

SOLCAP 2022 SOLAR TAX CREDIT FUNDS

A SOLAR TAX CREDIT VEHICLE FOR COMMUNITY & REGIONAL BANKS



SOLAR TAX CREDITS

The solar energy market is expected to grow significantly in the coming years. Large US energy users (i.e., Google, Apple) and large US banks (i.e., Wells Fargo, BofA, US Bank) have been the dominant renewable Investment Tax Credit (ITC) investors for the past 10 years. These large US corporations have increased their focus on very large solar projects in order to achieve scale and make meaningful progress towards their renewable energy goals and pledges.

The 2-year extension of solar energy ITCs included in the December 2020 COVID relief legislation, the prospect of a higher corporate tax rate under the new administration, and the significant growth of mid-size renewable energy projects across the US will allow SOLCAP's investors to take advantage of the growing demand for middle-market solar projects. SOLCAP expects to form at least one fund per year (2021, 2022, 2023, 2024) over the extension, providing banks with an annual opportunity to invest in solar ITCs.

SOLCAP MANAGEMENT

KeyState Renewables, LLC is the managing member of each SOLCAP fund. KeyState has managed tax advantaged investment structures for community banks since 1991 and works with 140 community banks throughout the country. KeyState Renewables launched SOLCAP I LLC in April 2020 which deployed approximately \$14 million for its bank investors across 6 solar projects totaling 19.4 MWdc. SOLCAP I LLC's solar project investments will be completed in Q4 2021 and the projected return profile is expected to exceed the the minimum return hurdle and exceed the typical return profile noted here (over 50% IRR).

KeyState's role as the managing member of SOLCAP includes underwriting the power purchasers for each project and ensuring project development and construction timelines are met. KeyState has partnered with solar industry veterans at Corner Power who have been working in renewable energy finance industry since 2010. They developed, financed, and operated a US solar project portfolio of 48MW across 27 contracts for a large US national bank.

INVESTMENT OVERVIEW

SOLCAP is seeking investors for solar tax equity investments in portfolios of solar projects. SOLCAPs' 2022 funds will invest in mid-size, rated utility, municipal, and community solar projects. KeyState Renewables LLC has developed specific underwriting criteria (an extension of our existing municipal bond credit analysis) to evaluate and select solar projects. Each project will enter into 15-25 year power purchase agreements with rated utilities and munis.

Investor members receive 49% of each project's accelerated depreciation and 99% of the solar ITCs. The investor recognizes the accelerated depreciation expense and can then apply the solar ITCs towards up to 70% of their current year federal tax liability. Unlike other tax credits (new market tax credits or low income housing tax credits), which are realized over the life of the investment, renewable energy ITCs are recognized immediately. If any portion of the ITCs cannot be utilized, the ITC can be carried back one year and carried forward twenty years.



INVESTMENT RETURN COMPONENTS

- Renewable Energy/Solar ITC – Year 1
- Tax Benefit of Accelerated Depreciation – Year 1
- Project Cash Flow – Years 2-6
- Proceeds from Sale/Put – Year 6

TYPICAL RETURN PROFILE*

- Over 50% IRR
- 5.5 year time horizon
- Over 1.13x ROI

\$ 2 MILLION MINIMUM INVESTMENT

GAAP RETURN PROFILE AND CAPITAL IMPACT*

(ASSUME \$10MM INVESTMENT)

INCOME STATEMENT IMPACT*

- \$1.1mm increase in NI (reduced tax expense) year 1
- Total NI benefit for life of asset - \$1.3mm
- Years 2-5 - nominal NI benefit
- Year 6 – small loss at disposition

BALANCE SHEET AND CAPITAL IMPACT*

- \$2mm asset (average) on balance sheet in years 1-5
- 65% GAAP return (est.) - Net Inc Benefit / Avg Asset Balance

**Potential investors should consult with their tax advisors and auditors to confirm the tax and GAAP treatment of an investment in solar tax equity. All return calculations are projections and estimates based on financial models.*

SOLCAP 2022-1*

Committed Tax Equity Capital to Date	\$27,000,000
Solar Project Investments Identified to Date	\$45,000,000
Remaining Tax Equity Available	\$18,000,000

*Structured for Publicly Traded C Corps

TIMELINE

Lead Investor Commitment:
COMPLETE

Additional Investor Term
Sheets Due:
12/15/21

Estimated Final Date for
Investors to Join Fund:
2/15/21

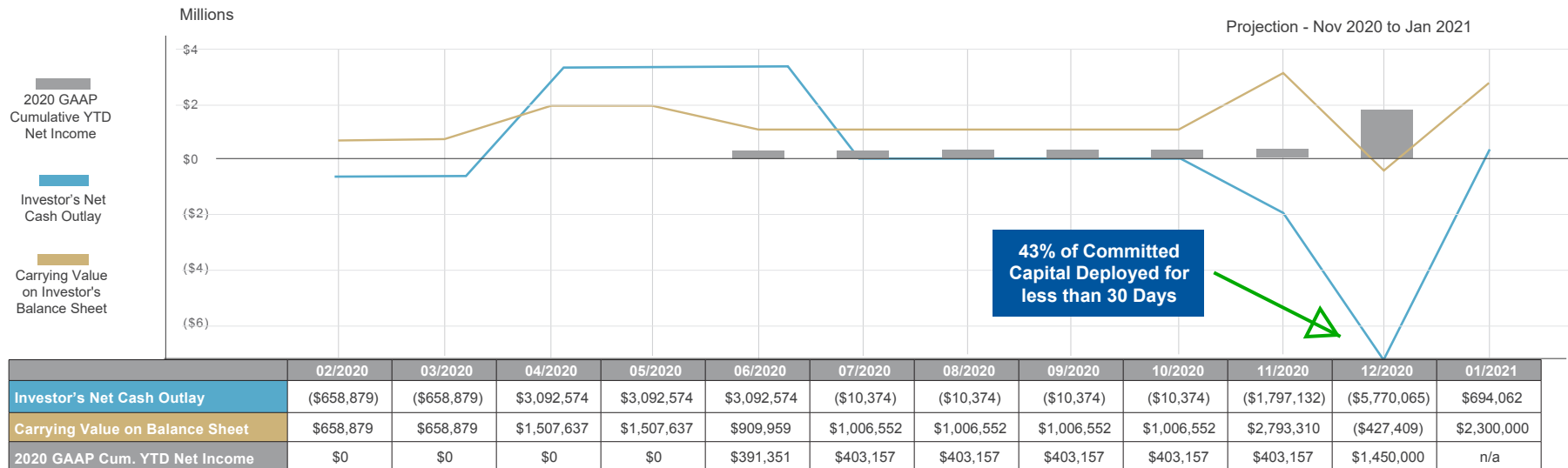
SOLCAP 2022-2CH*

Committed Tax Equity Capital to Date Solar	\$30,000,000
Project Investments Identified to Date	\$52,000,000
Remaining Tax Equity Available	\$22,000,000

*Structured for Closely Held C Corps & Open to Publicly Traded C Corps

SOLCAP I LLC - 2020 LEAD INVESTOR PROFILE & CASE STUDY

The lead bank investor for our 2020 inaugural fund is a \$5 billion bank from the Midwest. The bank committed to invest approximately \$14 million in SOLCAP I LLC. SOLCAP initiated capital calls throughout 2020 as each of the 6 projects reached specific milestones. 75% of the capital commitment is not due until each project is complete and operational. Once a solar project generates energy, the solar ITCs and accelerated depreciation are recognized immediately. The bank reduces its next quarterly tax payment, recapturing the cash it invested only 30-90 days earlier. This rapid return of capital causes the internal rate of return on their SOLCAP investment to be over 50%. **The bank made a \$14 million investment in SOLCAP I LLC; however, due to the timing of the capital calls and the immediate recognition of the credits and depreciation, the bank only has \$5.7 million in cash deployed for one month (December 2020).**



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