready to close, and Uniland was able to put the site on the table for Geico's consideration.

The developer's decision to add the office building to its portfolio put it in a position to provide Geico with both temporary and permanent addresses.

"Timing was everything for us, for Geico and for Western New York," said Uniland President Carl J. Montante.

Several other factors also had tipped the scales in Western New York's direction.

The State Legislature had approved a critical change in insurance licensing rules, creating a new "personal lines" agent license. For Geico, the new license, which requires 40 hours of training instead of 90 hours for the traditional full property and casualty license, would allow it to save millions of dollars in training costs.

A complicated scenario

Another development involved a complicated scenario to create an Empire Development Zone in Amherst, opening the door to \$100 million in tax breaks and training cost reductions for Geico over 15 years.

The unusual strategy involved "borrowing" an Empire Zone from the Town of Tonawanda and relocating it to sites the insurance company could tap for temporary and permanent operations.

Assemblyman Robin L. Schimminger, who serves on the state's Empire Development Zones Designation Board, said this is "exactly what was envisioned" when the zone program was established.

"We wanted it to be the catalyst that would drive economic development that otherwise wouldn't happen and to benefit regions that really needed the help," said the Town of Tonawanda Democrat. "We also wanted it to spur intermunicipal cooperation, and this is a prime example."

While the ability to transfer Empire Zones and their valuable tax breaks was critical to Geico's decision, it also raises the question of whether an economically vibrant community should be allowed to employ a



tool originally intended for use by struggling municipalities.

Through a complicated series of agreements, a total of 5.2 acres of the Town of Tonawanda's Empire Zone will be relocated to Amherst. An acre and a half of the Empire Zone goes to the Audubon Office Park where Geico will set up a temporary home in the former One Beacon Insurance building, and 3.7 acres will go to CrossPoint Business Park, situated between North French Road and the Lockport Expressway, where the company will build a \$36.9 million regional service center.

In return, the Town of Tonawanda will receive \$2 million for development of its North Youngmann Commerce Center. And Geico will make extra efforts to recruit Tonawanda residents for the 2,500-plus jobs it plans to create over the next several years.

In addition, a Regional Redevelopment Fund will be created. The Town of Tonawanda will be reimbursed through the fund, and it also will serve as a mechanism for Amherst to pass along additional tax dollars related to Geico's presence.

As much as \$4 million is expected to be distributed to such regional development projects as the Buffalo Lakeside Commerce Park at the former Union Ship Canal site over the next 15 years.