

Return On Investment Brief

March 2015

Campaign ROI

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ALLIANCE

Convergent Team,

Attached is your Campaign ROI Report. This report should not only help in raising the sights of the campaign in general, but can also be used to make specific solicitations more effective.

It is intended to be an internal document, with the information expected to be integrated into your Case for Investment and individual solicitations. It is not designed to be distributed as presented. Only the Convergent team is receiving copies of this report, and I will leave it to your discretion as to how you present it to the client.

All of the inputs used to produce the report are conservative, so the actual impacts are often greater than those listed. It is designed to be self-explanatory, but as always, if you have any questions, don't hesitate to contact me. I want you to feel confident that you fully understand it before you have any discussions with the client or prospective investors.

Thank you for your efforts to make this project a success,

A handwritten signature in black ink, appearing to read "Tom Ralser", written in a cursive style.

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Campaign ROI

This report is intended to be used as an example of potential downstream impacts of certain economic events. It is not intended to be a forecast, and should not be used as such.

Methodology

Jobs Impact Model

The model uses Type SAM, RIMS (Regional Input-Output Modeling System) multipliers supplied by IMPLAN, formerly available from the Bureau of Economic Analysis, U.S. Department of Commerce, using 2013 (the most recent available) regional economic accounts for the region defined as Craven County, North Carolina. Inputs of job numbers, industry sectors, and wage estimates were supplied by the client organization.

The three target industries used in the analysis, as supplied by the client, are presented in the table below:

- 1 Manufacturing
- 2 Technical/Research/Consulting
- 3 Health Care

It is common in this type of analysis for the types of industries targeted by the client organization to not fit precisely into available multiplier categories for the area. When necessary, multipliers from job categories that are the most appropriate surrogates are utilized to develop a more accurate weighted average multiplier. Using employment multipliers for each of these targets, a weighted average *employment* multiplier, based on numbers of jobs targeted, of 1.4970 was calculated. Using specific earnings multipliers for the target industries, a weighted average *earnings* multiplier of 1.3136 was calculated. These calculations, as well as the targeted job numbers and relative weights for each category, are shown in the following table:

Industry	# jobs	Weight	Earnings multiplier	Weighted Earnings multiplier	Employment multiplier	Weighted Employment multiplier
1 Manufacturing	750	50.0%	1.3595	0.6798	1.4905	0.7453
2 Technical/Research/Consulting	500	33.3%	1.2974	0.4325	1.5527	0.5176
3 Health Care	250	16.7%	1.2083	0.2014	1.4051	0.2342
Total	1,500	100%		1.3136		1.4970

A weighted average hourly wage rate of \$22.97 was derived using the following data:

	Weight	Targeted Hourly Wage	Weighted Hourly Wage
1 Manufacturing	50.0%	\$ 24.00	\$ 12.00
2 Technical/Research/Consulting	33.3%	\$ 22.85	\$ 7.62
3 Health Care	16.7%	\$ 20.10	\$ 3.35
Total	100%		\$ 22.97

In order to make the analysis as realistic as possible, the model is back-tested to see if indirect wages are realistic. In this case, a wage rate of \$22.97 and the earnings multiplier of 1.3136 provided a realistic indirect wage rate of \$13.93, so the earnings multiplier was not adjusted.

Definitions

Job Impact Model

Primary Wage Rate – The primary wage rate is based on the weighting presented, and resulted in a targeted wage rate for future jobs of \$22.97 per hour, which converted to an annual earnings level of \$47,771 based on 2,080 hours worked annually.

Total Payroll – Total earnings of both direct and indirect jobs created, calculated using RIMS multipliers.

Total Jobs – Total of both direct and indirect jobs, calculated using RIMS multipliers

Calculated Indirect Jobs – The results of the model are back-tested to test the level of reasonableness, that is, will the results make sense to the reader familiar with local conditions. In this case, the employment multiplier was not adjusted.

Calculated Indirect Wage Rate – The results of the model are back-tested to test the level of reasonableness, that is, do the results make sense to a person familiar with local conditions. In this case, the earnings multiplier remained unchanged at 1.3136.

Net Personal Consumption Expenditures – This figure reflects total payroll less area leakage, since the results are utilized in an area spending impact model. It also reflects personal tax and non-tax payments, personal savings, interest, and transfer payments.

Consumer Spending Model

The Consumer Spending Model predicts area consumer spending based on the results of the Jobs Impact Model. Spending patterns are based on national consumer spending exhibited by level of income, which has been shown to be more predictive than models based on geography alone. The Weighted Average Annual Wage is based on the hourly rate used in the Jobs Impact Model.

Note - Total figures will vary from individual projected consumer expenditures due to rounding.

Banking Impact Model

The Banking Impact Model uses 2014 FDIC local market share information, based on deposit potential created by the addition of area earnings resulting from new primary jobs. Deposit potential is based on a bank reserve requirement ratio of 15 percent.

Bank deposits are projected 15 years into the future, based on the assumption that the new jobs created exist for the same 15 year period, and are present valued back at a discount rate of 6.5 percent. Earnings at the individual bank level are based on a two percent “spread” of loan interest rates over rates paid on deposits.

Job Impact Model

The Job Impact Model is the base model on which overall impact, consumer expenditures, and banking impacts can be derived. This model uses an example of 1,500 jobs in the three prioritized industries and a weighted average annual wage of \$47,771 was used. Multipliers representing the jobs targeted by the organization were aggregated to arrive at the employment and earnings multipliers used in the model.

Utilizing the inputs of 1,500 jobs, the \$32,890 average annual salary (\$22.97 per hour), and aggregated employment and earnings multipliers specific to the area, the gross impact of those jobs materializing were calculated. This total impact, in terms of jobs and payroll, is presented in the summary on the following page.

In addition, in order to translate these total impacts into a more useful number for fundraising purposes, these total impacts were translated into Net Personal Consumption Expenditures, or the actual amount of money that would be spent in the local economy once these 1,500 jobs materialize. A deposit potential for area banks was also derived from these total impact numbers, to be used in the Bank Impact Model.

Number of New Primary Jobs	1,500
Primary Wage Rate Paid (hourly)	\$22.97
Total Direct Payroll	\$68,900,000
Total Payroll	\$90,507,040
Total Jobs	2,246
Calculated Indirect Jobs Created	746
Calculated Indirect Wage Rate Paid (hourly)	\$13.93
<u>Area Values</u>	
Personal Income	\$ 63,354,928
Disposable Personal Income	\$ 53,541,250
Net Personal Consumption Expenditures	\$ 50,028,944
Deposit Potential for Area Financial Institutions	\$ 7,820,592

Personal Income: Total Payroll less Estimated Leakage
 Disposable Personal Income: Personal Income less Personal Tax and Nontax Payments
 Net Personal Consumption Expenditures: Disposable Personal Income less Personal Savings, Interest, and Personal Transfer Payments
 Deposit Potential: Personal Savings Rate less Deposit Leakage Estimate with area turnover (Reserve Req. Ratio)

Information Summary

This is the information from above that typically appears in the campaign brochure.

The program is targeting	1,500	primary jobs which will create
an additional	746	secondary jobs.
The primary jobs are expected to pay	\$22.97	an hour.
This economic activity is expected to generate	\$ 90,507,040	in annual total earnings
and	\$50,028,944	in annual area consumer expenditures
and could result in	\$7,820,592	in annual deposits for area banks.

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Consumer Spending Model

The Consumer Spending model further breaks down the Net Personal Consumer Expenditures from the Jobs Impact Model into various spending categories. The spending patterns on the following pages reflect how people would typically spend the earnings from these jobs. The model is based on income level, which has been shown to be a better predictor of spending than geographic area or ethnicity.

The categories presented encompass all areas of spending, even though a narrow or overly specific minor category may not be listed, resulting in over \$50 million in consumer expenditures *per year*. Minor categories may not add up to a major category total because extraneous detail was excluded.

Industry impact at the consumer level can be estimated using the numbers presented. In other words, the 1,500 jobs in the targeted industries will likely result in over \$3.4 million in vehicle purchases in the area. This information can then be customized in a presentation targeted towards those in the new and used car business.

How the money will likely be spent based on **earnings level** of target jobs Craven County

Projected Consumer Expenditures	\$50,028,944
Expected Income Range of Primary Jobs	above \$40,000
Weighted Average Annual Wage	\$47,771
Estimated County Sales Tax @ 2.00%	\$ 633,366
Estimated State Sales Tax @ 4.75%	\$ 1,504,245

Area Expenditures

Food	\$6,903,994
Food at home	\$4,402,547
Cereals and bakery products	\$550,318
Cereals and cereal products	\$200,116
Bakery products	\$400,232
Meats, poultry, fish, eggs	\$950,550
Beef	\$250,145
Pork	\$200,116
Other meats	\$150,087
Poultry	\$200,116
Fish and seafood	\$150,087
Eggs	\$47,932
Dairy products	\$450,260
Fresh milk and cream	\$200,116
Other dairy products	\$269,617
Fruits and vegetables	\$850,492
Fresh fruits	\$300,174
Fresh vegetables	\$250,145
Processed fruits	\$100,058
Processed vegetables	\$150,087
Other food at home	\$1,550,897
Sugar and other sweets	\$150,087
Fats and oils	\$150,087
Miscellaneous foods	\$800,463
Nonalcoholic beverages	\$450,260
Food prepared by consumer unit on out-of-town trips	\$33,552
Food away from home	\$2,501,447
Alcoholic beverages	\$450,260

Housing	\$17,760,275
Shelter	\$10,506,078
Owned Dwellings	\$5,303,068
Mortgage interest and charges	\$2,551,476
Property taxes	\$1,450,839
Maintenance, repairs, insurance, other expenses	\$1,300,753
Rented dwellings	\$4,852,808
Other lodging	\$400,232
Utilities, fuels, and public service	\$4,352,518
Natural gas	\$400,232
Electricity	\$1,700,984
Fuel oil and other fuels	\$100,058
Telephone services	\$1,500,868
Water and other public services	\$550,318
Household operations	\$9,505,499
Personal services	\$200,116
Other household expenses	\$700,405
Housekeeping supplies	\$600,347
Laundry and cleaning supplies	\$149,787
Other household products	\$350,203
Postage and stationery	\$100,058
Household furnishings and equipment	\$1,350,781
Household textiles	\$100,058
Furniture	\$350,203
Floor coverings	\$38,346
Major appliances	\$200,116
Small appliances, miscellaneous house wares	\$81,484
Miscellaneous household equipment	\$650,376
Apparel and services	\$1,500,868
Men and Boys	\$300,174
Men, 16 and over	\$250,145
Boys, 2 to 15	\$50,029
Women and Girls	\$650,376
Women, 16 and over	\$550,318
Girls, 2 to 15	\$115,037
Children under 2	\$101,855
Footwear	\$200,116
Other apparel products and services	\$200,116

Transportation	\$9,405,441
Vehicle purchases	\$3,401,968
Cars and trucks, new	\$1,200,695
Cars and trucks, used	\$2,201,274
Other vehicles	\$50,029
Gasoline and motor oil	\$3,101,795
Other vehicle expenses	\$2,501,447
Vehicles finance charges	\$250,145
Maintenance and repairs	\$850,492
Vehicle insurance	\$900,521
Vehicles rental, leases, licenses, other charges	\$550,318
Public transportation	\$400,232
Health care	\$3,952,287
Health insurance	\$2,601,505
Medical services	\$700,405
Drugs	\$550,318
Medical supplies	\$150,087
Entertainment	\$2,201,274
Fees and admissions	\$350,203
Television, radios, sound equipment	\$1,050,608
Pets, toys, and playground equipment	\$600,347
Other entertainment supplies, equipment, and services	\$200,116
Personal care products and services	\$600,347
Reading	\$100,058
Education	\$550,318
Tobacco products	\$450,260
Miscellaneous	\$650,376
Cash contributions	\$1,600,926
Personal insurance and pensions	\$3,952,287
Life and personal insurance	\$300,174
Pensions and social security	\$3,652,113
Total*	\$50,078,973

*May differ slightly due to rounding.

Banking Impact Model

The Banking Impact Model can be more specific than the Consumer Expenditure Model, simply because information on the banking industry is more accessible than information in other industries. It is based on 2014 FDIC market share information, and assumes that the banks in the region maintain their respective share. Five percent of the market is allotted to credit unions, which will slightly lower a bank's FDIC-based market share.

This model uses the deposits estimate provided by the Jobs Impact Model, and projects the "gross profit" banks would normally realize on these deposits 10 years into the future past the five initial years of the program of work. These 15 years are brought back to present day (T_0) at a discount rate of 6.5%. This "gross profit" is defined as the yield spread banks pay on deposits verses what they charge on loans, which in this case is estimated at a conservative two percent.

The last column of the banking model output provides some very powerful information on:

- ✓ Structuring the "ask."
- ✓ The level of investment justified.
- ✓ The relative "ask" amount between banks.
- ✓ Demonstrating not just the expected impact on the industry, as in the Consumer Expenditure Model, but an expected return for a specific bank, based on market share, and a rough idea of how much they will realize in bottom line earnings, not just top line revenue.

Craven County

NC

Relative Market Share Basis

Relative Market Share Basis	2014 Deposits (as of 6/30/14) (in 000's)	Current Market Share (inc. non-FDIC)	Deposits Expected Annually By End of Program	Present Value of 15 Yrs. of Cash Flow Realistic Earnings on Expected Deposits
Total Institutions	9			
Total Offices	21			

Institution Name

1 Branch Banking and Trust Company	\$ 468,689	38.65%	\$3,022,506	\$482,208
2 First-Citizens Bank & Trust Company	\$ 312,726	25.79%	\$2,016,724	\$321,746
3 Wells Fargo Bank, National Association	\$ 164,718	13.58%	\$1,062,242	\$169,469
4 Bank of America, National Association	\$ 84,236	6.95%	\$543,226	\$86,666
5 First South Bank	\$ 44,355	3.66%	\$286,039	\$45,634
6 PNC Bank, National Association	\$ 27,014	2.23%	\$174,209	\$27,793
7 Vantagesouth Bank	\$ 24,607	2.03%	\$158,687	\$25,317
8 The Little Bank, Incorporated	\$ 23,873	1.97%	\$153,953	\$24,562
9 Woodforest National Bank	\$ 1,857	0.15%	\$11,976	\$1,911
TOTAL	\$ 1,152,075	95%	\$7,429,562	\$1,185,305

Total Area FDIC Deposits	1,152,075
Share of total FDIC market represented	100%
NON-FDIC market allowance (CU)	5%
Total Market estimate	\$1,212,711

Primary Jobs Worksheet Deposit Estimate	\$ 7,820,592
Length of Time for Initial Job Creation Goal	5
Model Time Period	15
Program Primary Job Goal	1,500
New deposits created over model time period*	\$ 101,667,694

*This figure would not include deposits transferred in because of employees relocating into the area, and does NOT include commercial accounts, which would magnify this estimate.

Assumptions for NPV Methodology

Deposit Spread	2.0%
Discount Rate	6.5%
Time Period After Program	10