Making an All-American Public Fleet (Fleet Vehicle & Infrastructure Lease Model)

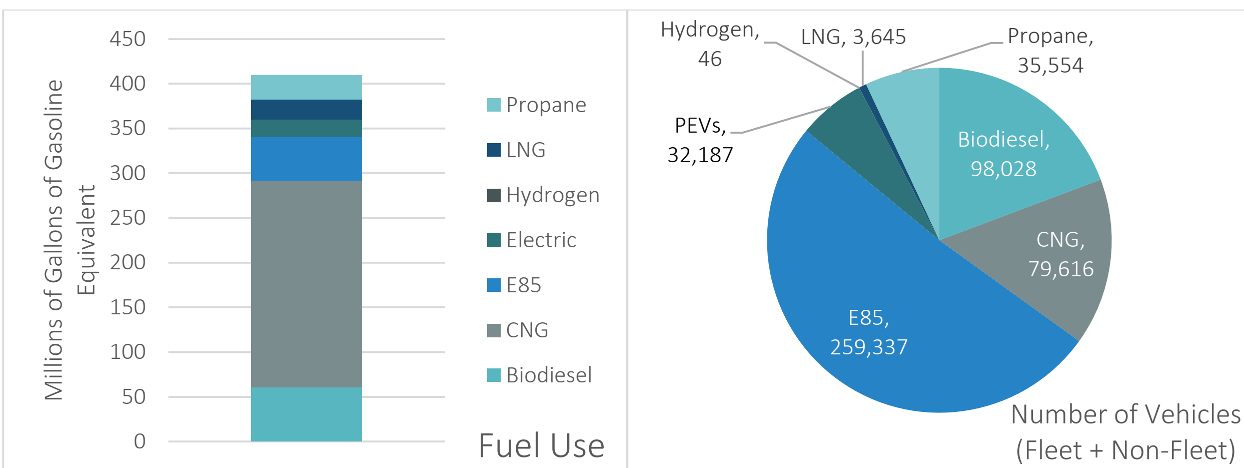
A Case Study for the "Accelerating Alternative Fuel Vehicle and Infrastructure Deployment with Innovative Finance Mechanisms" Workshop

An ambitious mayor from the Midwest announced that her city fleet will completely transition off oil by 2019, making it the first major American city to achieve this goal. Mayor Charlotte Wallace of St. Louis, Missouri tasked the city's fleet manager to identify the best alternative fuel for each vehicle type within the fleet, while minimizing the cost of the transition to the taxpayer through the use of innovative finance mechanisms.

Alternative Fuel Use in Fleets

The U.S. Department of Energy's Clean Cities program has helped public and private fleets reduce petroleum dependence for over 20 years. Alternative fuel fleets face two significant challenges. First, the fleet must identify a cost-effective alternative fuel vehicle that is comparable to the vehicle it is replacing. Second, the fleet must determine an adequate and cost-effective method to refuel or recharge the vehicle. Figure 1 shows the current distribution of alternative fuel vehicles and fuel use by state fleets and alternative fuel providers, as compiled by the U.S. Department of Energy Clean Cities Program.

FIGURE 1: PETROLEUM SAVINGS AND ALTERNATIVE FUEL VEHICLES FOR STATE FLEETS AND ALTERNATIVE FUEL PROVIDERS (2013)



Source: U.S. Department of Energy Alternative Fuel Data Center

Over time, advancements in vehicle technology and fuels have given fleet managers expanded choices for meeting their energy and environmental objectives. Compressed natural gas (CNG) and biodiesel have emerged as popular alternatives to diesel for medium- and heavy-duty vehicles, like tractor-trailers and refuse trucks. In the light-duty sector, automakers have dramatically increased the number of available plug-in and plug-in hybrid electric vehicles—up to 27 models were available in late 2015.

An All-American Fleet

Mayor Wallace wants her city's fleet to be powered only by non-petroleum, non-food crop based fuel. Being in the heartland, the city has easy access to 1) biodiesel made from animal fats, 2) natural gas and 3) electricity. The mayor also strongly believes the vehicles that the city acquires should be powered solely by alternative fuels in order to avoid sliding back to gasoline and diesel in the future.

The city's fleet consists of three types of vehicles: passenger cars, medium-duty delivery trucks, and refuse trucks. The mayor would like to use funds already set aside for existing vehicle replacements combined with innovative financing to purchase an increasing number of alternative fuel vehicles each year until the fleet is completely powered by alternative fuels. In phase 1 of the transition, the city has decided to replace aging fleet vehicles with 50 new passenger cars, 25 new delivery trucks, and 15 new refuse trucks.

The city fleet manager solicited the assistance of the local Clean Cities Coordinator to guide the city through the decision-making process. The Coordinator began by conducting extensive research and stakeholder outreach to identify the most appropriate alternative fuel for each of the three vehicle types in the city's fleet.

The Coordinator concluded that CNG made most sense for the city's refuse trucks, because of its relatively low local air emissions. The trucks also have a fixed route and return to the same lot each day, so refueling overnight using lower cost, slow-fill CNG stations is feasible. The Coordinator identified biodiesel as the most promising fuel for the delivery trucks to meet vehicle duty cycle needs. These vehicles require a quick refill time, since their use is less predictable. Finally, the Coordinator concluded that the city should acquire battery electric cars, since those vehicles are readily available and the existing fleet cars travel less than 50 miles per day on average.

The Coordinator then identified a promising new and innovative finance mechanism to help the city attain alternative fuel vehicles. The success of the mechanism relies on the total cost of ownership of the alternative fuel vehicles being lower than gasoline or diesel vehicles. In the Fleet Vehicle & Infrastructure Lease Model, a private sector entity owns the vehicle and any necessary fueling infrastructure and leases the vehicles to the city. The private sector entity attains financing to pay for the upfront cost of the vehicles and fueling infrastructure from the private market at a cost that depends on the risk of the fleet achieving a net savings over the vehicles' lifetime. The private sector entity also hedges the risk of future fuel cost fluctuations through a multi-year fuel purchase contract from a fuel provider. In addition, the private sector entity is able to take advantage of federal tax incentives unavailable to the city, which is a nontaxable entity.

The Challenge

The city fleet manager is excited about the prospects of using the **Fleet Vehicle & Infrastructure Lease Model, since the approach provides certainty on vehicle acquisition and operational costs at a very low risk to the city.** Given estimates on the total cost of the transition for each vehicle type (see Exhibit 1), the fleet manager must now determine which of the three vehicle types is best suited to be funded by this financing model.

Mayor Wallace wants St. Louis to be a leader on environment and energy security issues while demonstrating the prudent use of taxpayer funds. The city fleet manager must consider these potentially competing objectives in deciding whether CNG refuse trucks, bio-diesel delivery trucks, or EV passenger cars can be financed with the **Fleet Vehicle & Infrastructure Lease Model.**

Discussion Questions

- What is the nature of the public-private partners in this business model?
- Which barriers does the model help address?
- What is the business case/finance case for fleet conversion? What is the net benefit to the city?
- What conditions make the model successful?
- How does the model impact the city's budget (i.e. is it off-balance sheet)?
- Is there a minimum fleet size or a specific vehicle type in which the model makes sense?

Exhibit 1: General Background

	Annual Vehicle Mileage	Vehicle Lifetime	Fuel Economy (MPGGE)	Purchase Price ($/Vehicle) (After Incentives)	Additional Infrastructure Costs ($/Vehicle)
Pass Car, BEV	12,400	15	90.78	$25,000*	$500
Pass Car, Gasoline	12,400	15	26.7	$20,000	
Delivery Truck, Biodiesel	16,500	15	6.2	$65,000	
Delivery Truck, Diesel	16,500	15	6.2	$65,000	
Refuse Truck, CNG	23,400	15	1.3	$260,000	$936
Refuse Truck, Diesel	23,400	15	1.5	$210,000	

Fuel	Fuel Unit	$/Fuel Unit (After Incentives)
Gasoline	gasoline gallon	3.00
Diesel	diesel gallon	3.00
Electricity	kilowatt-hour	0.075
B100	B100 gallon	3.15**
CNG	CNG GGE	2.00

Financial Assumptions	Units	Value
Loan Term	years	10
Interest Rate	%	4.1%
Percent Down Payment	%	0.0%
Discount Factor	%	4.0%

Notes:
*Vehicle cost includes federal tax credits of $7,500 per vehicle
**Biodiesel costs includes federal tax credit of $1.00/gallon and average RFS RINs value of $0.50/gallon

Exhibit 2: BEV/Gasoline Passenger Car Assumptions

Costs of One BEV Versus Gasoline Passenger Car

Cost Component	Yr 1	Yr 2	Yr 3	Yr 4	Yr 5	Yr 6	Yr 7	Yr 8	Yr 9	Yr 10	Yr 11	Yr 12	Yr 13	Yr 14	Yr 15	NPV (4% DR)
Acquisition Cost Premium	-$683	-$683	-$683	-$683	-$683	-$683	-$683	-$683	-$683	-$683	$0	$0	$0	$0	$0	-$5,760
Operating + Maintenance Savings	$1,266	$1,276	$1,286	$1,297	$1,307	$1,318	$1,329	$1,340	$1,351	$1,362	$1,373	$1,385	$1,397	$1,408	$1,420	$15,414
Total Savings from Switching to BEVs	$583	$593	$604	$614	$624	$635	$646	$657	$668	$679	$1,373	$1,385	$1,397	$1,408	$1,420	$9,654

Petroleum and Emissions - Per Lifetime Vehicle

	Unit	Pass Car, Gas Lifetime Qty.	Pass Car, BEV Lifetime Qty.	Savings Lifetime Qty.
Petroleum Use	barrels	145	2	144
GHG	metric tons	84	44	40

Breakeven cost of CO_2 in $/metric ton (i.e. cost of carbon needed to recover losses)
N/A – no carbon cost needed

Exhibit 3: Biodiesel/Diesel Delivery Truck Assumptions

Costs of One Biodiesel Delivery Truck Versus Diesel Truck																
Cost Component	Yr 1	Yr 2	Yr 3	Yr 4	Yr 5	Yr 6	Yr 7	Yr 8	Yr 9	Yr 10	Yr 11	Yr 12	Yr 13	Yr 14	Yr 15	NPV (4% DR)
Acquisition Cost Premium	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Operating + Maintenance Savings	-$950	-$958	-$967	-$975	-$984	-$993	-$1,002	-$1,010	-$1,019	-$1,028	-$1,038	-$1,047	-$1,056	-$1,066	-$1,075	-$11,617
Total Savings from Switching to Delivery Trucks	-$950	-$958	-$967	-$975	-$984	-$993	-$1,002	-$1,010	-$1,019	-$1,028	-$1,038	-$1,047	-$1,056	-$1,066	-$1,075	-$11,617

Petroleum and Emissions - Per Lifetime Vehicle				
	Unit	Truck, Diesel Lifetime Qty	Truck, Biodiesel Lifetime Qty	Savings Lifetime Qty
Petroleum Use	barrels	887	89	798
GHG	metric tons	502	312	190

Breakeven cost of CO2 in $/metric ton (i.e. cost of carbon needed to recover losses)
$80

Exhibit 4: CNG/Diesel Refuse Truck Assumptions

Cost Savings from 1 CNG Refuse Trucks Versus Diesel Refuse Trucks																
Cost Component	Yr 1	Yr 2	Yr 3	Yr 4	Yr 5	Yr 6	Yr 7	Yr 8	Yr 9	Yr 10	Yr 11	Yr 12	Yr 13	Yr 14	Yr 15	NPV (4% DR)
Acquisition Cost Premium	-$6,208	-$6,208	-$6,208	-$6,208	-$6,208	-$6,208	-$6,208	-$6,208	-$6,208	-$6,208	$0	$0	$0	$0	$0	-$52,363
Operating + Maintenance Savings	$4,366	$4,411	$4,456	$4,502	$4,548	$4,595	$4,641	$4,689	$4,736	$4,784	$4,833	$4,882	$4,931	$4,981	$5,031	$53,860
Total Savings from Switching to Refuse Trucks	-$1,841	-$1,797	-$1,751	-$1,706	-$1,660	-$1,613	-$1,566	-$1,519	-$1,471	-$1,423	$4,833	$4,882	$4,931	$4,981	$5,031	$1,497

Petroleum and Emissions - Per Lifetime Vehicle			
	Refuse Truck, Diesel Lifetime Qty	Refuse Truck, CNG Lifetime Qty	Savings Lifetime Qty
Petroleum Use	5,202	29	5,173
GHG	2,940	2,710	230

Breakeven cost of CO2 in $/metric ton (i.e. cost of carbon needed to recover losses)
N/A – no carbon cost needed