



Memorandum

TO: HONORABLE MAYOR AND
CITY COUNCIL

FROM: William F. Sherry, A.A.E.

SUBJECT: SEE BELOW

DATE: November 22, 2010

Approved

Date

12/1/10

COUNCIL DISTRICT: City-Wide

**SUBJECT: APPROVAL OF SJC FUEL COMPANY SUBLEASE AGREEMENT
AND AUTHORIZATION TO APPROVE FUTURE SUBLEASES**

RECOMMENDATION

- (1) Approve a Sublease Agreement between SJC Fuel Company, LLC and Wickland Pipelines LLC for a portion of the fuel storage tank site leased premises located at 2500 Seaboard Avenue in San Jose, for an initial term of 20 years, with automatic one year extensions until terminated by notice from either party to the Sublease Agreement.
- (2) Adopt a resolution authorizing the Director of Aviation to approve future Sublease Agreements between SJC Fuel Company, LLC and third parties as necessary for the continued operation and modification of the fuel farm.

OUTCOME

Approval of the Sublease Agreement between SJC Fuel Company, LLC ("SJC Fuel") and Wickland Pipelines LLC ("Wickland") and authorization for Director of Aviation to approve future Sublease Agreements with SJC Fuel will allow for the continued development and enhancement of the aviation fuel storage and delivery system in support of commercial airline activities at the Airport.

BACKGROUND

SJC Fuel is an airline consortium which was given the authority to develop, construct and maintain the Airport's commercial aviation fuel farm system under a 30-year Ground Lease

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Ground Lease dated May 2, 2006. The Ground Lease provides that SJC Fuel will also pursue development of off-Airport fuel storage at local terminals and a direct jet fuel pipeline connection to the fuel tanks in the fuel farm storage area. SJC Fuel and Wickland have entered into a 20-year Sublease Agreement with year-to-year extensions thereafter for fuel delivery via an underground pipeline between the Kinder Morgan Terminal and SJC Fuel's storage tank site located on Airport property at 2500 Seaboard Avenue.

On August 3, 2010, City Council granted a Franchise Agreement to Wickland for the transmission and distribution of jet fuel and oil-related products through its pipeline to be located in the City's public rights-of-way between the San Jose Kinder Morgan Terminal and the San Jose Fuel Terminal. A Sublease Agreement between SJC Fuel and Wickland was entered into for the pipeline location once it enters SJC Fuel's leased premises in the Ground Lease. In accordance with the SJC Fuel's Ground Lease with the City, all Sublease Agreements require City Council approval.

ANALYSIS

Approval of the Sublease Agreement between SJC Fuel and Wickland will fulfill the terms of the Ground Lease to pursue and construct an underground pipeline for the direct delivery of jet fuel to the fuel farm system. This will greatly enhance the efficiency of the fuel farm system operations and will replace the delivery of fuel by trucks and their associated carbon emissions. When the Sublease Agreement expires after its initial 20 year term, it will automatically extend year-to-year until terminated by either party. Though there currently are no other proposed Sublease Agreements, it is recommended that Council adopt a resolution granting authority to the Director to approve and execute future Sublease Agreements as necessary for the continued operation and modification of the fuel farm.

EVALUATION AND FOLLOW-UP

Not applicable.

PUBLIC OUTREACH/INTEREST

- Criterion 1:** Requires Council action on the use of public funds equal to \$1 million or greater. **(Required: Website Posting)**

- Criterion 2:** Adoption of a new or revised policy that may have implications for public health, safety, quality of life, or financial/economic vitality of the City. **(Required: E-mail and Website Posting)**

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- Criterion 3:** Consideration of proposed changes to service delivery, programs, staffing that may have impacts to community services and have been identified by staff, Council or a Community group that requires special outreach. **(Required: E-mail, Website Posting, Community Meetings, Notice in appropriate newspapers)**

This item does not meet the above criteria requiring additional notification; however, it will be posted on the City's Council Agenda Website for the December 14, 2010 City Council Meeting.

COORDINATION

This memo has been coordinated with the City Attorney's Office and the City Manager's Budget Office.

CEQA

CEQA: Resolution No. 67380, 71451, and 75344, PP10-169.

/s/

WILLIAM F. SHERRY, A.A.E.

Director of Aviation

Airport Department

For questions please contact William F. Sherry, Director of Aviation at (408) 392-3611.