

LEGISLATIVE REFERENCE BUREAU FISCAL ANALYSIS

PUBLIC WORKS COMMITTEE

ITEM 8, FILE #070535

July 18, 2007

JEFF OSTERMAN

File Number 070535 is a resolution approving a lease agreement between North American Biodiesel, LLC and the City (Board of Harbor Commissioners) for property located at 1414 S. Harbor Drive.

Background

1. North American Biodiesel, LLC, was founded in early 2006 and produces biodiesel fuel from renewable energy sources, primarily soybean oil. Biodiesel fuel can be used as an additive to or direct substitute for petroleum-based diesel fuel.
2. North American Biodiesel has been seeking to develop a biodiesel fuel production facility on Jones Island, which offers liquid fuel storage capabilities and a variety of options for transporting raw materials and finished products, including truck, rail, ship and barge transportation.
3. Currently, there is one operating biodiesel refinery in Wisconsin (in DeForest) and several others are under construction. A Jones Island facility would be the first biodiesel refinery in the Milwaukee area.

Discussion

1. North American Biodiesel has negotiated a lease with the Port of Milwaukee for 2.596 acres of Port land located at 1414 S. Harbor Drive. This land is currently vacant.
2. The lease is for a term of 10 years (August 1, 2007 – July 31, 2017) and gives North American Biodiesel the option of extending the lease for 2 additional 5-year terms. The lease will be administered by the Port of Milwaukee.
3. Under the terms of the lease, North American Biodiesel will bear sole responsibility for constructing the biodiesel fuel production facility and maintaining the building, improvements and grounds. North American Biodiesel has indicated that it intends to commence construction of the facility, which has an estimated cost of \$12.5 million, shortly after approval of the lease, and that it plans to begin producing fuel at the facility in early 2008. North American Biodiesel will also be constructing pipelines to the Port's liquid cargo pier.
4. Initially, North American Biodiesel's facility will produce about 20 million gallons of fuel annually in a 15,000-square-foot building. The refinery will employ up to 15 people. North American Biodiesel also envisions a 2-phase expansion of the facility to an ultimate capacity of 100 million gallons.
5. The lease agreement provides for rental payments by the tenant of \$17,000 per acre per year (\$44,132 total). Payments are to be made on a quarterly basis for the immediately preceding quarter.

6. Under the lease agreement, the rental rate shall be adjusted for inflation on August 1, 2008, and each anniversary date thereafter.
7. In addition to the property rent payments, the lease also provides for the tenant to pay a throughput charge of \$0.29 per metric ton of facility output transferred to the neighboring terminal operator. The tenant guarantees a minimum throughput payment of \$10,000 annually beginning January 1, 2009. Again, payments to the City will be made on a quarterly basis and the charge will be adjusted annually for inflation.
8. The Board of Harbor Commissioners approved this lease agreement at its June 28, 2007, meeting.

Fiscal Impact

1. Approval of the lease agreement that is the subject of this resolution will generate annual rent revenues of at least \$44,132, as well as throughput charge revenues of at least \$10,000 per year. These revenues will be received by the Port of Milwaukee.
2. Since the Port operates as a self-funding entity and only its excess revenues are transferred to the City's General Fund, this resolution has no direct fiscal impact on the City.

Prepared by: Jeff Osterman, X2262
LRB-Research & Analysis Section
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cc: Eric Reinelt
Lawrence Sullivan
Hattie Billingsley
Marianne Walsh