



BankDirector

**Breakout 3:**  
**Checking all the Boxes:  
More Community  
Banks Making Solar  
Tax Credit Investments**

**Josh Miller**

*The KeyState Companies*

**Eric Newell**

*Equity Bank*

#BBTF23



## **CHECKING ALL THE BOXES**

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**MORE COMMUNITY BANKS ARE MAKING SOLAR TAX EQUITY INVESTMENTS**

**SEPTEMBER 2023**

# PANELISTS



**JOSHUA C. MILLER**  
Chief Executive  
Officer



Josh Miller joined KeyState in 1998 and has served as the CEO since 2011. During his tenure, KeyState has remained focused on helping community banks manage complex planning structures that large US banks have utilized for many decades. KeyState provides community banks with the expertise and scale to implement investment and risk management structures that enhance their annual earnings. Under Josh's leadership, KeyState's registered investment advisor business has grown assets under management to over \$16 billion, and KeyState has built the only bank captive insurance program in the country which is endorsed by 30 state banking associations. In 2019, he launched KeyState Renewables, which deploys solar tax equity investments for community bank and corporate investors. Since inception, KeyState's SOLCAP solar tax equity fund platform has raised and deployed over \$265 million in solar tax equity financing 53 solar projects in 7 states. Josh received his bachelor's degree in economics and foreign affairs from the University of Virginia and holds board and leadership roles with various industry groups and non-profits organizations.



**ERIC NEWELL**  
EVP & CFO



**EQUITY  
BANK**

Mr. Eric R. Newell, CFA, has been Executive Vice President since May 2020 and Chief Financial Officer at Equity Bancshares, Inc since April 30, 2020. He has been Executive Vice President & Chief Financial Officer of Equity Bank since April 30, 2020. He served as an Executive Vice President, Chief Financial Officer and Treasurer of United Financial Bancorp, Inc. Mr. Newell served as the Chief Financial Officer of United Bank and Executive Vice President. and served as its Treasurer until 2018. He served as Head of Treasury & Corporate Strategy of United Bank since May 2013. Mr. Newell oversees the financial management of the Equity Bancshares including oversight of accounting management, such as internal and external financial reporting; investor relations; interest rate risk, liquidity, and capital management. He served as Senior Vice President and Director of Treasury at United Bank from March 2012 to May 2013. He served as a Senior Vice President of United Financial Bancorp, Inc. He joined United Bank in May 2011 as Vice President and Treasury Officer. Mr. Newell holds a Chartered Financial Analyst Designation. He received a B.S. in Business Administration with a concentration in Finance and Marketing from Northeastern University in Boston, MA.

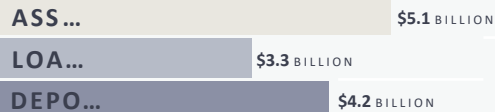
# EQUITY BANCSHARES, INC.

NYSE: EQBK

## Corporate Snapshot

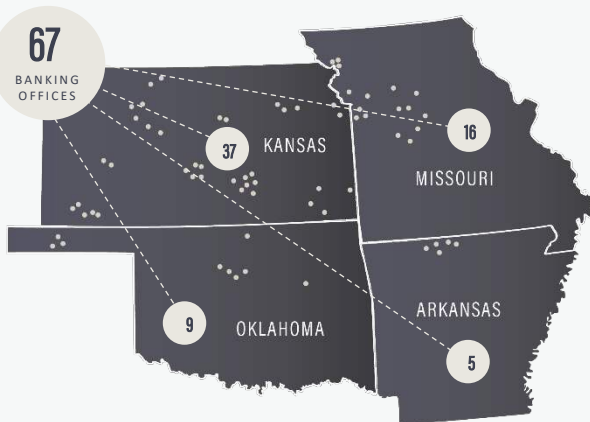
- Founded In 2002, Wichita Headquartered, Midwest Franchise
- Seasoned Management Team
- Consistent Execution And Strategy
- Long-term Focused

## Key Highlights



as of 6/30/2023

## Equity Bank Footprint



## Start-Up: 2002 - 2007

Brad Elliott, Chairman and CEO, founded Equity Bancshares, Inc. in 2002.

- ✓ Completed 5 branch or whole bank acquisitions
- ✓ Opened 2 branches in Missouri

## Growth: 2008 - 2016

- ✓ Opened branches in Lees Summit & Overland Park, Kansas
- ✓ Acquired Ellis State Bank
- ✓ \$8.8MM of TARP issued and repaid with SBLF
- ✓ \$20.0MM Capital Raise
- ✓ Purchased 4 branches from Citizens Bancshares (Topeka)
- ✓ \$20.4MM Capital Raise
- ✓ Acquired First Community Bancshares
- ✓ Rationalized branch map, 3 closures, 1 opening
- ✓ Acquired First Independence and Community First
- ✓ \$35.4MM private placement capital raise

## Scale: 2017-2023

- ✓ Acquired Prairie State, Patriot Bank, and Eastman
- ✓ Acquired Kansas Bank Corporation, Adams Dairy Bank, and City Bank & Trust
- ✓ Launched Equity Trust & Wealth Management
- ✓ Completed \$75MM subordinated debt issuance
- ✓ Acquired Almena State Bank, 3 branches from Security Bank, and American State Bancshares
- ✓ Originated \$650 million of PPP
- ✓ Rationalized branch map, sold 4 branches

COMMITTED TO OUR ENTREPRENEURIAL SPIRIT



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# SOLVING AN UNMET NEED FOR COMMUNITY BANKS

- ✓ Tax equity investments convert a bank's tax liability into earnings and capital
- ✓ Meaningful and measurable ESG impact
- ✓ Potential to finance renewable energy projects in your region and possibly purchase renewable energy for your branch network
- ✓ Potential CRA credit (if projects sell discounted green power to LMI households)



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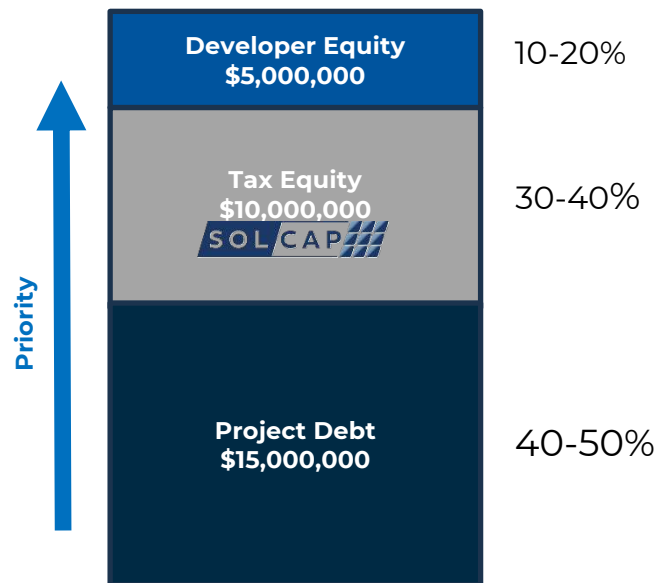
# AN OPPORTUNITY FOR COMMUNITY BANKS

- Solar Tax Equity Overview
- Types of Solar Projects
- Why Now?
- Benefits of Solar Tax Equity
  - Compelling Return & GAAP Profile
  - ESG Benefits
  - Potential for local investment and to procure renewable energy for your bank
  - Potential for CRA benefit

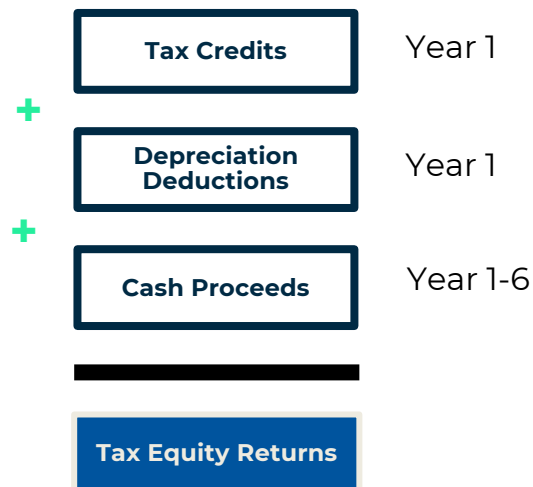
# WHAT IS SOLAR TAX EQUITY?

## Solar Project Capital Stack

\$30mm Cost to Construct / \$33.3mm FMV



**Solar Tax Equity:** an ownership interest in a solar project where the investor receives 3 sources of return in an accelerated timeframe.



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# COMMUNITY BANKS ARE IDEAL INVESTORS FOR SMALL SOLAR PROJECTS

## 4 General Types of Solar Projects

- Rooftop Residential
- C&I
- Utility Scale
- Community Solar

## Other Renewable Energy Property Eligible for the Investment Tax Credit (ITC)






- Solar + Storage
- Stand alone energy storage
- Wind
- Geothermal
- Fuel Cells
- Waste Energy Recovery

## Community Banks Well Positioned to Finance Small and Mid-Size Solar, Solar+ Storage, and Stand-Alone Storage

- C&I – commercial, municipal, school districts or higher ed off-takers (some CRA opportunities)
- Utility Scale – small or mid-size, rural
- Community Solar
  - Residential and LMI residential
  - Small and mid-size commercial



# WHO INVESTS IN SOLAR TAX EQUITY?

PARTICIPANT	ATTRIBUTES	TAX EQUITY INVESTMENTS
	Large provider of tax equity. Early participant in solar tax equity investments and syndications. High cost, low flexibility	<b>\$15B+</b> <sup>1</sup>
	Early provider for tax equity. Focus on large-scale projects	<b>\$10B+</b> <sup>2</sup>
 <b>STARBUCKS</b>	Large corporate investor who has actively participated	<b>\$97M (2021-2022)</b> <sup>3</sup>
	Two national banks made combined investments in 2020 which represented approximately 50% of total solar tax equity market	<b>\$9B (2020)</b> <sup>4</sup>
	Massive corporate investors focused on large-scale projects	<i>Undisclosed</i>

**90%** of energy CFOs plan to take advantage of credits and incentives over the next 10 years<sup>5</sup> –



<sup>1</sup> [US Bank Expands Leadership in Environmental Financing](#)

<sup>2</sup> [Wells Fargo Surpasses \\$10B in Renewable Energy Tax-Equity Investment](#)

<sup>3</sup> [Starbucks Deploys \\$97M in NY Community Solar Projects](#)

<sup>4</sup> [Clean Energy Finance Forum – Current Challenges to Tax Equity](#)

<sup>5</sup> [2023 BDO Energy CFO Outlook Survey](#)

# INFLATION REDUCTION ACT PRESENTS A TREMENDOUS OPPORTUNITY

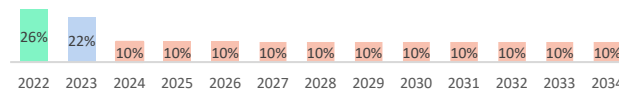
“Dollar for dollar, the federal solar tax credit is the **greatest economic incentive for businesses** to invest in solar panels and/or battery storage. You can **effectively recover 30% of the total cost** of building a solar system, with no maximum limit.”

- [solar.com](https://www.solar.com)

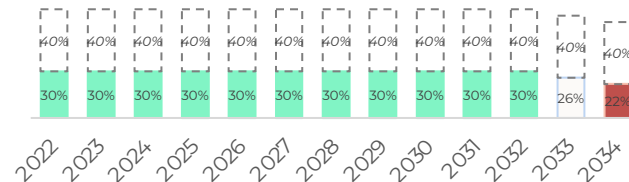
- In 2022, the signing of the IRA lifted tax credit back to 30% (up from 26%) with additional upside through adders to get up to 70%, where it will remain through 2032
- IRA expands accepted projects to include battery storage which are more easily accessible investments than others
- Through the IRA, ITCs can now be carried back as far as 3 years and can be carried forward 22 years
- Solar ITCs can be combined with state or local RECs, meaning impact can be magnified across organization

## RENEWABLE ENERGY TAX CREDIT RATE

### Pre-inflation Reduction Act



### Post-inflation Reduction Act



The IRA enables **attractive tax credit investment opportunities** for the next 10+ years

# GROWTH OF COMMUNITY BANK INVESTMENT IN SOLAR TAX EQUITY

**2019**

| KeyState Renewables launched its SOLCAP solar tax equity platform in 2019

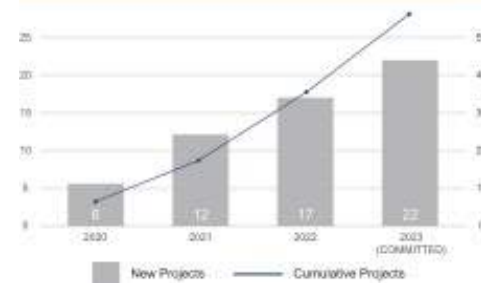
**50+**

| SOLCAP has financed 53 projects (both completed and committed) since inception

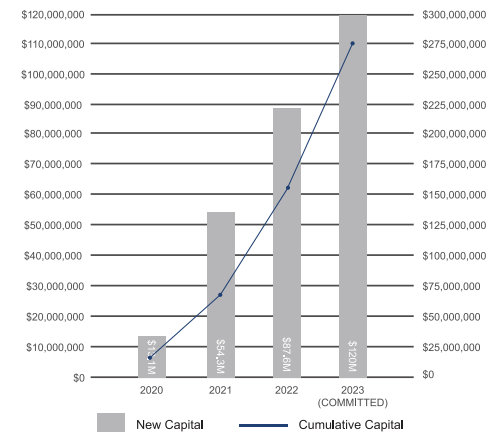
**\$275M+**

| Raised and deployed over \$275M in tax equity financing since inception

## PROJECTS FINANCED



## CAPITAL RAISED & DEPLOYED



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# SOLAR TAX EQUITY RETURN PROFILE

## 3 Sources of Return



**Investment Tax Credit**  
Direct Tax Payment Reduction

**Dollar-for-Dollar:**

Offsets federal income tax liability, dollar-for-dollar

**Year 1 Recognition**



**Accelerated Depreciation**  
Taxable Income Reduction

**80% Bonus or MACRS**

Year 1 bonus depreciation at 80% rate or accelerated depreciation



**Cash**  
Preferred Return & Put/Call Proceeds

**Cumulative Preferred Return:**

Approx. 2% annually

**Call/Put Proceeds:**

Approx. 6-8% upon exit

# SOLCAP TYPICAL RETURN PROFILE

Assumes \$10 Million Investment:

Year	Capital Contributions	Tax Credits	Total Tax Savings (Costs) from Income (Losses)	Cash Distributions & Proceeds	Net Benefit
Year 1	(\$10,000,000)	\$8,425,564	\$1,060,063	\$100,000	\$(414,373)
Year 2-6 (Consolidated)			(\$255,029)	\$1,900,000	\$1,644,971
Total	(\$10,000,000)	\$8,425,564	\$805,034	\$2,000,000	\$1,230,598

>100%  
Annual After-tax IRR



>1.12x  
ROI (MoIC)

# CONVERTING YOUR FEDERAL TAX LIABILITY INTO EARNINGS AND CAPITAL

## GAAP Profile (Proportional Amortization Method)

### Illustrative Financial Statements

Assets				Liabilities & Equity			Income Statement			
Year	Cash	Investment	DTA/DTL	Taxes Payable	Suspended Amortization	Retained Earnings	Investment Income	Current Tax Benefit	Deferred Tax Benefit	Net Income
1	(9,957,879)	564,339	45,089	(10,200,328)	-	851,877	42,121	764,667	45,089	851,877
2	(9,873,935)	427,088	(91,824)	(10,348,702)	-	810,032	83,945	11,123	(136,913)	(41,845)
3	(9,790,974)	443,587	(95,371)	(10,330,866)	-	888,108	82,961	(1,337)	(3,547)	78,077
4	(9,707,617)	460,166	(98,936)	(10,312,944)	-	966,557	83,357	(1,344)	(3,565)	78,448
5	(9,624,577)	476,681	(102,486)	(10,295,091)	-	1,044,708	83,039	(1,338)	(3,550)	78,151
6	(8,919,038)	0	-	(10,143,400)	-	1,224,361	88,539	(11,372)	102,486	179,654
<b>Total</b>							<b>463,962</b>	<b>760,400</b>	<b>-</b>	<b>1,224,361</b>

# MEASURABLE ESG IMPACT

## 2022 SOLAR FINANCE IMPACT REPORT

SOLCAP RENEWABLE  
ENERGY PROJECTS FINANCED: **\$97,013,597**

Projects will produce  
**136,309,715**  
**kw hours**  
of **CLEAN POWER**  
each year.

\*The clean power produced is equivalent to removing 109,279 metric tons of greenhouse gas emissions. Examples shown above demonstrate other equivalents that produce a similar amount of greenhouse gas emissions.

\*\$35mm of the total is committed for 2023 but not yet deployed

EQUIVALENT TO REMOVING EMISSIONS CREATED BY ANY OF THESE:



CONSUMING  
**10,869,844**  
GALLONS OF GAS



POWERING  
**18,796** HOMES  
FOR ONE YEAR



**239,781,818**  
MILES DRIVEN



BURNING **106,879,470**  
POUNDS OF COAL

## Solar Finance Impact Report

- Investors receive an annual, cumulative Solar Finance Impact Report
- Measures the amount of renewable energy produced by solar projects the bank has financed
- Provides greenhouse gas emission equivalents for the amount of power generated

## Annual Corporate Responsibility Report

- Investors update their bank's annual Corporate Sustainability Report to reflect the cumulative impact of their renewable energy project finance
- Investors may highlight a local or regional solar project that is supplying discounted power to underserved communities



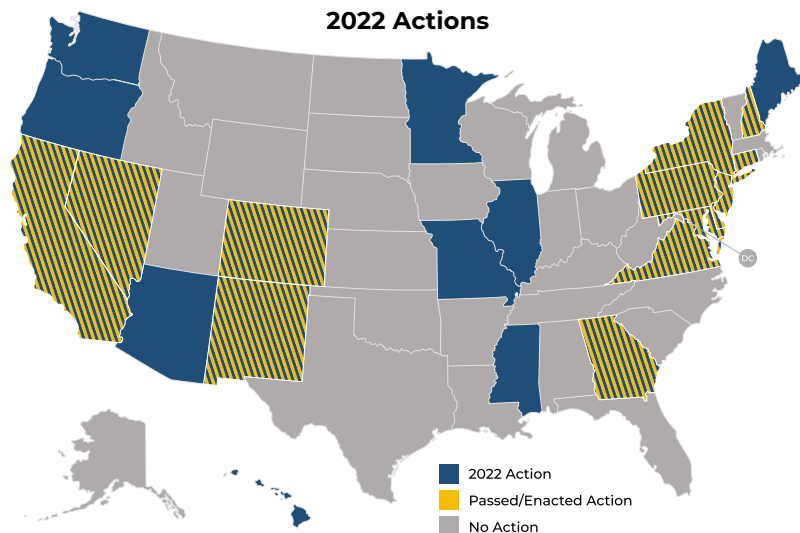
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# POTENTIAL FOR CRA CREDIT?

## Incentives to build solar projects benefiting LMI households

### State Programs & Incentives



### Federal Incentive The Inflation Reduction Act

- The Low-Income Communities
- Bonus Energy Investment Credit Program
- **10% to 20% in Additional ITC (“Adder”)**

### Max Project Size 5MW AC

Category	Description	Annual Cap
1	Located in a low-income community as defined by the “New Markets Tax Credits” section of the tax code	700MW
2	Located on Indian Land	200MW
3	Part of a “qualified low-income residential building project”	200MW
4	Part of a “qualified low-income economic benefit project”	700MW

Rebekah de la Mora, Policy Analyst, DSIRE Insight, <https://www.dsireinsight.com/blog/2023/1/27/lmi-roundup-a-selection-of-new-lmi-energy-policies-and-programs-adopted-in-2022>

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# A CFO'S PERSPECTIVE

**Eric Newell, EVP, Chief Financial Officer**  
Equity Bancshares, Inc.

- Why is Solar Tax Equity Compelling for a Community or Regional Bank?
- Underwriting the Investment
- Fund vs. Direct Investment
- Risks & Mitigants

# WHY IS SOLAR TAX EQUITY COMPELLING FOR COMMUNITY BANKS?

1 Demonstrable & repeatable path to returns

2 Convert federal tax liability into earnings

3 Limited up-front cash deployment

4 Recurring annual investment opportunities

5 Positively impact green footprint & ESG requirements

0

Principal  
Risk

>100%

Annual  
After-tax IRR

75%

Up to Offset of  
Federal Tax Liability

9-12%

Of Investment  
recognized Yr 1 GAAP  
earnings

20%

Capital Deployed  
Upfront

3-6 months

Payback  
Period

\$1B+

Annual Pipeline  
Opportunities

10+

Years of Projects in  
Pipeline



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# UNDERWRITING SOLAR TAX EQUITY INVESTMENTS

## Initial Diligence – 3 Stages

### 1. GAAP & Tax Review of Model (internal and with tax and audit partners)

### 2. Consider Regulatory Path

- Lending Authority (OCC Rule 12 CFR §7.1025)
- Public Welfare Investment
- Holding Company
  - 4(c)6 investment for holdcos < \$10B
  - Merchant banking authority for holdcos > \$10B

### 3. Underwriting Packages

- Developer
- Project Level

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# UNDERWRITING SOLAR TAX EQUITY INVESTMENTS

## Diligence Prior To And After Closing

1. Engage Experienced Solar Tax Equity Tax Counsel or Invest in Fund with Tax Counsel (or both)
  - Document Review and Negotiation
  - Tax Opinion
  - Detailed legal diligence checklist at each closing/funding (initial, mechanical completion, and substantial completion)
2. Prepare & Circulate Internal Investment Committee Memo and Select Appropriate Committee (Investment, ALCO, Credit, or full Board approval)
3. Develop process for initial, formal review of project underwriting packages (loan equivalent) and annual review thereafter
4. Document accounting methodology election and socialize with auditor
5. Closely monitor project(s) timeline to understand when ITCs will be recognized (delays are common and can push ITC recognition into next tax year)
6. Consider visiting facilities on a rotating basis



# REASONS TO CONSIDER A FUND VS. A DIRECT INVESTMENT

## At the Time of Initial Investment



*Full Underwriting  
Package*



*Certified Financial Model &  
GAAP Proforma*



*2 Tax Opinions Prepared by  
Tax Counsel*

## Recurring Ongoing Reporting



*Quarterly Proforma  
Journal Entries*



*Quarterly Asset  
Management Reports*



*Annual Audited  
Financials and Tax  
Docs*



# TAX EQUITY INVESTMENTS

## RISKS & MITIGANTS

RISK	MITIGANT
<b>Project Performance Risk</b>	<ul style="list-style-type: none"> <li>• Diversify risk across numerous, varied separate projects</li> <li>• Require sufficient coverage ratios for debt service and preferred returns</li> <li>• Ensure the solar developer takes the first loss</li> </ul>
<b>Power Purchaser Risk</b>	<ul style="list-style-type: none"> <li>• Complete a full credit review</li> <li>• Lender for the project will also perform credit review of the power purchaser</li> </ul>
<b>Recapture Risk</b> <i>first 5 years only (100/80/60/40/20)</i>	<ul style="list-style-type: none"> <li>• Only work with experienced team of solar developers and solar finance professionals</li> <li>• The bankruptcy or financial difficulties of an off-taker does NOT trigger recapture</li> <li>• All projects are fully insured – property and business interruption insurance</li> <li>• Investors can purchase ITC recapture insurance</li> <li>• Require lender enter into a forbearance agreement/SNDA for initial 5 years</li> </ul>
<b>Accounting Treatment</b>	<ul style="list-style-type: none"> <li>• All Big 4* and national Tax and Accounting firms have experience with GAAP treatment</li> <li>• Investors select deferral method or proportional amortization method</li> <li>• With new FASB rule (Jan 2023), investors can typically use the proportional amortization method</li> </ul>

\*Big 4 Accounting Firms includes Deloitte, PWC, E&Y and KPMG



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## Josh Miller, CEO

The KeyState Companies

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## Eric Newell, EVP & CFO

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