

Financial Assistance Application Nichols Distribution Automated Storage and Retrieval System (ASRS) Cost / Benefit Analysis

The information included herein is taken from the attached Tioga County Industrial Development Agency (IDA) "Application for Financial Assistance", made by Nichols Distribution, LLC (Company), and various correspondence and conversations between representatives of the Tioga County Department of Economic Development and Planning, Tioga County Industrial Development Agency, County of Tioga, Town of Nichols, and the Company.

PROJECT SUMMARY

In January 2019, the Tioga County Department of Economic Development and Planning (ED&P) responded to the Company's request for economic development assistance for the installation of an Automated Storage and Retrieval System (ASRS) to modernize the Company's current facility in Nichols, NY. The ASRS would allow the Nichols operation to optimize its logistics and supply chain network, increase employee production, and confirm the Company's reputation as a key warehousing facility in the Northeast.

The Tioga County Economic Development Priorities and Policies Plan, developed by Glenn Carter and adopted by the Tioga County Legislature on November 13, 1995 via Resolution 414-95, specifically identifies the need to "retain and expand existing companies", additionally noting the warehousing industry as an economic development priority for Tioga County. The plan claims that Tioga County's central location between Toronto, Pittsburgh, Philadelphia, New York City, and Albany makes it a prime location for warehousing expansion.

Nichols Distribution, LLC is a regional distribution center affiliated with Best Buy and located in the Town of Nichols, New York. As part of a corporate-wide competitive process, Best Buy is planning to renovate and expand the existing warehousing facility in Nichols. This renovation, the ASRS, includes the installation of a conveyor, new equipment, and supply chain/logistics software. These upgrades would help to optimize the Company's supply chain and maximize fulfilled orders, as well as provide economies of scale that could lead to increased capacity and new employment opportunities. The company expects an 18% increase in units shipped per day and a 25-30% increase in daily employee production as a result of the project. The proposed project would build upon Nichols Distribution, LLC's competitive advantage as the only Best Buy distribution center in New York.

The cost of the proposed upgrades is currently estimated at \$16,875,719.

Completing the proposed ASRS Project at Nichols Distribution, LLC will:

- Establish Nichols Distribution, LLC as a key warehousing location within the Best Buy Corporation, in addition to its current position as the only Best Buy distribution center in the New York State.
 - Position Nichols Distribution, LLC for further facility improvements, including a proposed \$3-4 million automated packaging/boxing line in 2020.
 - Improve employee productivity by 25-30%, thereby boosting wages for local employees and promoting an additional economic stimulus to Tioga County.
 - Assist in stabilizing the employment base at the Nichols facility and assist the Company in maintaining and growing its large pool of Tioga County employees.
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PROJECT DETAIL

Proposed Site:	Current Nichols Distribution, LLC site at 55 Berry Road, Nichols, NY.
Job Retention:	Project will retain the current workforce of 171 full-time employees and 52 part-time employees with a current payroll of approximately \$9.7 million.
Job Creation:	No projected job creation.
Project Schedule:	Project installation is scheduled to begin in March 2019 and be completed by August 31, 2019.

ESTIMATED PROJECT BUDGET

Nichols Distribution, LLC	
Equipment Purchase	\$12,855,366
Engineering/Architectural	\$ 96,132
Software & Installation	\$ 3,903,273
Financial Application Fee	\$ 20,948
	<u>Total \$16,875,719</u>

Tioga County IDA

Based on equipment purchase estimate of \$12,855,366, the IDA will be offering a sales tax savings estimated at \$1,028,429.28; State and local portions are in equal amounts of \$514,214.64.

Assumption: The necessary software is not subject to sales tax. According to the NYS Dept. of Taxation and Finance, *prewritten software* is subject to sales tax, while *custom software* is not. Prewritten software includes programs that are not designed to the specifications of a particular buyer, while custom software is designed specifically for a buyer.

Total local sales tax savings for project: \$514,214.64

ECONOMIC IMPACT

Nichols Distribution, LLC has remained a stable employer in Tioga County since 2002, with an annual payroll of over \$9 million and an average wage of \$49,500 per year. The Company currently employs 223 Tioga County residents at the Nichols facility, according to the 2017 Tioga County Housing Study.

The Company entered into a PILOT Agreement with the Tioga County IDA in 2002. To date, Nichols Distribution, LLC has made \$21,639,326.83 in PILOT and special district tax payments. When the current PILOT expires in 2023, Nichols Distribution, LLC will represent 11% of the total taxable value of the Town of Nichols.

A sales tax exemption will prevent the possibility that the total project costs increase to a point where Nichols Distribution, LLC is no longer competitive with other Best Buy distribution center sites outside of New York State. This will allow Nichols Distribution, LLC to remain a key warehousing location within the entire Best Buy Corporation. A sales tax exemption would help to retain employees at the Nichols location and ensure the Company's long-term viability.

JUSTIFICATION FOR DEVIATION FROM UNIFORM PILOT POLICY

The following additional points should be considered as justification for deviation from the IDA's Uniform PILOT Policy:

- Without the proposed sales tax exemption, competitive considerations may force Best Buy to locate the warehousing facility out of state.
- Nichols Distribution, LLC is the fifth largest private-sector employer in Tioga County and has plans to significantly renovate its existing space if granted the sales tax exemption.
- Nichols Distribution, LLC currently employs 171 full-time and 52 part-time employees with an annual payroll of \$9.7 million.
- Nichols Distribution, LLC is the only Best Buy distribution center in the Northeast, and one of only seven small consumer electronics warehouses in the United States.
- The sales tax abatement provided will only be applied to Nichols Distribution, LLC ASRS Project new equipment/improvements on current property under ownership of Best Buy.
- If the Nichols Distribution, LLC Renovation & Expansion Project is approved and the renovation work advances, Nichols Distribution, LLC will be recognized as a key warehousing location within the Best Buy Corporation. This designation could result in the possibility of a future automated packaging/boxing line valued at \$3-4 million. This could lead to additional future employment opportunities and additional economic stimulus to Tioga County, NY.
- Warehousing is one of five key business growth industries toward which the Tioga County Department of Economic Development and Planning is targeting its efforts. (See "Economic Development Priorities and Policies" - Tioga County Department of Economic Development and Planning, 11/8/95)

- Nichols Distribution has made \$21.6 million in PILOT payments since 2003, and stands to represent 11% of the total taxable value of the Town of Nichols when the current PILOT expires in 2023.

SUMMARY

- Nichols Distribution, LLC is contributing an estimated \$16,875,719 in private capital investment to assist in the retention of its 223 full-and part-time employees.
- The Tioga County IDA is offering local sales tax savings estimated at \$514,214.64 for equipment purchase.
- There will be no mortgage tax abatement or real property tax abatement associated with the Nichols Distribution ASRS Project.