Saving Money with Electric Vehicle Leasing

A Case Study of City Fleets

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CLIMATE MAYORS

Electrification Coalition

Sourcewell

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Introduction

The Climate Mayors Electric Vehicle Purchasing Collaborative (the Collaborative) is a joint effort by Climate Mayors, the Electrification Coalition, and Sourcewell working toward accelerating the transition of city fleets to electric vehicles (EVs). By creating a new and innovative cooperative purchasing mechanism, the Collaborative is reducing major barriers to fleet electrification for cities and other public agencies. In addition to an innovative cooperative purchasing option, the Collaborative offers a host of technical resources, analyses, and staff support, which reduces major obstacles to fleet electrification.

Climate Mayors is a group of more than 450 U.S. mayors who are committed to taking meaningful action on climate change. The Electrification Coalition (EC) is the nonpartisan, non-profit organization that leads implementation of the Climate Mayors' transportation electrification initiative, leveraging its broad experience as a municipal partner in accelerating EV adoption on a mass scale. Sourcewell, a public procurement agency, facilitates a competitive solicitation and award process for vehicles and service equipment on behalf of their 50,000+ members across North America.

The Collaborative's partners have come together to offer a platform connecting public fleets with the growing selection of EVs and charging stations, transparent pricing, policy guidance, technical resources, assessment tools, and financing options that can leverage the federal EV tax credit to reduce the up-front costs of EVs and support cities' fleet electrification. The Collaborative also provides fleets with training, best practices, educational materials, and analysis to support the successful transition of public fleets to electric.

Leasing Overview

Historically, public fleets have prioritized vehicle purchasing over leasing. This may be due to the variety of misconceptions surrounding leasing, including the belief that leases cost more due to high interest rates and concerns over return conditions and mileage restrictions. As a result, fleet managers have lacked low-cost options to maintain a fleet of vehicles that are reliable and low maintenance. In fact, leasing is one of the best avenues for public fleets to incorporate new assets, especially EVs, into their fleet. Fleet managers can achieve significant financial savings by utilizing operating budgets and understanding total cost of ownership.

Fleets can benefit from this procurement structure, which includes closed- and open-ended leases. Traditionally, closed-ended leases can be viewed as a "rental" where the vehicle will be returned at the end of a lease term. Monthly payments are generally lower, but the lessee usually does not retain ownership of the asset. They may have a specific number of miles they are allowed to drive, but the lessee does not assume risk of ownership or depreciation. Closed-end leasing allows maximum flexibility as fleets only pay for the time that they are using the vehicles, and they have the opportunity to phase new vehicles into their fleet more frequently.

Open-ended leases are structured at the outset with the intention of the lessee keeping the vehicle. Often called "municipal" leases, this option allows the fleet to pay monthly payments down to a $1 residual or

Case A: Winter Park, Florida

Collaborative fleet, City of Winter Park, Florida, opted to pursue a municipal lease to a residual $1 buyout for their five 2020 Nissan LEAFs. The City chose this type of lease structure because the fleet desired to own these reliable EVs for several years. With in-house maintenance capabilities and a longer service life, the City traditionally purchases fleet vehicles from the Florida state sheriff's contract. The City benefited from this lease structure over traditional purchase because it allowed them to access the federal tax credit available for EVs, an average savings of approximately $1,200 per vehicle. This $6,000 overall savings was in addition to an estimated 56% cost reduction in fuel spend and next to zero maintenance spend, making the decision to transition to electric easy for the fleet team to justify.

2020 Nissan LEAF 24-Month Lease Cost-Savings

Invoice Price	Federal EV Tax Credit and Government Fleet Incentive	24-Month Lease Interest and Management Fees	24-Month Lease Lump Payment	Price Difference
$30,860	- $9,025	+ $1,848.88	$23,683.88	$7,176.12

Source: D&M Leasing

to pay a lump sum up front for the entire lease term value. The fleet is able to pay for the vehicle over a longer time frame than traditionally available in fleet purchases if needed, and the fleet does own the asset in the end. This allows for the use of operating budget if the capital budget is limited, and all municipal leases include a non-appropriations clause that allows for lease termination without penalty if budget funds are not allocated as anticipated.

Several reasons exist for a fleet to lease a vehicle regardless of their planned ownership model. Many public entities are currently facing severe budget shortfalls due to the COVID-19 pandemic, but they still need vehicles to maintain routine operations. Purchasing new vehicles can actually be a cost-savings measure as opposed to continuous maintenance on older vehicles that are past their useful life. Financial savings can be achieved through leasing in multiple ways. When a vehicle needs to be procured immediately and budget is not available, a lease can be structured to delay payments for up to a year. In addition, leasing can allow public entities to achieve savings from federal tax credits that they otherwise would not have the tax burden for; this is particularly useful when it comes to EV adoption. In a lease, since the private leasing entity retains ownership of the vehicle for the length of the lease term (generally 24 – 36 months), they are able to apply for the federal electric vehicle tax credit. The leasing entity then passes on a majority of those savings through in the lease term. This structure can also be applied to electric vehicle charging station equipment tax credits, allowing fleets to achieve significant cost savings on both the vehicle and fueling infrastructure.

In addition to financial savings, fleets can reduce their administrative burden by leasing through cooperative procurement contracts. The Collaborative has multiple partners that offer leasing including D&M Leasing, NCL Government Capital,

Case B: Des Moines, Iowa

The City of Des Moines, Iowa is taking advantage of the significant flexibility available through the Collaborative. The City spent some time working with the EC to identify ideal vehicles that would be good candidates for electrification. Once identified, the City weighed their options and ultimately decided on a closed-end lease for their procurement of four fully electric Nissan LEAFs. The flexibility to pay for the vehicles in two annual payments served as a tool to reduce spending on interest while also taking advantage of the full $7,500 federal electric vehicle tax credit. At the end of the 36-month lease term, the City has the option to pay a $5,578 residual buyout for a total of $23,899 per vehicle, a savings of $7,700 per vehicle compared to MSRP. This is essentially cost parity with most general, light-duty municipal sedan even before accounting for reduced fuel spend — typically less than half the cost of fueling traditional ICE vehicles — and significantly reduced maintenance impact to the fleet.[1] Structuring the procurement as a closed-ended lease will allow the City to decide if they want to keep the Nissan LEAFs or turn them back in for replacement newer models.

In addition, the Fleet Services Manager estimated that using the Collaborative helped easily cut around 60 days of worktime for procurement staff.

1. https://www.energysage.com/electric-vehicles/advantages-of-evs/do-electric-cars-save-money/

Case C: Jersey City, New Jersey

An important consideration when it comes to EV fleet transition is the speed at which new models and features are becoming available. This was a major factor behind Jersey City, New Jersey's decision to structure a closed-end lease through the Collaborative. The primary benefit achieved from this structure is the ability to pay only for the time that the vehicle is used. After the term is over, the vehicles can be turned back in and replaced with the latest technology, facilitating reduced fleet turnover time. The City chose to lease four 2020 Nissan LEAFs. Jersey City is taking advantage of a long-term lease in which they agreed to pay for 75% of the total vehicle cost but also received 100% of the federal tax credit savings of $7,500 for a total savings of $30,000. This lease structure can be especially beneficial for cities interested in trying out EVs to make sure that they will be a good fit before moving forward with a larger purchase or lease-to-own procurement, similar to a pilot program. Today's ultra-low interest rates, no mileage limitations, and increasingly permissive industry-standard return conditions made closed-end leasing through the Collaborative a great, flexible, cost effective way for Jersey City to begin implementing EVs in their fleet.

and Enterprise. These contracts have already been vetted through Sourcewell's competitive solicitation process to ensure they comply with public bid guidelines, offer the benefit of collective bargaining discounts, and provide access to a much wider range of electric vehicle models. The cooperative contracts also reduce expenses in the amount of time spent carrying out traditional bid processes. A 2018 Fleets for the Future report showed that fleets saved anywhere from $1,250 to $5,000 per solicitation. Those fleets estimated that the bid process, including evaluation of the responses, can take a couple of days, even for those who are familiar with the process.[2] This increased affordability allows fleets to adopt newer vehicles sooner and has the potential to save more money in the long run over operating inefficient older vehicles.

It should be noted that there are a few challenges to consider when it comes to leasing. Primarily, since the process is new to many public agencies, paperwork and protocols can cause delays. Contract negotiations may extend the procedure as well, so the overall procurement timeline might be longer. Ordering vehicles directly from the manufacturer can also result in delays, especially during times

2. https://static1.squarespace.com/static/57a0a284d2b857f883096ab0/t/5afae750562fa73ebfabc440/1526392709112/F4F+Evaluation+Report+with+Appendix.pdf

of uncertain production. During the COVID-19 pandemic, we have seen unprecedented situations with operation shut-downs at all levels of the supply chain. This has resulted in some vehicles not being delivered as quickly as would normally be expected. At the same time, direct manufacturer orders can also allow vehicles to be built to fleet specifications. Compared to finding a vehicle available on a local dealer lot, this can help save on costly upgrades and customizations. The Collaborative can help fleets navigate the new process and any barriers with customized guidance and support.

Conclusion

The Climate Mayors EV Purchasing Collaborative has been specifically designed to provide solutions to the top three barriers to fleet electrification: model availability, vehicle cost, and infrastructure accessibility. By providing access to the federal tax credit, leases through the Collaborative reduce the total up front capital required to procure electric vehicles. In some cases, these leases achieve cost parity to traditional internal combustion engine vehicles even before the significantly reduced fuel and maintenance spend are factored in. The Collaborative also allows public fleets to access almost every EV available in the US. This means that fleets in all 50 states can either direct order or source the full suite of EVs available, drastically increasing model options for many regions. Finally, strategic technical assistance on EV procurements, electric vehicle supply equipment (EVSE) planning and procurement, and fleet analysis is available to all Collaborative fleets for free.

To find out more about the Collaborative and how it can be leveraged to assist your fleet with the transition or increase EV and charging station adoption, please contact us at EVFleets@electrificationcoalition.org. Go to www.DriveEVFleets.org to view current pre-federal tax credit EV pricing as well as contracts for five EVSE providers. Additional fleet case studies and best practices are also available on the website.

Climate Mayors, founded in 2014, is a bipartisan, peer-to-peer network of U.S. mayors working together to demonstrate leadership on climate change through meaningful actions in their communities, and to express and build political will for effective federal and global policy action. The Climate Mayors coalition has emerged as a key voice and demonstration of the ongoing commitment of U.S. cities to accelerate climate progress.

The Electrification Coalition (EC) is a nonpartisan, not-for-profit group of business leaders committed to promoting policies and actions that facilitate the acceleration of electric vehicle adoption on a mass scale in order to combat the economic, environmental and national security dangers caused by our nation's dependence on oil.

Sourcewell is a self-supporting government organization, partnering with education and government agencies throughout North America. On behalf of 50,000 members, Sourcewell conducts competitive solicitations, awarding to the most responsive and responsible vendors.