

Economic and Fiscal Impact of LaSalle Bank Acquisition

Caroline M. Sallee, Consultant
Alex L. Rosaen, Senior Analyst
Darci R. Keyes, Senior Consultant
Timothy Mahon, Principal

Commissioned by Service Employees International Union

(c) 2007, Anderson Economic Group LLC. See notice for limited reproduction rights, cautions, and disclaimers.

SUMMARY

On April 23, 2007, ABN AMRO, the parent of LaSalle Bank Corporation, announced that it was selling LaSalle Bank Corporation to Bank of America for \$21 billion. By acquiring LaSalle Bank, Bank of America gains market share in Chicago and Detroit, two of the ten largest metropolitan areas in the U.S., and will become the largest commercial bank in the U.S. in terms of total assets.¹

In this report we analyze the likely effect that Bank of America's acquisition of LaSalle Bank will have on employment, earnings, and tax revenue in the Chicago Region (a four county region composed of Cook, DuPage, Lake, and Will Counties). We analyze two likely outcomes of the acquisition, each assuming different levels of cost savings and personnel cuts. These scenarios are described in "Two Potential Outcomes of Acquisition" on page 4.

The analysis shows that the total net employment impact on the Chicago Region from the acquisition will be in excess of 10,500 lost jobs. The net employment impact accounts for job losses spread over a two-year time period (2008 and 2009). It also includes jobs indirectly lost in other industries as a result of layoffs and relocations by Bank of America. See "Net Employment Impact" on page 6.

The analysis also shows that the earnings lost in the Chicago Region are estimated to be in excess of \$780 million over a two-year time period. See "Likely Impact on Earnings" on page 8.

1. Information is from the Federal Reserve and the ranking is based on consolidated assets as of March 31, 2007.

Finally, our analysis calculates the impact of the acquisition on state and local tax revenue. The loss in tax revenue comes from LaSalle Bank workers who have directly lost their earnings due to the acquisition. We estimate that in 2008, state and local governments will collect approximately \$21 million less in tax revenue (than they otherwise would have collected all else equal), and approximately \$43 million less in 2009. See “Likely Fiscal Impact” on page 9 for the complete analysis.

Note that this is an analysis of one sector of the Chicago regional economy. While we expect this sector to lose jobs after the acquisition, we expect total job gains in the region next year. This analysis quantifies the employment, earnings, and tax revenue losses that otherwise would not have occurred in the Chicago Region, all other things being equal.

BACKGROUND

LaSalle Bank Corporation

LaSalle Bank Corporation (‘LaSalle Bank’), a U.S. bank holding company, is an indirect subsidiary of ABN AMRO, a global banking group headquartered in the Netherlands. LaSalle Bank operates two separate U.S. banking subsidiaries: LaSalle Bank N.A. and LaSalle Bank Midwest N.A. These two subsidiaries employ approximately 15,000 people, and have over 400 retail branches, and more than 25 regional lending offices throughout the U.S.²

LaSalle Bank N.A. is headquartered in Chicago, Illinois. The bank was founded in Chicago in 1936 as the “Central National Bank in Chicago,” then became the “Exchange National Bank of Chicago” in 1982, “LaSalle National Bank” in 1990, and finally “LaSalle Bank N.A.” in 1999.³ All 140 retail branches of LaSalle Bank N.A. are in Illinois.⁴ In the Chicago-Naperville-Joliet Metropolitan Statistical Area (Chicago MSA), LaSalle Bank N.A. had the second largest market share (14.1%) in terms of deposits as of June 30, 2006, lagging only JP Morgan Chase Bank NA, which has 15.3% of the market. As of March 31, 2007, LaSalle Bank N.A. had just over \$75 billion in total assets, with just under \$40 billion in total domestic deposits.⁵

LaSalle Bank Midwest N.A. is headquartered in Troy, Michigan. This banking institution was originally established in 1977 as “Michigan National Bank - Farmington,” then became “Michigan National Bank” in 1987, “Standard Federal Bank National Association” in 2001, and “LaSalle Bank Midwest National Association” in 2005.⁶ It has approximately 270 retail branches, 264 in Michigan and 6 in Indi-

2. Data obtained from LaSalle Bank at <https://onlinebanking.lasallebank.com/>

3. Federal Deposit Insurance Corporation (“FDIC”), *History of LaSalle Bank National Association, Chicago, Illinois* (FDIC Cert: 15407)

4. FDIC, *Institution Summary*, August 1, 2007.

5. FDIC, *Summary of Deposits Market Share Report*, June 30, 2006

6. FDIC, *History of Michigan National Bank - Farmington, Farmington Hills, Michigan* (FDIC Cert: 22488), August 1, 2007.

ana.⁷ In the Detroit-Warren-Livonia Metropolitan Statistical Area (Detroit MSA), LaSalle Bank had the largest market share in term of deposits as of June 30, 2006 with 23.0% market share. The next largest bank in the Detroit MSA is Comerica Bank with 22.8% market share.⁸ As of March 31, 2007, it had just over \$40 billion in total assets, with approximately \$24 billion in total domestic deposits.

Bank of America Corporation

Bank of America N.A. (“Bank of America”) is a subsidiary of Bank of America Corporation, a bank holding company. Both are headquartered in Charlotte, North Carolina. Bank of America was formed in 1904 as the “Bank of America National Trust And Savings Association”. It changed its name to the “Bank of America National Association” in 1999.⁹ Bank of America has about 200,000 employees and has approximately 6,000 retail branches, 74 in Illinois and none in Michigan or Indiana.¹⁰ It had less than a 2% market share in the Chicago MSA and no market share in the Detroit MSA, as of June 30, 2006.¹¹ As of March 31, 2007, it had just over \$1.2 trillion in total assets, with approximately \$602 billion in total domestic deposits.

Bank of America’s Proposed Acquisition of LaSalle Bank Corporation

On April 23, 2007, ABN AMRO announced that it was selling its ABN AMRO North America Holding Company, which consists predominantly of the retail and commercial banking activities of LaSalle Bank Corporation to Bank of America for \$21 billion.¹²

The acquisition was postponed temporarily by a lawsuit filed in the Dutch Supreme Court that was attempting to require a vote of the shareholders for the sale. However, in mid-July, the Court ruled that a shareholder vote was not necessary. Bank of America has announced that the acquisition will occur in late 2007.¹³

By acquiring LaSalle Bank, Bank of America will gain market share in Chicago and Detroit, two of the ten largest Metropolitan Statistical Areas (in terms of population size) in the United States. Bank of America will gain 17,000 commercial banking

7. FDIC, *Institution Summary*, August 1, 2007.

8. FDIC, *Summary of Deposits Market Share Report*, June 30, 2006

9. FDIC, *History of Bank Of America, National Association, Charlotte, North Carolina* (FDIC Cert: 3510), August 1, 2007.

10. Employee data is from Bank of America’s *2006 Annual Report* and is Full-Time Equivalent Employees. Branch information is from FDIC, *Institution Summary*, August 1, 2007

11. FDIC, *Summary of Deposits Market Share Report*, June 30, 2006

12. ABN AMRO, *ABN AMRO Announces USD 21 Billion Sale of LaSalle to Bank of America*, Press Room, April 23, 2007.

13. Becky Yerak, *Court Clears Way for Sale of LaSalle Bank*, Chicago Tribune, July 14, 2007.

clients, 1.4 million retail customers, 411 banking centers and 1,500 ATMs in Illinois, Michigan, and Indiana.¹⁴

As shown in Table 1, LaSalle Bank has a substantial presence in the Chicago Region, defined as Cook, DuPage, Lake, and Will Counties in this analysis. LaSalle Bank has 97 offices in Cook County where it holds a 19% market share. In comparison, Bank of America has only 23 offices and a 2.5% market share in Cook County.

TABLE 1. LaSalle Bank and Bank of America’s Presence in Chicago Area

County	LaSalle Bank		Bank of America	
	Offices	Market Share	Offices	Market Share
Cook	97	19.0%	23	2.5%
DuPage	20	5.9%	5	0.3%
Lake	10	4.1%	5	0.4%
Will	6	2.4%	4	0.6%

*Data Source: Federal Deposit Insurance Corporation
Analysis Anderson Economic Group, LLC*

TWO POTENTIAL OUTCOMES OF ACQUISITION

The critical question of this analysis is how the acquisition will affect LaSalle Bank’s employees, the Chicago regional economy, and the tax revenue state and local governments receive. AEG identified and analyzed two potential outcomes of the acquisition.

Both scenarios assume that Bank of America will not retain any headquarters personnel in the Chicago Region. Bank of America has publicly stated that it will eliminate duplicate positions in marketing and other support positions. The scenarios differ in assumptions of total cost savings from personnel actions, and how headquarters positions are reduced (layoffs versus relocation). The scenarios assume that most branch positions will be retained, as Bank of America has publicly stated their intent to keep the branch offices. Exhibit I and Exhibit II at the end of this report illustrate how the branch offices of these two banks complement each other. We describe the two scenarios below.

Scenario One. The starting point for Scenario One is Bank of America’s publicly stated plan that after the acquisition it will reduce LaSalle Bank’s overhead expenses, including personnel costs, by \$1.25 billion (pre-tax), or by approximately 50%. Half of these annual savings are to begin during the first year of the acquisition and the remaining half in the second year of the acquisition.¹⁵

14. Bank of America, *Bank of America Acquires LaSalle Bank*, PowerPoint Presentation, April 23, 2007.

15. Bank of America, *Bank of America Acquires LaSalle Bank*, PowerPoint Presentation, April 23, 2007, available at <http://library.corporate-ir.net/library/71/715/71595/items/241017/LaSalle%20IR%20final%20Print%20Pack.pdf>

Although Bank of America has not publicly stated how it will achieve these cost savings, personnel costs are a likely target.¹⁶ Our first scenario assumes that 50% of the \$1.25 billion of the cost reductions will come from personnel actions. This \$625 million reduction is almost 45% of the \$1.4 billion we estimate in total compensation.

We assume that 3,900 of 4,000 headquarters employees will be laid off, and 1,118 branch employees in the Chicago Region will be laid off. Additionally, the remaining 100 headquarters employees will be relocated to Bank of America headquarters in North Carolina. See Table 2 on page 6.

Scenario Two. In scenario two, we assume \$800 million in total cost savings for Bank of America. The resulting personnel reduction (at 50% of total cost savings) is \$400 million. This represents slightly less than a 30% reduction of the estimated total compensation of \$1.4 billion. Our estimate of \$800 million in pre-tax cost savings is based on our analysis of operating efficiency ratios for Bank of America, LaSalle Bank, and the combination of the two entities.

Given operating income of \$3.96 billion and \$2.45 billion of non-interest expenses, LaSalle Bank has an efficiency ratio of 61.9%.¹⁷ An efficiency ratio in banking is simply the ratio of non-interest expenses (overhead costs) to operating income. Lower ratios indicate lower costs relative to operating income. The efficiency ratio for all 8,681 institutions reporting to the Federal Deposit Insurance Corporation (FDIC) is 61.4%.¹⁸

Bank of America's efficiency ratio for 2006 was 51%, and the combined total for the two organizations after the acquisition would be 51.6%.¹⁹ Assuming cost reductions of \$1.25 billion, 50% of LaSalle's current cost level, would improve the efficiency ratio for the combined organization to 49.8%, and LaSalle's effective "stand alone" ratio to slightly greater than 30%. See Exhibit V. "Efficiency Ratios of LaSalle Bank and Bank of America," on page 18.

In Scenario Two, we achieve an efficiency ratio of 50.5% by reducing costs by \$800 million. We assume that 50% of the cost reductions will come from personnel actions: the jobs of 2,500 of 4,000 headquarters jobs will be eliminated, and 274 branch employees in the Chicago Region will be laid off. Of the remaining 1,500 headquarters employees, we assume that 75% (1,125 employees) will be laid off

16. Becky Yerak, *Court Clears Way for Sale of LaSalle Bank*, [Chicago Tribune](#), July 14, 2007.

17. The efficiency ratio was calculated using FDIC income and expense data (FDIC, *Statistics on Depository Institutions Report*, December, 31, 2006). The revenue used in these calculation was not converted to a taxable equivalent amount. The formula, which used available data in the report, was calculated as follows: [total non-interest expense / (total non-interest expense + pre-tax net operating income)].

18. FDIC, *Statistics on Depository Institutions Report*, December, 31, 2006.

19. FDIC, *Statistics on Depository Institutions Report*, December, 31, 2006

and replaced by new employees at Bank of America headquarters in North Carolina, meaning that the jobs will remain in the company but are still lost to the Chicago economy, and the Chicago workers still lose their jobs. The remaining 25% (375 employees) will be relocated to North Carolina, another loss of jobs for the Chicago area labor market, though the relocated employees retain their jobs. See Table 2 below.

We discuss how we arrived at these scenarios in more detail in “Methodology Appendix” on page 30. Our full analysis for personnel affected by the acquisition is in Exhibit III. “Chicago Region Gross Employment Losses due to Bank of America’s Acquisition of LaSalle Bank,” on page 15.

TABLE 2. Gross Job Reduction in Chicago Region due to Acquisition

	Headquarters Jobs Eliminated^a	Branch Jobs Eliminated	Employees Relocated	Total Jobs Affected
Scenario One	3,900	432	100	4,432
Scenario Two	3,625	274	375	4,274

Source: Anderson Economic Group, LLC

- a. This category includes both jobs permanently eliminated by the company and therefore a cost savings for Bank of America, and jobs that are shifted to Bank of America’s headquarters in North Carolina.

NET EMPLOYMENT IMPACT

Each job cut due to the acquisition does not necessarily mean that the Chicago Region loses a job. Some workers will stay in the area and start their own businesses, adding new jobs to the region. Others will move to existing firms in the Chicago Region that hire more workers (than they otherwise would have) as a result of the abundance of highly-skilled workers at a lower wage.

We analyzed the regional economy’s labor market in order to determine how likely it is that unemployed workers would remain in the Chicago Region and create a “new” job, as opposed to simply displacing an existing worker.

Regional Economy and Labor Market

In recent years, the Chicago Region has experienced good private employment growth, increasing by 2.7%. Between 2005 and 2006, employers added 53,923 new jobs in the Region. Almost half of the new jobs were added in Cook County. This employment growth has been accompanied by a low unemployment rate; in 2006 the unemployment rate was 4.4%.²⁰

20. Private employment data is from the U.S. Bureau of Labor Statistics (BLS) Quarterly Census of Employment and Wages. Unemployment data is also from the BLS. The unemployment rate is the seasonally adjusted annual rate for the Chicago MSA in 2006.

In the four-county region employment in the depository credit intermediation industry (which includes commercial banks, savings institutions, credit unions, and other establishments that primarily engage in accepting deposits and in lending funds from these deposits) was 1.6% lower in 2006 than in 2001. After a dip in employment during and after the 2001 recession, employment in the industry has risen the past two years in the region. Between 2005 and 2006, the number of jobs in this industry increased 1%.²¹

Some sectors have done better than others within the financial industry. Employment in commercial banking (NAICS industry 52211) in the four-county region was 1.2% higher in 2006 than in 2001; however, employment in savings institutions (NAICS industry 52212) fell by 6.4% between 2001 and 2006.

From the analysis of the regional labor market, we can see that the industry is not adding many jobs and that it would be unlikely for the financial sector to absorb a large number of laid-off LaSalle Bank employees.

Net Job Losses due to the Acquisition

The Chicago regional labor market provides guidance for how many new jobs will be created after the acquisition and how many of the eliminated and relocated jobs will be totally lost. The “net employment impact” depends on what employees do after they are laid off. If they remain in the area and start new businesses, then the job loss is less than the gross number of people laid off or relocated. We calculate “net direct job losses” due to the acquisition as the jobs lost in the Chicago Region minus any new jobs created in the Region after the acquisition. The two components of this analysis (jobs lost and jobs gained) are defined below.

Jobs Lost in the Region due to the Acquisition. These include jobs lost due to permanent personnel cuts by Bank of America and from the relocation of LaSalle Bank headquarters jobs to Bank of America’s headquarters in Charlotte, North Carolina.

The category also includes laid-off workers that have displaced workers in the Chicago Region. This occurs when a laid-off worker accepts a job in the same industry or another industry, but the firm had planned to hire a worker anyway, regardless of the LaSalle Bank acquisition. Even though the worker does not leave the Chicago Region, it is still a job loss because the number of financial jobs has decreased and has not been off-set by any increase in employment (above what has been planned for) in the new industry.

New Jobs Gained due to the Acquisition. These new jobs come from two sources. New jobs include laid-off workers that decide to start their own firms, adding new employment to the region. We also include workers who go into jobs in the

21. Data from the U.S. Bureau of Labor Statistics, Quarterly Census of Employment and Wages. The depository credit intermediation is NAICS industry 5221.

region where the firm had not planned to hire a worker, but with the abundance of highly skilled labor wanting to find a job in the area, decided to hire new employees. We assume that workers in this situation are taking a pay cut, making it a good time for the firm to hire someone in an unplanned, opportunistic way. This may add a new job to the economy as the firm expands its staff, delays or cancels a contraction, or cancels a hire of similar staff outside the region.

As a result of our analysis, we estimate that the net direct jobs lost in the Chicago Region due to the acquisition will be over 4,000. Over time, as the job losses ripple through the economy, we estimate an additional 6,500 to 6,700 jobs will be loss as the economy contracts due the direct job losses. In total, we estimate in excess of 10,500 jobs will be lost in the Chicago Region due to the acquisition. See Table 3.

TABLE 3. Net Employment Impact in Chicago Region over Two Year Period

	First Year (2008)	Second Year (2009)	Cumulative (2008-2009 Total)		
			Net Direct Jobs Lost ^a	Indirect Jobs Lost ^b	Total Jobs Lost Due to Acquisition
Scenario One	2,075	2,075	4,150	6,715	10,866
Scenario Two	2,007	2,007	4,015	6,496	10,511

Source: Anderson Economic Group, LLC

- a. *Net Direct Jobs Lost* in the four county region is defined as expected layoffs after the acquisition minus the new jobs created in the region that unemployed Bank of America and LaSalle employees take.
- b. *Indirect Jobs Lost* in the four county region is the additional jobs lost in other sectors due to the job losses in the financial industry. These are jobs lost as the unemployment ripples through the economy.

LIKELY IMPACT ON EARNINGS

With job losses come a loss in earnings. Workers receive wages for their work and then spend most of this money in the community in which they live. There are two types of lost earnings. The first type includes the entire compensation of employees who find themselves unemployed or their job transferred to Bank of America's headquarters in North Carolina. The second type of lost compensation is from workers who accept a new job in the Chicago Region and earn less.

As shown in Table 4 on page 9, we estimate that the cumulative direct earnings lost will be in excess of \$360 million. The direct earnings loss comes from the loss in compensation to LaSalle Bank employees laid off over a two-year time period. AEG estimates the indirect lost earnings, or the earnings to other individuals for goods and services purchased by LaSalle Bank employees, will be in excess of \$420 million. In total, we estimate a loss of earnings of over \$780 million because of these job losses.

In addition to estimating the entire lost earnings for two years, we estimated the value of each lost headquarters job in perpetuity. In present value terms, each lost headquarters job, on average, represents a \$5.1 million loss in future earnings.²²

TABLE 4. Net Impact of Acquisition on Earnings in Chicago Region, 2008 and 2009 (2007 millions of dollars)

	Cumulative Direct Earnings Lost ^a	Indirect Earnings Lost ^b	Total Earnings Lost
Scenario One	\$371.6	\$431.9	\$803.5
Scenario Two	\$362.7	\$421.6	\$784.4

Source: Anderson Economic Group, LLC

- a. *Direct Earnings Lost* includes the lost earnings due to eliminated and relocated jobs and the lower earnings of new jobs that pay less.
- b. *Indirect Earnings Lost* is the lost earnings in the rest of the area economy as the spending by former LaSalle employees disappears. We calculate indirect earnings using the BEA's RIMS II direct-effect earnings multiplier for the Chicago four-county region's "monetary authorities and depository credit intermediation" industry.

LIKELY FISCAL IMPACT

State and local tax revenue will suffer as a result of the job and earnings losses in the Chicago Region. To calculate the tax revenue losses, we gathered detailed information on state and local taxes that individuals in Illinois pay. We looked specifically at the taxes in communities that LaSalle Bank employees are likely to live in. We estimated the lost revenue to state and local governments in aggregate terms over the Chicago Region using tax rates that are representative of the communities these laid-off workers might live in, but do not describe any one specific community. We do not attempt to estimate what portion of these losses would accrue to specific communities. We describe our methodology in "Fiscal Impact" on page 33 under the "Methodology Appendix" at the end of this report.

In 2008 only half of the net employment losses will be realized. We estimate that in 2008 state tax revenue will be over \$10 million lower than it otherwise would have been and \$21 million lower in 2009, which is when all job cuts will have been made. We estimate that local governments will receive \$5 million less in tax revenue in 2008 and over \$11 million less in 2009 than they would have otherwise received had the LaSalle Bank jobs remained in the region. See Table 5 on page 10.

22. To arrive at the \$5.1 million figure we use a growth rate of 3.2%, which has been the average annualized growth rate in NAIC 522 private annual pay between 2001 and 2006. Our discount rate is 5%, which is the current rate on the 30-year treasury note. We use an average annual wage of \$91,000.

TABLE 5. Lost State and Local Tax Revenue due to Acquisition, 2008 and 2009 (2007 millions of dollars)

	2008		2009	
	State Tax Revenue	Local Tax Revenue	State Tax Revenue	Local Tax Revenue
Scenario One	\$10.7	\$5.7	\$21.5	\$11.5
Scenario Two	\$10.5	\$5.6	\$21.0	\$11.2

Source: Anderson Economic Group, LLC

Our lost tax revenue estimate is on the low end of the likely losses in tax revenue for two reasons. First, to calculate lost state and local tax revenue, we identified state and local taxes that individuals, as opposed to businesses, pay in Illinois. We did not calculate lost businesses taxes, which there will surely be, as it was outside the scope of this analysis. Second, we only calculated the loss in earnings from employees directly affected by the acquisition (i.e. only laid-off and relocated workers). The fiscal impact would be larger once the lost tax revenue from indirectly unemployed workers is factored into the analysis. Again, such an analysis was outside the scope for this report.

OTHER ISSUES WITH ACQUISITION

One concern with the acquisition is whether the Bank of America can remain under the 10% deposit cap, a federal law that prohibits a merger or acquisition of two or more banks if their total insured deposits exceeded 10% of the national total at the time. At year-end 2006 Bank of America had a little over 9% of the national total, and it is estimated that the combined total now would come very close to, or exceed the limit.²³

DATA TABLES AND EXHIBITS

This report includes detailed maps and data tables summarizing our assumptions, and the results of our calculations.

- Exhibit I. “LaSalle and Bank of America Branch Locations, Chicago Area,” on page 13
- Exhibit II. “LaSalle and Bank of America Branch Locations, Downtown Chicago,” on page 14
- Exhibit III. “Chicago Region Gross Employment Losses due to Bank of America’s Acquisition of LaSalle Bank,” on page 15
- Exhibit IV. “Chicago Region Employee Compensation Losses due to Bank of America’s Acquisition of LaSalle Bank,” on page 16
- Exhibit V. “Efficiency Ratios of LaSalle Bank and Bank of America,” on page 18
- Exhibit VI. “Effective Tax Rates on Income,” on page 19
- Exhibit VII. “Cumulative Lost Employment, 2008-2009, Scenario 1,” on page 20
- Exhibit VIII. “Cumulative Lost Employment, 2008-2009, Scenario 2,” on page 21

23. David Enrich, *LaSalle Deal may Push Bank of America over 10% Deposit Cap*, MarketWatch, June 12, 2007.

-
- Exhibit IX. “Lost Earnings and State and Local Taxes, Scenario 1, 2008,” on page 22
 - Exhibit X. “Lost Earnings and State and Local Taxes, Scenario 1, 2009,” on page 24
 - Exhibit XI. “Lost Earnings and State and Local Taxes, Scenario 2, 2008I,” on page 26
 - Exhibit XII. “Lost Earnings and State and Local Taxes, Scenario 2, 2009,” on page 28

ABOUT ANDERSON ECONOMIC GROUP

Anderson Economic Group LLC specializes in economics, public policy, financial valuation, market research, and land use economics. AEG’s past clients include:

- *Governments*, such as the states of Michigan, North Carolina, and Wisconsin; the cities of Detroit, MI, Cincinnati, OH, Norfolk, VA, and Fort Wayne, IN; counties such as Oakland County, Michigan, and Collier County, Florida; and authorities such as the Detroit-Wayne County Port Authority;
- *Corporations* such as GM, Ford, Delphi, Honda, Metaldyne, Taubman Centers, The Detroit Lions, PG&E Generating; SBC, Gambrinus, Labatt USA, and InBev USA; automobile dealers and dealership groups representing Toyota, Honda, Chrysler, Mercedes-Benz, and other brands;
- *Nonprofit organizations*, such as Michigan’s University Research Corridor, Michigan State University, Wayne State University, Van Andel Institute, the Michigan Manufacturers Association, International Mass Retailers Association, American Automobile Manufacturers Association, Automation Alley, and the Michigan Chamber of Commerce.

For additional information see AEG’s website: www.andersoneconomicgroup.com.

ABOUT THE AUTHORS

Caroline M. Sallee. Ms. Sallee is a Consultant at Anderson Economic Group, working in the Public Policy, Fiscal, and Economic Analysis practice area. Ms. Sallee’s background is in applied economics and public finance.

Ms. Sallee’s recent work includes an economic impact study for Michigan’s University Research Corridor, economic and fiscal impact studies for Michigan State University, and the benchmarking of Michigan’s business taxes with other states in a project for the Michigan House of Representatives. She has also completed several technology industry reviews, which estimated the wages and employment of technology workers in Southeast Michigan and West Virginia.

Ms. Sallee holds a Masters degree in Public Policy from the Gerald R. Ford School of Public Policy at the University of Michigan and a Bachelor of Arts degree in economics and history from Augustana College.

Alex L. Rosaen. Mr. Rosaen is a Senior Analyst at Anderson Economic Group, working in the Public Policy, Fiscal, and Economic Analysis practice areas. Mr. Rosaen’s background is in applied economics and public finance.

Mr. Rosaen’s recent work includes an analysis of the fiscal impact of a proposed coal-fired power plant, an analysis of the impact of tax incentives on the freight rail industry, and an analysis of the economic impact of a second bridge span for the Ambassador Bridge in Southeast Michigan.

Mr. Rosaen holds a Master's in Public Policy from the Gerald R. Ford School of Public Policy at the University of Michigan. He also has a Master's of Science and a Bachelor's of Science in mechanical engineering from the University of Michigan.

Darci R. Keyes. Ms. Keyes is a Senior Consultant at Anderson Economic Group, with expertise in finance and law. She works primarily in the Finance and Business Valuation, and Public Policy, Fiscal and Economic Analysis practice areas.

Prior to joining Anderson Economic Group, Ms. Keyes worked as a financial analyst for Ford Motor Company where she held positions in manufacturing, internal audit, marketing and sales, accounting policy and transactional accounting. Prior to joining Ford, Ms. Keyes worked as an attorney in Pittsburgh, Pennsylvania.

Ms. Keyes holds an MBA from the Katz School of Business at the University of Pittsburgh; a Juris Doctorate, with a concentration in taxation and real property, from the State University of New York at Buffalo; and a BA in French and business from Nazareth College in Rochester, New York. Ms. Keyes is a licensed attorney in the states of Pennsylvania, New York, and Michigan. She is also a Certified Internal Auditor.

Timothy Mahon. Mr. Mahon is a Principal at Anderson Economic Group and directs the Chicago office. He manages projects in the firm's Finance and Business Valuation practice, and provides expert testimony for clients with economic, financial, and operations related litigation matters.

Mr. Mahon has over 20 years of experience in finance and accounting as well as operations, strategy, turn-around and start-up. Prior to joining Anderson Economic Group, he was the Chief Financial Officer for a private equity funded, start-up renewable energy company. He also practiced in the Financial Advisory Services group at PricewaterhouseCoopers, where he served as the primary financial and operational consultant and forensic accountant and engineer to tier-one clients.

He holds an MBA from J.L. Kellogg Graduate School of Management at Northwestern University. After graduating from Kellogg, he served as an Adjunct Professor in the Management program. He also holds a B.S. in Civil Engineering from Marquette University.

COPYRIGHT NOTICE & DISCLAIMERS

This entire report, including tables, is copyright (c) 2007 by Anderson Economic Group LLC. All rights reserved, except permission to reproduce in its entirety, including this notice, for news media and research purposes. Resale without permission, and use in derivative works, expressly prohibited. "Fair use" excerpts may be included in news or research reports provided a complete citation is given to the author, title, and publisher. This report is based on publicly available information; and regional, industry, and other information known to us that we deem, in our professional judgement, to be reliable or indicative at the current time.

Exhibit I. LaSalle Bank & Bank of America Branch Locations, Chicago Area



Exhibit III. Chicago Region Gross Employment Losses due to Bank of America's Acquisition of LaSalle Bank

		<u>Scenario 1</u>	<u>Scenario 2</u>
LaSalle Bank Headquarters			
Jobs Eliminated at LaSalle Bank's Headquarters	1/	3,900	2,500
Jobs Replaced by New Employees at Bank of America Headquarters	2/	-	1,125
Chicago Region Headquarters Employees Relocated to Bank of America's Headquarters	3/	100	375
Percent of Job Losses in Chicago Region	4/	100%	100%
TOTAL HEADQUARTERS JOBS LOST IN CHICAGO REGION		<u>4,000</u>	<u>4,000</u>
LaSalle Bank Branches			
Jobs Eliminated at LaSalle Bank's Branch Offices	5/	1,439	915
Percent in Chicago Region	6/	30%	30%
TOTAL BRANCH JOBS LOST IN CHICAGO REGION		<u>432</u>	<u>274</u>
TOTAL HEADQUARTERS AND BRANCH JOBS LOST IN CHICAGO REGION		<u>4,432</u>	<u>4,274</u>

Sources and Notes

- 1/ AEG assumption on number of headquarters positions eliminated based on a analysis of the number of headquarters employees. Analysis involved reviewing SEC material, FDIC reports on number of employees at the subsidiaries, and speaking to LaSalle Bank's Communications Office.
- 2/ AEG assumption in Scenario 1 that no remaining headquarters jobs will be replaced by others.
AEG assumption in Scenario 2 that 75% of remaining headquarters jobs will be replaced by others.
- 3/ AEG assumption in Scenario 1 that all remaining headquarters jobs will be a result of relocation.
AEG assumption in Scenario 2 that 25% of remaining headquarters jobs will be a result of relocation.
- 4/ AEG assumption that all headquarters jobs are located in Chicago Region.
- 5/ AEG calculation of the number of jobs eliminated at branches resulting from assumptions on total personnel cost reductions, number of headquarters positions eliminated, compensation of headquarters positions eliminated, and compensation of branch employees.
- 6/ AEG calculation of the percent of branch reductions occurring in the Chicago Region resulting from estimates of the relative cost of employees at Chicago Region branches to all branches, weighted for the number of branches. The estimate assumes that employees are likely to be reduced evenly across all branches.

Exhibit IV. Chicago Region Employee Compensation Losses due to Bank of America's Acquisition of LaSalle Bank

		<u>Scenario 1</u>	<u>Scenario 2</u>
LaSalle Bank Corporation Total Cost Reductions			
Total Cost Reductions	1/	\$ 1,250,000,000	\$ 800,000,000
Percent Attributable to Personnel Costs	2/	50%	50%
TOTAL COST SAVINGS FROM PERSONNEL CUTS		<u>\$ 625,000,000</u>	<u>\$ 400,000,000</u>
LaSalle Bank Headquarters			
Cost Savings from Eliminated Headquarters Jobs (Total Compensation)			
Total Jobs Eliminated from Headquarters	3/	3,900	2,500
Average Annual Cost of Headquarters Personnel in Chicago Region (Total Compensation)	4/	\$ 130,000	\$ 130,000
Total Cost Savings from Eliminated Jobs		<u>\$ 507,000,000</u>	<u>\$ 325,000,000</u>
Costs Shifted to Bank of America's Headquarters Office (Total Compensation)			
Total Jobs Shifted to Bank of America's Headquarters	5/	100	1,500
Average Annual Cost of Headquarters Personnel in Chicago Region (Total Compensation)	6/	\$ 130,000	\$ 130,000
Total Costs Shifted out of Chicago Region to Bank of America's Headquarters		<u>\$ 13,000,000</u>	<u>\$ 195,000,000</u>
TOTAL HEADQUARTERS EMPLOYEE COMPENSATION LOSSES TO CHICAGO REGION		<u>\$ 520,000,000</u>	<u>\$ 520,000,000</u>
LaSalle Bank Branches			
Total Cost Savings from Personnel Cuts	7/	\$ 625,000,000	\$ 400,000,000
Total Cost Savings from Headquarters	8/	\$ (507,000,000)	\$ (325,000,000)
Total Cost Savings in Personnel from Branches	9/	<u>\$ 118,000,000</u>	<u>\$ 75,000,000</u>
Percent of Cost Savings in Chicago Region	10/	35%	35%
TOTAL BRANCH EMPLOYEE COMPENSATION LOSSES TO CHICAGO REGION		<u>\$ 40,926,341</u>	<u>\$ 25,929,878</u>
TOTAL HEADQUARTERS AND BRANCH EMPLOYEE COMPENSATION LOST IN CHICAGO REGION		<u>\$ 560,926,341</u>	<u>\$ 545,929,878</u>
<i>Memo:</i>			
Total Personnel Cost Savings for Bank of America (only eliminated jobs)	11/	\$ 547,796,341	\$ 350,929,878

Source and Notes:

- 1/ Total savings in Scenario 1 is based on Bank of America announcements. Total savings in Scenario 2 is based on AEG's analysis of the effect of cost savings to reductions on Bank of America's efficiency ratio pre and post acquisition. Savings of \$800 million improve the pre-acquisition ratio of Bank of America (51%) and LaSalle (61.9%) to a combined total of 50.5%. Savings of \$1.25 billion improved the combined efficiency ratio to 49.8%; which in AEG's opinion, might be too aggressive.*
- 2/ AEG estimates that 50% percent of total cost reductions will be attributable to personnel cuts.
Based on AEG estimates, the personnel reductions in Scenario 1 equate to an overall reduction in personnel expense of 44%, and 28% in Scenario 2.*
- 3/ AEG estimates of headquarters personnel affected by cost reductions.*
- 4/ Average wage information for headquarters (support) functions is an estimate based on the BLS's Occupational Employment Statistics (OES) Survey. Wages from the 75th percentile for 20 relevant job classifications in the Chicago MSA were averaged. The 75th percentile was used since the jobs are located in the City of Chicago. The estimated average wage for headquarter employees in the Chicago Region is \$92,000.
Average compensation is calculated based on wage and compensation data from Bureau of Labor Statistics Data on employer costs for employees - Midwest Region East North Central division. Wages account for 70% of compensation and benefits and taxes account for 30%.
The estimated average compensation for headquarters employees in the Chicago Region is \$130,000.*
- 5/ AEG assumption in Scenario 1 that no remaining headquarter jobs will be replaced by others.
AEG assumption in Scenario 2 that 75% of remaining headquarter jobs will be replaced by others.*
- 6/ See note 4.*
- 7/ AEG assumption that 50% of cost reductions will be from personnel actions. See note 1 for total cost savings.*
- 8/ Total cost savings from headquarters are for positions eliminated, not transferred or relocated.*
- 9/ The remaining cost savings for personnel actions are from branch personnel cuts.*
- 10/ AEG estimates that 35% of the personnel costs will be saved from the Chicago Region. This percentage is derived from the number of branches and compensation amounts of branches in the Chicago Region in relation to all LaSalle branches.
The estimate assumes that employees are likely to be reduced evenly across all branches.*
- 11/ Bank of America's cost savings from personnel actions is limited to eliminated jobs at headquarters and in the branches. It does not include jobs transferred or relocated to Bank of America headquarters.*

Exhibit V. Efficiency Ratios of LaSalle Bank and Bank of America

		LaSalle		Bank of America		
		<u>Actual at 12/31/06</u>	<u>Actual at 12/31/06 (Without LaSalle)</u>	<u>Actual at 12/31/06 (With LaSalle)</u>	<u>Scenario 1 (with LaSalle)</u>	<u>Scenario 2 (with LaSalle)</u>
Operating Income	1/	\$ 3,966,096,000	\$ 65,455,853,000	\$ 69,421,949,000	\$ 69,421,949,000	\$ 69,421,949,000
Cost Savings	2/	n/a	n/a	n/a	\$ 1,250,000,000	\$ 800,000,000
Overhead Expenses	3/	\$ 2,455,667,000	\$ 33,384,312,000	\$ 35,839,979,000	\$ 34,589,979,000	\$ 35,039,979,000
Operating Efficiency Ratio	4/	61.9%	51.0%	51.6%	49.8%	50.5%

Memo:

Operating Efficiency Ratios All Institutions (12/31/06)	5/	61.4%
--	----	-------

Sources and Notes:

1/ *FDIC - Statistics on Depository Institutions Report*

(Operating Income is the sum of interest and non interest revenue less interest expense. (Not adjusted for Tax Equivalency))

2/ *Total savings in scenario 1 is based on Bank of America announcements and scenario 2 is based on AEG estimate.*

3/ *FDIC - Statistics on Depository Institutions Report*

4/ *The Operating Efficiency ratio is the percentage of operating income spent on overhead ("non-interest") expenses.*

Exhibit VI: Effective Tax Rates on Income

Tax	Notes	Base Rate	Spending on Taxed Item (% of Whole Income)	Spending on Taxed Item (% of Marginal Income)	Effective Rate on whole income	Effective Rate on marginal income
State Income Tax	1/	3.0%	n/a	3.0%	3.34%	3.00%
State General Merchandise Tax		6.25%	28.4%	19.8%	1.77%	1.24%
State Food/Drugs/Medical Devices Tax		1.0%	5.1%	2.3%	0.05%	0.02%
State Vehicle Tax		6.25%	5.8%	3.8%	0.36%	0.24%
State Motor Fuel Tax	2/	7.1%	2.6%	1.0%	0.18%	0.07%
State Underground Storage Tank Tax	2/	0.1%	2.6%	1.0%	0.003%	0.001%
State Cigarette Use Tax	3/	18.7%	0.2%	-0.1%	0.04%	-0.02%
State Electricity Excise Tax	4/	3.2%	1.3%	0.5%	0.04%	0.02%
Local General Merchandise Tax		1.5%	23.4%	16.1%	0.35%	0.24%
Local Food/Drugs/Medical Devices Tax		0.3%	4.2%	1.8%	0.01%	0.005%
Local Motor Fuel Tax		1.5%	2.2%	0.8%	0.03%	0.01%
Local Property	5/	n/a	2.70%	2.70%	2.70%	2.70%

Memo:

For all taxes except income and property taxes, effective rate is the base rate times spending on the taxed item as a percentage of income. Spending as a percentage of income is calculated using the Bureau of Economic Analysis Consumer Expenditures Survey for 2005. We use spending as a percentage of income for the highest income quintile (income above \$85,147) for the "whole income" base (i.e. spending examined as a percentage of the worker's entire income) and the difference between spending in the highest and second highest quintile to approximate the spending of marginal income for former LaSalle Bank workers.

Notes:

- 1/ The income tax as a percentage of whole income is calculated as a statewide average, dividing 2005 Illinois state income tax receipts (\$7.9 million) by the total state salaries and wages for 2005 (\$237.4 Billion). Source: US Census Bureau State Government Tax Collections for 2005, and IRS Statistics of Income.
- 2/ The state Motor Fuel and Underground Storage Tank taxes are collected on a per-gallon-sold basis (19 cents and 0.3 cents per gallon, respectively). We convert these taxes to a percentage basis using the 2006 average price for a gallon of gasoline in the Chicago area, which is \$2.69). Source: Bureau of Labor Statistics.
- 3/ The Cigarette tax is collected on a per-unit basis (98 cents per pack of 20 cigarettes). We assume that all spending on tobacco by consumers in the Consumer Expenditures Survey was on cigarettes. We convert the tax to a percentage basis using the average retail price for a pack of cigarettes in Illinois according to a July, 2007 report by the anti-smoking lobby group Tobaccofreekids.org. While this group lobbies for higher cigarette taxes, we consider this group to be a credible source for the consumer price of cigarettes.
- 4/ We estimated an approximate average tax rate of 0.3212 cents per kWh of electricity use by assuming 10,000 kWh of electricity use (the average household electricity use in 2001 according the Energy Information Administration) and taking a weighted average of the two Excise tax rates that apply to this level of consumption. We assume the average price of 1 kWh of electricity is 10 cents (source: Bureau of Labor Statistics, 2006, Chicago MSA). Source for household electricity use: <http://www.eia.doe.gov/emeu/recs/recs2001/enduse2001/enduse2001.html>
- 5/ The property tax as a percentage of income for both whole and marginal income is calculated using the Statistics of income for the highest income quintile for 2005.

Exhibit VII: Cumulative Lost Employment, 2008-2009, Scenario 1

Employment Loss	<u>Path of Laid-off or Relocated Employees</u>	<u>2008</u>	<u>2009</u>	<u>Impact on Employment</u>
	Type A- HQ employees starting new firm	39	78	None
	Type B- HQ employees re-employed in same industry	98	195	None
	Type C- HQ employees unemployed or moved out of Chicago	1814	3627	Net Direct Loss
	Type D- HQ employees relocated to Charlotte	50	100	Net Direct Loss
	Type E- Branch employees unemployed or moved out of Chicag	212	423	Net Direct Loss
	Type F- Branch employees re-employed in same industry	4	9	None
	 Total Workers Laid Off or Relocated From LaSalle Bank	 2216	 4432	
	Total Net Direct Lost Workers	2075	4150	
	 <u>Indirect Jobs Lost</u>	 <u>No. People</u>	 <u>No. People</u>	
	Net Direct Jobs Lost	2075	4150	
	RIMS II Direct-Effect Employment Multiplier	1.618	1.618	
	<i>Subtotal - Indirect Jobs Lost - All Industries</i>	<hr/> 3358	<hr/> 6715	
	 <u>Summary Location Breakdown</u>	 <u>No. People</u>	 <u>No. People</u>	
	Net Direct HQ Jobs Lost	1864	3727	
	Net Direct Branch Jobs Lost	212	423	
	 <u>Summary</u>	 <u>No. People</u>	 <u>No. People</u>	
	Net Direct Jobs Lost	2,075	4,150	
	Indirect Jobs Lost - All Industries	<hr/> 3,358	<hr/> 6,715	
	Total - Direct and Indirect Jobs Lost	<hr/> 5,433	<hr/> 10,866	

Exhibit VIII: Cumulative Lost Employment, 2008-2009, Scenario 2

Employment Loss	<u>Path of Laid-off or Relocated Employees</u>	<u>2008</u>	<u>2009</u>	<u>Impact on Employment</u>
	Type A- HQ employees starting new firm	36	73	None
	Type B- HQ employees re-employed in same industry	91	181	None
	Type C- HQ employees unemployed or moved out of Chicago	1686	3371	Net Direct Loss
	Type D- HQ employees relocated to Charlotte	188	375	Net Direct Loss
	Type E- Branch employees unemployed or moved out of Chicag	134	269	Net Direct Loss
	Type F- Branch employees re-employed in same industry	3	5	None
	 Total Workers Laid Off or Relocated From LaSalle Bank	 2137	 4274	
	Total Net Direct Lost Workers	2007	4015	
	 <u>Indirect Jobs Lost</u>	 <u>No. People</u>	 <u>No. People</u>	
	Net Direct Jobs Lost	2007	4015	
	RIMS II Direct-Effect Employment Multiplier	1.618	1.618	
	<i>Subtotal - Indirect Jobs Lost - All Industries</i>	<hr/> 3248	<hr/> 6496	
	 <u>Summary Location Breakdown</u>	 <u>No. People</u>	 <u>No. People</u>	
	Net Direct HQ Jobs Lost	1873	3746	
	Net Direct Branch Jobs Lost	134	269	
	 <u>Summary</u>	 <u>No. People</u>	 <u>No. People</u>	
	Net Direct Jobs Lost	2,007	4,015	
	Indirect Jobs Lost - All Industries	<hr/> 3,248	<hr/> 6,496	
	Total - Direct and Indirect Jobs Lost	<hr/> 5,255	<hr/> 10,511	

Exhibit IX: Lost Earnings and State and Local Taxes, Scenario 1, 2008

Earnings Lost**Whole Earnings (Types C, D, and E)**

Average HQ employee wage before layoff	\$	91,000	
% earnings lost		100%	
Lost earnings per HQ worker			<u>\$ 91,000</u>
Net Direct HQ Jobs Lost			<u>1864</u>
<i>Subtotal: Lost earnings, HQ workers</i>			<u>\$ 169,578,500</u>

Average Branch employee wage before layoff	\$	66,150	
% earnings lost		100%	
Lost earnings per HQ worker			<u>\$ 66,150</u>
Net Direct Branch Jobs Lost			<u>212</u>
<i>Subtotal: Lost earnings, Branch workers</i>			<u>\$ 14,002,632</u>

Total Lost Earnings - Whole Earnings \$ 183,581,132

Marginal Earnings (Types B and F)

Average HQ employee wage before layoff	\$	91,000	
% earnings lost		24%	
Lost earnings per HQ worker			<u>\$ 22,246</u>
No. HQ workers re-employed in banking industry			<u>98</u>
<i>Subtotal: Lost earnings, re-employed HQ workers</i>			<u>\$ 2,168,984</u>

Average Branch employee wage before layoff	\$	66,150	
% earnings lost		10%	
Lost earnings per Branch worker			<u>\$ 6,615</u>
No. branch workers re-employed in banking industry			<u>4</u>
<i>Subtotal: Lost earnings, Branch workers</i>			<u>\$ 28,577</u>

Total Lost Earnings - Marginal Earnings \$ 2,197,561

Total Direct Lost Earnings

Lost Earnings from Lost Employment	\$	183,581,132	
Lost Marginal Earnings from Lower Wage		<u>2,197,561</u>	
Total Direct Lost Earnings		<u><u>\$ 185,778,693</u></u>	

Indirect Lost Earnings

Net Direct Lost Earnings	\$	185,778,693	
RIMS II Direct-Effect Earnings Multiplier		<u>1.1624</u>	
<i>Subtotal - Indirect Earnings Lost - All Industries</i>		<u><u>\$ 215,949,153</u></u>	

Summary

Net Direct Lost Earnings	\$	185,778,693	
Indirect Lost Earnings - All Industries		<u>215,949,153</u>	

TOTAL - DIRECT AND INDIRECT LOST EARNINGS \$ 401,727,846

Exhibit IX (Continued): Lost Earnings and State and Local Taxes, Scenario 1, 2008

Lost State Taxes**Whole Earnings**

Direct Lost Earnings - Whole Earnings	\$	183,581,132	
Effective State Income Tax Rate	3.3%	\$	6,131,610
Effective State General Merchandise Tax Rate	1.8%	\$	3,254,778
Effective State Food/Drugs/Medical Devices Tax Rate	0.1%	\$	93,562
Effective State Vehicle Tax Rate	0.4%	\$	668,151
Effective State Motor Fuel Tax Rate	0.2%	\$	338,072
Effective State Underground Storage Tank Tax Rate	0.003%	\$	5,338
Effective State Cigarette Use Tax Rate	0.04%	\$	78,357
Effective State Electricity Use Tax Rate	0.04%	\$	78,416
<i>Subtotal: State Taxes from Lost Whole Earnings</i>		\$	<u>10,648,283</u>

Marginal Earnings

Direct Lost Earnings - Marginal Earnings	\$	2,197,561	
Effective State Income Tax Rate	3.0%	\$	65,927
Effective State General Merchandise Tax Rate	1.2%	\$	27,238
Effective State Food/Drugs/Medical Devices Tax Rate	0.02%	\$	498
Effective State Vehicle Tax Rate	0.2%	\$	5,277
Effective State Motor Fuel Tax Rate	0.1%	\$	1,586
Effective State Underground Storage Tank Tax Rate	0.001%	\$	25
Effective State Cigarette Use Tax Rate	-0.02%	\$	(406)
Effective State Electricity Use Tax Rate	0.02%	\$	386.78
<i>Subtotal: State Taxes from Lost Marginal Earnings</i>		\$	<u>100,532</u>

Total Lost State Taxes**\$ 10,748,815****Lost Local Taxes****Whole Earnings**

Lost Earnings - Whole Earnings	\$	183,581,132	
Effective Local Property Tax Rate	2.7%	\$	4,956,691
Effective Local General Merchandise Tax Rate	0.4%	\$	645,303
Effective Local Food/Drugs/Medical Devices Tax Rate	0.011%	\$	19,323
Effective Local Motor Fuels Tax Rate	0.032%	\$	58,796
<i>Subtotal: local Taxes from Lost Whole Earnings</i>		\$	<u>5,680,112</u>

Marginal Earnings

Lost Earnings - Marginal Earnings	\$	2,197,561	
Effective Local Property Tax Rate	2.7%	\$	59,334
Effective Local General Merchandise Tax Rate	0.2%	\$	5,314
Effective Local Food/Drugs/Medical Devices Tax Rate	0.005%	\$	101
Effective Local Motor Fuels Tax Rate	0.012%	\$	271
<i>Subtotal: local Taxes from Lost Marginal Earnings</i>		\$	<u>65,021</u>

Total Lost local Taxes**\$ 5,745,132**

Exhibit X: Lost Earnings and State and Local Taxes, Scenario 1, 2009

Earnings Lost**Whole Earnings (Types C, D, and E)**

Average HQ employee wage before layoff	\$	91,000	
% earnings lost		100%	
Lost earnings per HQ worker			\$ 91,000
Net Direct HQ Jobs Lost			3727
<i>Subtotal: Lost earnings, HQ workers</i>			\$ 339,157,000

Average Branch employee wage before layoff	\$	66,150	
% earnings lost		100%	
Lost earnings per HQ worker			\$ 66,150
Net Direct Branch Jobs Lost			423
<i>Subtotal: Lost earnings, Branch workers</i>			\$ 28,005,264

Total Lost Earnings - Whole Earnings **\$ 367,162,264**

Marginal Earnings (Types B and F)

Average HQ employee wage before layoff	\$	91,000	
% earnings lost		24%	
Lost earnings per HQ worker			\$ 22,246
No. HQ workers re-employed in banking industry			195
<i>Subtotal: Lost earnings, re-employed HQ workers</i>			\$ 4,337,969

Average Branch employee wage before layoff	\$	66,150	
% earnings lost		10%	
Lost earnings per Branch worker			\$ 6,615
No. branch workers re-employed in banking industry			9
<i>Subtotal: Lost earnings, Branch workers</i>			\$ 57,154

Total Lost Earnings - Marginal Earnings **\$ 4,395,122**

Total Direct Lost Earnings

Lost Earnings from Lost Employment	\$	367,162,264	
Lost Marginal Earnings from Lower Wage	\$	4,395,122	
Total Direct Lost Earnings	\$	371,557,386	

Indirect Lost Earnings

Net Direct Lost Earnings	\$	371,557,386	
RIMS II Direct-Effect Earnings Multiplier		1.1624	
<i>Subtotal - Indirect Earnings Lost - All Industries</i>	\$	431,898,306	

Summary

Net Direct Lost Earnings	\$	371,557,386	
Indirect Lost Earnings - All Industries	\$	431,898,306	

TOTAL - DIRECT AND INDIRECT LOST EARNINGS **\$ 803,455,692**

Exhibit X (Continued): Lost Earnings and State and Local Taxes, Scenario 1, 2009

Lost State TaxesWhole Earnings

Direct Lost Earnings - Whole Earnings	\$	367,162,264	
Effective State Income Tax Rate	3.3%	\$	12,263,220
Effective State General Merchandise Tax Rate	1.8%	\$	6,509,556
Effective State Food/Drugs/Medical Devices Tax Rate	0.1%	\$	187,124
Effective State Vehicle Tax Rate	0.4%	\$	1,336,301
Effective State Motor Fuel Tax Rate	0.2%	\$	676,145
Effective State Underground Storage Tank Tax Rate	0.0%	\$	10,676
Effective State Cigarette Use Tax Rate	0.0%	\$	156,714
Effective State Electricity Use Tax Rate	0.0%	\$	156,831
<i>Subtotal: State Taxes from Lost Whole Earnings</i>			<u>\$ 21,296,566</u>

Marginal Earnings

Direct Lost Earnings - Marginal Earnings	\$	4,395,122	
Effective State Income Tax Rate	3.0%	\$	131,854
Effective State General Merchandise Tax Rate	1.2%	\$	54,476
Effective State Food/Drugs/Medical Devices Tax Rate	0.0%	\$	996
Effective State Vehicle Tax Rate	0.2%	\$	10,553
Effective State Motor Fuel Tax Rate	0.1%	\$	3,173
Effective State Underground Storage Tank Tax Rate	0.0%	\$	50
Effective State Cigarette Use Tax Rate	0.0%	\$	(811)
Effective State Electricity Use Tax Rate	0.0%		773.57
<i>Subtotal: State Taxes from Lost Marginal Earnings</i>			<u>\$ 201,064</u>

Total Lost State Taxes\$ 21,497,630**Lost Local Taxes**Whole Earnings

Lost Earnings - Whole Earnings	\$	367,162,264	
Effective Local Property Tax Rate	2.7%	\$	9,913,381
Effective Local General Merchandise Tax Rate	0.4%	\$	1,290,605
Effective Local Food/Drugs/Medical Devices Tax Rate	0.011%	\$	38,646
Effective Local Motor Fuels Tax Rate	0.032%	\$	117,592
<i>Subtotal: local Taxes from Lost Whole Earnings</i>			<u>\$ 11,360,223</u>

Marginal Earnings

Lost Earnings - Marginal Earnings	\$	4,395,122	
Effective Local Property Tax Rate	2.7%	\$	118,668
Effective Local General Merchandise Tax Rate	0.2%	\$	10,628
Effective Local Food/Drugs/Medical Devices Tax Rate	0.005%	\$	202
Effective Local Motor Fuels Tax Rate	0.012%	\$	543
<i>Subtotal: local Taxes from Lost Marginal Earnings</i>			<u>\$ 130,041</u>

Total Lost local Taxes\$ 11,490,265

Exhibit XI: Lost Earnings and State and Local Taxes, Scenario 2, 2008

Earnings Lost**Whole Earnings (Types C, D, and E)**

Average HQ employee wage before layoff	\$	91,000	
% earnings lost		100%	
Lost earnings per HQ worker			\$ 91,000
Net Direct HQ Jobs Lost			1,873
<i>Subtotal: Lost earnings, HQ workers</i>			\$ 170,454,375

Average Branch employee wage before layoff	\$	66,150	
% earnings lost		100%	
Lost earnings per HQ worker			\$ 66,150
Net Direct Branch Jobs Lost			134
<i>Subtotal: Lost earnings, Branch workers</i>			\$ 8,881,299

Total Lost Earnings - Whole Earnings \$ 179,335,674

Marginal Earnings (Types B and F)

Average HQ employee wage before layoff	\$	91,000	
% earnings lost		24%	
Lost earnings per HQ worker			\$ 22,246
No. HQ workers re-employed in banking industry			91
<i>Subtotal: Lost earnings, re-employed HQ workers</i>			\$ 2,016,043

Average Branch employee wage before layoff	\$	66,150	
% earnings lost		10%	
Lost earnings per Branch worker			\$ 6,615
No. branch workers re-employed in banking industry			3
<i>Subtotal: Lost earnings, Branch workers</i>			\$ 18,125

Total Lost Earnings - Marginal Earnings \$ 2,034,168

Total Direct Lost Earnings

Lost Earnings from Lost Employment	\$	179,335,674	
Lost Marginal Earnings from Lower Wage	\$	2,034,168	
Total Direct Lost Earnings	\$	181,369,842	

Indirect Lost Earnings

Net Direct Lost Earnings	\$	181,369,842	
RIMS II Direct-Effect Earnings Multiplier		1.1624	
<i>Subtotal - Indirect Earnings Lost - All Industries</i>	\$	210,824,305	

Summary

Net Direct Lost Earnings	\$	181,369,842	
Indirect Lost Earnings - All Industries	\$	210,824,305	

TOTAL - DIRECT AND INDIRECT LOST EARNINGS **\$ 392,194,147**

Exhibit XI (Continued): Lost Earnings and State and Local Taxes, Scenario 2, 2008

Lost State TaxesWhole Earnings

Direct Lost Earnings - Whole Earnings	\$	179,335,674	
Effective State Income Tax Rate	3.3%	\$	5,989,812
Effective State General Merchandise Tax Rate	1.8%	\$	3,179,509
Effective State Food/Drugs/Medical Devices Tax Rate	0.1%	\$	91,398
Effective State Vehicle Tax Rate	0.4%	\$	652,699
Effective State Motor Fuel Tax Rate	0.2%	\$	330,254
Effective State Underground Storage Tank Tax Rate	0.0%	\$	5,215
Effective State Cigarette Use Tax Rate	0.0%	\$	76,545
Effective State Electricity Use Tax Rate	0.0%	\$	76,602
<i>Subtotal: State Taxes from Lost Whole Earnings</i>			\$ 10,402,033

Marginal Earnings

Direct Lost Earnings - Marginal Earnings	\$	2,034,168	
Effective State Income Tax Rate	3.0%	\$	61,025
Effective State General Merchandise Tax Rate	1.2%	\$	25,213
Effective State Food/Drugs/Medical Devices Tax Rate	0.0%	\$	461
Effective State Vehicle Tax Rate	0.2%	\$	4,884
Effective State Motor Fuel Tax Rate	0.1%	\$	1,468
Effective State Underground Storage Tank Tax Rate	0.0%	\$	23
Effective State Cigarette Use Tax Rate	0.0%	\$	(375)
Effective State Electricity Use Tax Rate	0.0%		358.02
<i>Subtotal: State Taxes from Lost Marginal Earnings</i>			\$ 93,057

Total Lost State Taxes**\$ 10,495,090****Lost Local Taxes**Whole Earnings

Lost Earnings - Whole Earnings	\$	179,335,674	
Effective Local Property Tax Rate	2.7%	\$	4,842,063
Effective Local General Merchandise Tax Rate	0.4%	\$	630,379
Effective Local Food/Drugs/Medical Devices Tax Rate	0.011%	\$	18,876
Effective Local Motor Fuels Tax Rate	0.032%	\$	57,436
<i>Subtotal: local Taxes from Lost Whole Earnings</i>			\$ 5,548,755

Marginal Earnings

Lost Earnings - Marginal Earnings	\$	2,034,168	
Effective Local Property Tax Rate	2.7%	\$	54,923
Effective Local General Merchandise Tax Rate	0.2%	\$	4,919
Effective Local Food/Drugs/Medical Devices Tax Rate	0.005%	\$	94
Effective Local Motor Fuels Tax Rate	0.012%	\$	251
<i>Subtotal: local Taxes from Lost Marginal Earnings</i>			\$ 60,186

Total Lost local Taxes**\$ 5,608,941**

Exhibit XII: Lost Earnings and State and Local Taxes, Scenario 2, 2009

Earnings Lost**Whole Earnings (Types C, D, and E)**

Average HQ employee wage before layoff	\$	91,000	
% earnings lost		100%	
Lost earnings per HQ worker			\$ 91,000
Net Direct HQ Jobs Lost			3746
<i>Subtotal: Lost earnings, HQ workers</i>			\$ 340,908,750

Average Branch employee wage before layoff	\$	66,150	
% earnings lost		100%	
Lost earnings per HQ worker			\$ 66,150
Net Direct Branch Jobs Lost			269
<i>Subtotal: Lost earnings, Branch workers</i>			\$ 17,762,598

Total Lost Earnings - Whole Earnings \$ 358,671,348

Marginal Earnings (Types B and F)

Average HQ employee wage before layoff	\$	91,000	
% earnings lost		24%	
Lost earnings per HQ worker			\$ 22,246
No. HQ workers re-employed in banking industry			181
<i>Subtotal: Lost earnings, re-employed HQ workers</i>			\$ 4,032,086

Average Branch employee wage before layoff	\$	66,150	
% earnings lost		10%	
Lost earnings per Branch worker			\$ 6,615
No. branch workers re-employed in banking industry			5
<i>Subtotal: Lost earnings, Branch workers</i>			\$ 36,250

Total Lost Earnings - Marginal Earnings \$ 4,068,336

Total Direct Lost Earnings

Lost Earnings from Lost Employment	\$	358,671,348
Lost Marginal Earnings from Lower Wage	\$	4,068,336
Total Direct Lost Earnings	\$	362,739,684

Indirect Lost Earnings

Net Direct Lost Earnings	\$	362,739,684
RIMS II Direct-Effect Earnings Multiplier		1.1624
<i>Subtotal - Indirect Earnings Lost - All Industries</i>	\$	421,648,609

Summary

Net Direct Lost Earnings	\$	362,739,684
Indirect Lost Earnings - All Industries	\$	421,648,609

TOTAL - DIRECT AND INDIRECT LOST EARNINGS **\$ 784,388,294**

Exhibit XII (Continued): Lost Earnings and State and Local Taxes, Scenario 2, 2009

Lost State TaxesWhole Earnings

Direct Lost Earnings - Whole Earnings	\$	358,671,348	
Effective State Income Tax Rate	3.3%	\$	11,979,623
Effective State General Merchandise Tax Rate	1.8%	\$	6,359,018
Effective State Food/Drugs/Medical Devices Tax Rate	0.1%	\$	182,796
Effective State Vehicle Tax Rate	0.4%	\$	1,305,398
Effective State Motor Fuel Tax Rate	0.2%	\$	660,508
Effective State Underground Storage Tank Tax Rate	0.003%	\$	10,429
Effective State Cigarette Use Tax Rate	0.04%	\$	153,090
Effective State Electricity Use Tax Rate	0.04%	\$	153,204
<i>Subtotal: State Taxes from Lost Whole Earnings</i>			\$ 20,804,066

Marginal Earnings

Direct Lost Earnings - Marginal Earnings	\$	4,068,336	
Effective State Income Tax Rate	3.0%	\$	122,050
Effective State General Merchandise Tax Rate	1.2%	\$	50,425
Effective State Food/Drugs/Medical Devices Tax Rate	0.02%	\$	922
Effective State Vehicle Tax Rate	0.2%	\$	9,769
Effective State Motor Fuel Tax Rate	0.1%	\$	2,937
Effective State Underground Storage Tank Tax Rate	0.001%	\$	46
Effective State Cigarette Use Tax Rate	-0.02%	\$	(751)
Effective State Electricity Use Tax Rate	0.02%		716.05
<i>Subtotal: State Taxes from Lost Marginal Earnings</i>			\$ 186,114

Total Lost State Taxes**\$ 20,990,181****Lost Local Taxes**Whole Earnings

Lost Earnings - Whole Earnings	\$	358,671,348	
Effective Local Property Tax Rate	2.7%	\$	9,684,126
Effective Local General Merchandise Tax Rate	0.4%	\$	1,260,759
Effective Local Food/Drugs/Medical Devices Tax Rate	0.011%	\$	37,752
Effective Local Motor Fuels Tax Rate	0.032%	\$	114,872
<i>Subtotal: local Taxes from Lost Whole Earnings</i>			\$ 11,097,509

Marginal Earnings

Lost Earnings - Marginal Earnings	\$	4,068,336	
Effective Local Property Tax Rate	2.7%	\$	109,845
Effective Local General Merchandise Tax Rate	0.2%	\$	9,837
Effective Local Food/Drugs/Medical Devices Tax Rate	0.005%	\$	187
Effective Local Motor Fuels Tax Rate	0.012%	\$	503
<i>Subtotal: local Taxes from Lost Marginal Earnings</i>			\$ 120,372

Total Lost local Taxes**\$ 11,217,882**

Methodology Appendix

Anderson Economic Group has completed a number of other impact assessments, which often are recognized afterwards as the most reliable and timely available. Our analysis uses a consistent, conservative methodology that avoids double-counting of costs or benefits, properly accounts for the shifting and substitution of economic activity, and does not unnecessarily inflate the impact by using excessive multipliers. Unfortunately, many economic impact reports do not follow a consistent methodology nor a conservative approach, and we caution against comparing the results from this analysis with those “impact” assessments.²⁴

We describe in detail our methodology below.

SCENARIO DEVELOPMENT

In this report we analyzed two likely outcomes of Bank of America’s acquisition of LaSalle Bank. In order to arrive at these scenarios we:

1. Gathered information on Bank of America’s proposed plans for LaSalle Bank from company documents and newspaper articles.
2. Reviewed financial and employment data submitted by the banks to the Federal Deposit Insurance Corporation (FDIC).
3. Reviewed financial data from ABN AMRO’s 2006 10K for the North America segment.
4. Reviewed and calculated efficiency ratios for the individual banks, the combined banks, peer groups, and all U.S. institutions. See Exhibit V. “Efficiency Ratios of LaSalle Bank and Bank of America,” on page 18.
5. Collected information from the U.S. Bureau of Labor Statistics (BLS) on wages. We used data on 20 relevant job classifications from BLS’s Occupational Employment Statistics survey. We used average wage information in the 75th percentile for the Chicago MSA to calculate the average wage of headquarters personnel. We used the higher wage data because the headquarters jobs are in the City of Chicago and presumably pay more. We used BLS’s Quarterly Census of Employment and Wages for the Chicago MSA and Detroit MSA to estimate wages of branch employees as well as branch employees in our four-county Chicago Region.
6. Collected information from the BLS on compensation mix (wages and benefits) for various MSAs. We used this data to calculate a wage to compensation multiplier.
7. Analyzed branch and employment statistics provided by the banks to the FDIC, and published on their websites, to segregate LaSalle Bank Corporation, the holding company, into the two subsidiary banks.

24. The basis for our methodology can be found in Patrick L. Anderson, *Business Economics and Finance*, CRC Press, 2004.

8. Developed estimates for the following cost reduction variables:
 - total cost reductions (based on Bank of America announcement and efficiency ratios)
 - percent of savings from personnel actions (AEG estimates based on analysis of possible ABN AMRO assessments and non-personnel costs)
 - number of headquarters personnel laid-off as part of cost reduction
9. Developed assumptions for the percentage of remaining headquarters personnel to be relocated and the percentage to be replaced.
10. Created two scenarios that are outlined in Exhibit III. “Chicago Region Gross Employment Losses due to Bank of America’s Acquisition of LaSalle Bank,” on page 15 and Exhibit IV. “Chicago Region Employee Compensation Losses due to Bank of America’s Acquisition of LaSalle Bank,” on page 16.

EMPLOYMENT AND EARNINGS IMPACT

To estimate the employment and earnings impact of the personnel cut scenarios outlined above we used the following methodology:

1. Assigned the laid-off or relocated employees into categories describing their location before the proposed merger (at headquarters or at a branch locations) and the path they would likely take after their Chicago-based employment with LaSalle bank has ended. We assigned employees to following categories:
 - Type A - Headquarters workers who start a new firm. These former LaSalle headquarters employees stay in the Chicago area banking industry by starting their own firm in the area. We assume that, on average, their wages would be identical to their previous wages at LaSalle bank. We assume that 2% of the current headquarters employees who are laid-off or whose jobs are relocated would fall into this category. This is based on our analysis of job growth in the Chicago economy.
 - Type B - Headquarters workers re-employed in the Chicago banking industry. This portion of former LaSalle headquarters employees stay in the Chicago area banking industry, finding new jobs in the industry and not displacing other banking industry workers. This assumption implies that Chicago area banking industry employment growth (other than at BoA and LaSalle Bank) will be slightly faster for 2008 and 2009 than it would have been without the merger as other firms take advantage of the newly available talent. While this reaction to the increased supply of talent would theoretically be accompanied by a drop in (or slowdown in growth of) industry wages, we do not quantify this possibility in our analysis for two reasons. First, the number of extra jobs we estimate would be added in this way (between 181 and 195 over two years, depending on the scenario) is very small compared to the Chicago area market for banking industry workers. Second, prices—and wages in particular—are “sticky,” meaning that they do not respond very quickly to labor market conditions. As such, it may take years for any industry wage adjustment to materialize. Our exclusion of the potential for depressed wages in the area is conservative because including it would have resulted in our estimating a larger impact on employment, wages, and tax receipts than appears in this report. We assume that these workers will be paid the Illinois industry-average wage for this industry, or \$73,124. We assume that 5% of the current headquarters employees who are laid off would fall into this category.

- Type C - Headquarters workers leaving Chicago for work, or remaining unemployed. This portion of former LaSalle employees includes headquarters workers who are laid off rather than relocated as part of the merger. These workers may leave the Chicago area to find employment, find a job in another industry in the Chicago area (displacing another existing or prospective area resident who would have taken the job otherwise), or remain unemployed. We assumed that these net job losses result in the complete elimination from the Chicago area economy of the job's associated earnings. We assume that 93% of the laid-off headquarters employees whose jobs are eliminated or whose jobs are relocated would fall into this category.
- Type D - Headquarters workers who relocate to Charlotte, North Carolina. These former LaSalle bank headquarters workers are relocated out of the Chicago labor market to Bank of America's Charlotte, North Carolina headquarters as a result of the merger. We assume that 100% of these workers' wages are eliminated from the area.
- Type E - Branch employees leaving Chicago for work, or remaining unemployed. This portion of former LaSalle employees includes branch workers who are laid off. These workers may leave the Chicago area to find employment, find a job in another industry in the Chicago area (displacing another existing or prospective area resident who would have taken the job otherwise), or remain unemployed. We assumed that these net job losses result in the complete elimination from the Chicago area economy of the job's associated earnings. We assume that all of the laid-off branch employees would fall into this category.
- Type F - Branch employees re-employed in the Chicago banking industry. This portion of former LaSalle branch employees stay in the Chicago area banking industry, finding new jobs in the industry and not displacing other banking industry workers. This assumption implies that Chicago area banking industry employment growth (other than at BoA and LaSalle Bank) will be slightly faster for 2008 and 2009 than it would have been without the merger as other firms take advantage of the newly available talent, similar to the situation described in the description of Type B employees above. Since these workers will have moved to their next-best employment option after their layoff (otherwise they wouldn't have chosen to work at LaSalle bank), we assume that these workers will be paid 10% less in their new jobs. We assume that 2% of the current branch employees whose jobs are eliminated.

We assumed that before the job cuts and relocations, the average affected headquarters worker earned \$91,000²⁵ in wages, and the average affected branch location worker earned \$66,150.²⁶

2. Used the net direct job losses (enumerated in the previous step as former employee type C, D, and E) to estimate the additional job losses to the Chicago area indirectly caused by the direct job losses. We use the Bureau of Economic

25. BLS Occupational Employment Statistics Survey, average of 20 predominantly financial industry job classifications.

26. BLS Quarterly Census of Employment and Wages, average for NAICS 5221, weighted by number of branches in Detroit MSA and Chicago MSA.

Analysis' RIMS II direct-effect employment multiplier for the monetary authorities and depository credit intermediation industry, which is 2.6180. Multiplying this number by the net direct job losses yields the *total* job losses to the area.

Indirect job losses occur in all industries in the economy, not only the banking industry. To isolate the indirectly-caused job losses, we subtract 1 from the multiplier before applying it. The total net job losses to the Chicago area is the sum of the direct and indirect job losses.

3. We estimated the earnings lost to the Chicago area economy directly-caused by the proposed merger in two steps. First, we estimated the lost earnings caused by net job losses (workers type C, D, and E) by multiplying the number of jobs lost by the average earnings for these workers, which is \$91,000 for headquarters workers and \$66,150 for branch workers. Next, we estimated the lost earnings caused by laid-off workers staying in the area and industry but at a lower wage (workers type B and F) by multiplying the number of such workers by the percentage of earnings lost, which is 24% for a headquarters worker and 10% for a branch worker. The earnings loss associated with types C, D, and E is the result of workers losing their whole salary, whereas the earnings loss associated with types B and F is the result of a marginal reduction of the workers' salaries.
4. We estimated the indirectly-caused earnings loss in the area using the RIMS II direct-effect earnings multiplier for the monetary authorities and depository credit intermediation industry, which is 2.1624. Multiplying this number by the net lost earnings yields the *total* lost earnings in the area. Indirect lost earnings affect all industries in the economy, not only the banking industry. To isolate the indirectly-caused lost earnings, we subtract 1 from the multiplier before applying it. The total net earnings loss to the Chicago area is the sum of the direct and indirect lost earnings.

FISCAL IMPACT

We estimated the fiscal impact on state and local governments in the area using our estimate of the directly-caused lost earnings to the area. Note that earnings lost due to net job losses (which we call "whole earnings") and earnings lost due to workers taking a job at a lower salary (which we call "marginal earnings") have slightly different implications for state and local tax receipts because the income is spent and taxed differently. We estimated the lost tax revenue to the State of Illinois and to local governments using the following steps:

1. We identified the relevant tax rates for the state and local taxes included in this analysis. Note that some taxes, such as the cigarette tax, are applied on a per-unit basis. We used local taxes that we considered representative for 10 communities in the four county Chicago region with high populations of high-income residents.²⁷
2. We estimated the proportion of each affected worker's wage income spent on items subject to state and local taxes. We used the Bureau of Labor Statistics'

27. We examined the tax rates of Barrington, Burr Ridge, Chicago, Glencoe, Golf, Hinsdale, Kenilworth, Lake Forest, Naperville, Northbrook, and Winnetka.

2005 Consumer Expenditure Survey (CEX), which tracks the spending of thousands of individuals using spending diaries.²⁸ We treat whole income loss (due to a layoff or relocation) differently than marginal income loss (due to a change to a lower paying job), making separate estimates for how much of each worker's wage is spent on taxed items. For workers whose *whole* income is lost, we used the spending behavior of the top income quintile (earners with a minimum of \$85,147 in total income) to approximate the average spending behavior of both headquarters and branch workers. Our analysis assumes the average branch worker earns \$66,150 in annual wages, not counting income from other sources. For the sake of simplicity, we approximate the spending behavior both headquarters and branch workers using the top income quintile. For workers losing *marginal* income (types B and F), we approximated their spending behavior by calculating the difference between the 5th and 4th quintile spending in the CEX. This shows how income above the \$85,147 lower limit of the 5th income quintile is spent on average. This method provides a reasonable approximation of the marginal income spending behavior for both headquarters workers (who may stay in the 5th quintile or move down to the 4th quintile) and branch workers (many of whom likely remain in the 4th quintile as their wage drops).

3. We estimated the "effective tax rate" on income of taxes levied on purchased goods. For taxes levied on a percentage basis (including the state General Merchandise Tax and the state Food/Drugs/Medical Devices tax, and the Vehicle tax) we multiply the proportion of income spent on taxable items by the tax rate. For per-unit taxes (the Motor Fuel Tax, the Electricity Excise Tax, the Underground Storage Tank Tax on gasoline, and the per-pack Cigarette Tax), we first estimated an equivalent percentage tax rate on purchases by dividing the per-unit tax amount by the average price of the item.²⁹ We then multiplied this equivalent percentage tax rate by the proportion of each worker's income (whole or marginal income) spent on each item, yielding the effective tax rate on income for each tax. See Exhibit VI. "Effective Tax Rates on Income," on page 19.
4. We estimated the effective tax rate of the state income tax. For marginal income, the effective rate of the state income tax is simply the marginal income tax rate of 3%. Next we estimated the effective income tax rate on the wages of workers losing their whole income. To do this we divided the Illinois state income tax

28. For the Illinois General Merchandise Tax, we assumed that Food away from home, Alcoholic beverages, half of home maintenance spending, utilities and fuels, housekeeping supplies, home furnishings, apparel, new automobiles, gasoline, vehicle maintenance, audio and visual equipment, pets and supplies, other entertainment equipment, personal care products, reading, tobacco, and gifts of the above items are subject to the tax. For the Food/Drugs/Medical Equipment tax, we assumed that food at home, drugs, medical supplies, and gifts of food and health care are subject to the tax. For the Vehicle Tax, we assumed that vehicle purchases (less money spent on new automobiles, which we covered under the General Merchandise Tax) are covered under the tax. For the Motor Fuel tax and the Underground Storage Tank tax, we assumed that gasoline is covered under the taxes. For the Cigarette tax, we assumed that tobacco products and smoking supplies are covered under the tax. For the Electricity Excise tax we assumed that electricity is covered under the tax.

receipts for 2005³⁰ by total Illinois salary and wages for 2005,³¹ yielding our estimate of 3.34% of wages.³²

5. To estimate local property taxes as a proportion of income we calculated the spending on property taxes as a percentage of wages for the highest income quintile in the Consumer Expenditures Survey. The result is that these earners pay approximately 2.7% of their wage income toward property taxes on average. Note that this is an average over a population representative of the nation as a whole, and that property taxes are likely higher in the Chicago area than in the country as a whole. Thus, this analysis probably underestimates the lost property taxes caused by the proposed acquisition. See Exhibit VI. “Effective Tax Rates on Income,” on page 19.
6. We estimated the lost tax revenue for state and local governments by multiplying the lost earnings by the effective tax rates on income for whole and marginal lost earnings.

29. For the Motor Fuels Tax and Underground Storage Tank Tax, taxes of 19 cents and 0.3 cents per gallon, respectively, on an average of \$2.69 per gallon in the Chicago area in 2006 (according to the Bureau of Labor Statistics). For the Cigarette tax, 98 cents on \$5.23 per pack of 20 cigarettes, which is the average final retail price in Illinois cited in a July, 2007 report by the Tobacco Free Kids campaign—a price that includes taxes, as does the spending on tobacco products in the Consumer Expenditures Survey). While this group lobbies for higher cigarette taxes, we consider this group to be a credible source for the consumer price of cigarettes. The state of Illinois’s Electricity Excise Tax has a declining marginal rate in increased electricity use. According to a 2001 Energy Information Agency Report (<http://www.eia.doe.gov/emeu/recs/recs2001/enduse2001/enduse2001.html>) the average American family uses about 10,000 kWh of electricity per year. We estimated an approximate average tax rate of 0.3212 cents per kWh of electricity use by assuming 10,000 kWh of electricity use and taking a weighted average of the two Excise tax rates that apply to this level of consumption. We assume the average price of 1 kWh of electricity is 10 cents (source: Bureau of Labor Statistics, 2006, Chicago MSA).

30. Illinois state tax revenue was \$7,936,884,000 in 2005, according to the U.S. Census Bureau’s State Government Tax Collections data for 2005.

31. Illinois salary and wages for 2005 was \$237,470,770,000 according to the IRS Statistics of Income.

32. Note that this is higher than the marginal rate of 3% because the state income tax also applies to non-wage income.