File Number 100781 is a resolution approving a Lease Agreement between the City of Milwaukee, by and through its Board of Harbor Commissioners, and South Harbor, LLC, for 4.6 acres of real property located at 1726 S. Harbor Drive.

Background
1.   The City and Jacobus Energy, Inc., entered into a Lease Agreement on October 3, 2001, for 10 acres of real property located at 1726 S. Harbor Drive on the Port of Milwaukee's South Harbor Tract. This lease expired on December 31, 2008.

2.   On October 13, 2009, the Common Council approved File Number 090351, a resolution that approved an amendment to, and extension of, this Lease Agreement. The amendment provided for the return of 5.4 acres of the leased property to the City and extended Jacobus' lease for the other 4.6 acres for an additional 3 years.

3.   Jacobus used this property for the receipt, storage and shipment of petroleum products.

Discussion
1.   File Number100781 approves a Lease Agreement with South Harbor, LLC, for the 4.6 acres of property formerly occupied by Jacobus Energy, which sold its assets to South Harbor. The Lease Agreement is for an initial 5-year term (January 1, 2011 through December 31, 2015), and gives the tenant the option to extend the Lease for 4 successive 5-year terms.

2.   The Agreement provides for an annual rental payment of $17,000 per acre per year ($78,200 annually) during the initial lease term. Assuming the Lease Agreement is extended after the initial term, the annual rent will be adjusted for inflation on January 1, 2016, and each January 1 thereafter.

3.   In addition to rent, the Lease Agreement also requires the tenant to pay the City monthly throughput charges for any petroleum products received or delivered by pipeline, tank car or tank truck, as well as for non-petroleum products. These throughput charges shall be escalated annually each January 1 during all extension periods to the lease. South Harbor is also required to pay the City monthly wharfage and dockage fees for all liquid bulk cargo it receives or ships by water (while the leased parcel is landlocked, it is connected to the Port's liquid cargo pier by pipelines). The Lease Agreement also specifies the spur rail tracks that will be made available for the tenant's exclusive and non-exclusive use and the rental charge for track usage.

4. South Harbor, LLC, plans to use the leased property to operate a facility for the receipt, production, processing, handling, storage, shipping and distribution of bulk liquids and related raw materials, ingredients and by-products..

5. The Lease Agreement also gives South Harbor, LLC, a right-of-first-refusal option during the initial term of the Lease to include, through a lease amendment, the 5.4 acres that were returned to the City by Jacobus in 2009. The rental rate would be the same as on the other 4.6 acres.

6. At its October 14, 2010, meeting, the Board of Harbor Commissioners approved the Lease Agreement with South Harbor, LLC.

Fiscal Impact
1. Approval of this Lease Agreement will result in the Port of Milwaukee receiving $78,200 in rental revenue per year, plus an estimated $3,500 in throughput charge revenues (10,000 tons at $0.35/ton per terms of the lease). Revenue amounts will vary based on tonnage handled, but are likely to increase in the future once the rent and throughput-charge escalators in the Lease Agreement take effect.

2. Since the Port is operated as an enterprise fund, its revenues are used to pay its operating expenditures. Therefore, approval of the Lease Agreement will have no direct, immediate fiscal impact on the City. However, at the end of each year, any surplus Port revenues are transferred to the City's Tax Stabilization Fund. For example, nearly $1.1 million was transferred from the Port to the TSF after the closing of the 2009 financial books.

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