



**“Computers, Medicine and Biology:
The Next Great Opportunity”**

RAEDI

Rochester Area Economic Development, Inc.

ANNUAL REPORT 2003

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PRESIDENT'S MESSAGE



Larry Koshire
RAEDI President

The past year, in many respects, was a challenging year. Our technology sector continued to struggle proving the Rochester area is not immune to recessionary impacts. The most visible sign of recession, locally, was the closing of Celestica and the loss of nearly 600 jobs. However, taking a closer look you can also find reason to remain optimistic about the future.

While we started the year with the news of Celestica's closing, we are now optimistic that a new tenant for the facility will be named in early 2004. Hitachi Global Storage Technologies, Rochester's newest technology business, began operation last January 2003 and presently employs around 200 people. The firm is a joint venture between IBM and Hitachi. Our efforts to assist JDS Uniphase resulted in the retention of over 100 jobs. Their new 40,500 square-foot development lab in Rochester's Technology Park opened in the spring of 2003. RAEDI also made a direct investment during the year in MedCity Medical Innovations, Inc. to help fund this emerging medical device firm's proof of concept. I am pleased to report that the proof of concept was successful, and our loan has since been paid back. As a result of our investment, the firm's founders were able to raise enough equity capital to bring the product through clinical trial. Nine other area firms were provided assistance in obtaining the financing resources needed to expand their business. RAEDI's present loan assistance portfolio consists of 82 loans with an outstanding balance of approximately \$22 million.

RAEDI also worked hard to help secure Rochester area communities' participation in the two tax-free zone programs established by the Governor and legislature in 2003. These zones provide significant new tax advantages for eligible businesses that locate or expand in Rochester area communities. You will read more about the specific zones elsewhere in this report.

So while 2003 was somewhat of a challenge, we did make some progress and, overall, we are pleased with the results. For the year, our work assisted the execution of area business plans that resulted in the creation and retention of 221 jobs and the investment of over \$17 million by these businesses in our area's economy. RAEDI's work continues to contribute to our area's long-term economic growth. On behalf of the Board of Directors and staff, I would like to thank all of our investor members and partners for their continued support. Our work would not be possible without you!

SPECIAL THANKS

to our investors

A.B. Systems, Inc.
Alvin E. Benike, Inc.
Aquila
Bigelow Enterprises, Inc.
Bouquet Builders, Inc.
C.O. Brown Agency, inc.
Celestica, Inc.
Chafoulias Companies
Coffman, Nehring & Christopherson
Comprehensive Business Services
Custom Alarm/Custom Communications, Inc.
Davies Printing
Dunlap & Seeger, P.A.
Eastwood Bank
Express Personnel Services
First Federal
First Security Bank-Byron
Fox Hill, LLC/Wynnwood Company
General Growth Properties, Inc.
Heartman Insurance
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Rochester, City of
Rochester Family Eye Clinic LLC
Rochester Public Utilities
Rochester Ready-Mix Concrete Co.
Rochester Sand & Gravel
- Division of Mathy Construction
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Yaggy Colby Associates

Celestica



Celestica closed its Rochester-based electronics factory in June 2003 and moved the operations overseas. Nearly 600 employees lost their jobs at the three-year old factory, costing the local economy about \$500 million worth of production and about 15 percent of the local output in the technology sector.

The 204,500 square-foot plant is currently for lease and was recently awarded tax-free status under the state's JOBZ program.

Bioscience Zone

The Minnesota Department of Employment and Economic Development (DEED) approved a total of 496 acres of property in Rochester to be included in the state's Bioscience Tax-Free Zone. A similar amount of acreage was also approved in Minneapolis and St. Paul. The sites approved are, for the most part, clustered within proximity of Mayo Clinic. This was a requirement of the law. Eligible businesses located at one of these sites will be eligible to receive a variety of state and local tax incentives. Possible tax incentives include corporate income tax, sales tax on goods and services, property tax and credits for research and development and employment taxes on high wage jobs. These tax incentives are not automatic and require city and DEED approval.

A major limitation of the program is that tax benefits are currently capped at \$1,000,000. Additionally, the tax benefits would be spread over the 12-year life of the zone. This equates to \$83,333 per year for all of the cities involved in the program. This is a relatively small amount of money when compared to the JOBZ program and other traditional sources of development financing such as tax increment financing or tax abatement. The cap will need to be eliminated or modified to make this a truly useful tool.

Hitachi

In January 2003, IBM sold its hard disk drive division to Hitachi. The \$2.05 billion deal affected 180 disk drive engineers at IBM Rochester and an estimated 18,000 IBMers worldwide. The Hitachi-run firm has continued its operations at the IBM-Rochester campus.

JDS Uniphase



JDS Uniphase (JDSU), an electronics manufacturer which produces equipment for fiber optic networks, moved 125 employees to a new location in March 2003. The 40,500 square-foot laboratory and office building is located in Technology Park. RAEDI assisted JDSU with the selection of their site.

Lumen Biomedical, Inc.

RAEDI assisted this new medical device company by providing its predecessor firm, MedCity Medical Innovations, with a SEED/Venture Fund loan. Lumen is a development-stage company with the business objective of developing and commercializing embolic protection device technology. These devices prohibit certain materials dislodged during cardiovascular intervention procedures from entering the bloodstream and potentially causing serious complications such as heart attacks, strokes, and death.

Our investment, made in partnership with the Southern Minnesota Initiative Foundation, enabled the firm to fund its proof of concept. Due to the success of the concept study, our loan was paid back by year-end. RAEDI will also share in any future success of the company as we now own a small stake. Our hope is that this firm will flourish into another successful area business providing quality employment opportunities for Rochester area residents.

Job Opportunity Building Zones (JOBZ)

JOBZ, short for Job Opportunity Building Zones, is Governor Tim Pawlenty's push to bolster economic development in Minnesota by providing local and state tax exemptions. Ten area communities successfully applied for the program. A total of 376 acres (132 acres in Olmsted County) were approved for Rochester area communities.

In Rochester, the Celestica facility, which sits on approximately 26 acres, was granted designation. It is hoped that the tax-free status will help differentiate this facility from similar ones located elsewhere and will result in securing a new tenant which, over the long-term, will provide additional jobs for Rochester area residents.

Businesses locating in one of these zones will receive a variety of tax exemptions including corporate franchise tax, state income tax, sales tax on goods and services, property tax on commercial and industrial improvements, wind energy production tax, and employment tax credit for high paying jobs. The life of each zone is limited to 12 years.

RAEDI coordinated Olmsted County community requests which were submitted as one application through the Southern Minnesota JOBZ Alliance.

JOBZ Designations in Southeastern Minnesota

<u>Area Communities</u>	<u>Acres Approved</u>
Rochester	37.82
Byron	35.22
Dover	20
Stewartville	39
Dodge Center	95.91
Kasson	38.9
Chatfield	27.39
Spring Valley	42
Pine Island	24.50
St. Charles	16



www.raedi.com

Our website, raedi.com, underwent a new design and will be ready in early 2004. Log on and find the following information:

- RAEDI Services
- Annual Reports
- Education & Training Links
- Community Profile
- Available Land and Buildings
- Rochester Convention & Visitors Bureau Link
- Salary Surveys
- 504 Corp. Loan Program
- Rochester Area Chamber of Commerce Link
- Quarterly Reports
- Area Communities Links
- Utilities Links

www.raedi.com

504 CORPORATION

RAEDI provides management services including operations, loan packaging, closing, and servicing for the Southeastern Minnesota 504 Development, Inc. This corporation was formed by RAEDI to provide better access to the U.S. Small Business Administration's (SBA's) 504 Loan Program. Depending on the asset's useful life, the 504 loan program provides up to 20 years of financing. Normally, the program leverages a bank loan with a 504 loan to finance up to 90 percent of project costs. With a smaller down payment, businesses are better able to expand their operations by utilizing cash for working capital.

During 2003, 9 SBA 504 loans totaling \$4,048,000 were approved for area businesses by the SBA. The 9 projects represent a total investment of about \$11.1 million from SBA, area banks, and businesses. Currently, there are 4 loans in process representing approximately \$8.7 million of investment. The 504 Corporation's servicing portfolio has a total of 82 loans with an outstanding balance of approximately \$22 million.

RAEDI SERVICES

RAEDI, a public/private partnership, serves as a linch-pin between business and government and is committed to assisting new and existing companies with expansion, location, or research efforts. Services include:

Financial Packaging

- Direct Investment Funding
- Fixed Asset Financing
- Export Financing

Business Planning

- Cost Differential Comparisons
- Market Research & Analysis
- Community Data/Profiles

Site/Location Support

- Provide Objective Information on Sites, Facilities and Access to Support Services
- Develop Comparative Site Data

Business/Community Advocacy

- Identify and Present Business Interests and Concerns to Government
- Support Area Social, Economic and Infrastructure Development

RAEDI Quantitative Performance Report - 2003

RAEDI has adopted a return on investment strategy to monitor and evaluate its year-end and historical results. This data is compiled at year-end in order to quantify and calculate our area's return on investment. The process represents a less than perfect science. While the data should never be construed as a measurement for fiscal or economic impact, it is intended to provide the user with a reasonable estimate of direct economic activity.

INCOME:	
New Annual Income (result of businesses' expenditures for payroll, local purchases of goods & services)	\$ 12,891,041
OTHER INCOMES:	
Service Fee Income	\$ 136,000
Total Community Income	\$13,027,040
COMMUNITY INVESTMENT:	
SEED Fund Investment	\$ 31,000
RAEDI Operating Expenses	\$ 361,000
Total Community Investment	\$ 392,000
Total Private Dollars Invested in Projects	\$ 17,249,681
PERFORMANCE MEASURES:	
Return on Community Investment (amount of income compared to total community investment)	\$ 33.23
Private Project Investment/Community Investment (amount of private dollars invested in projects to community dollars invested)	\$ 44.00
Community Marginal Investment in Project (the percentage of project funding provided by community investment)	2.3%
Return on RAEDI Operating Budget (the amount of community income produced per dollar expended for RAEDI operations)	\$ 36.09
New Tax Base	\$ 8,000,000
Total Tax Revenue Generated/RAEDI Operating Expense	\$.86
Total New Jobs	221
Cost Per Job	\$ 1,774
Total Economic Activity (assumes a multiplier of 2 on community income from payrolls and purchases of goods and services)	\$25,782,080

A LOOK AHEAD TO 2004



John Benike
Incoming President

As we look ahead into 2004, we are excited about the prospects for future economic growth! There are several reasons for this excitement. First, we are beginning to observe a number of area firms making plans for capital expansions. This is a welcome sign. The Minnesota Partnership for Biotechnology and Medical Genomics and the Governor's JOBZ and Biotech initiatives are reasons to be optimistic as well.

We have entered an era of "industrial convergence." The future growth of our area's economy will occur as area industries relating to computers, medicine, and biology converge with one another. The Mayo/U of M Partnership and IBM's work with both Mayo and the University are examples of this convergence. We are optimistic that over the long term, there will be opportunity to grow our economy as a result of these interactions.

We believe the Rochester area is uniquely positioned to establish itself as one of the leading centers for the emergence of the bioscience/life science industries. These industries require the presence of a major research institution and development labs. Both of these requirements are met through Mayo and IBM's locations in Rochester. There are also a number of area firms starting us with a solid base such as Domaille Engineering, IBM's Engineering and Technology Services Group, Lumen Biomedical, Medical Innovations International, PEMSTAR, Rochester Medical Corporation, SPSS, and others who produce goods and services relating to these industries. Establishing ourselves as a leading center, however, will not happen as a matter of chance.

In order to assure success we need to think, organize, and act strategically. RAEDI is prepared to lead this effort but, ultimately, success will depend upon a sustained partnership with area communities, local and state elected officials, the Rochester Area Chamber of Commerce, and the entire business community.

We must be aggressive in our efforts to facilitate the continued growth and diversity of our local economy. I look forward to serving as RAEDI's president in 2004.

OUR MISSION

RAEDI's mission is to facilitate the continued growth and diversification of the Rochester area economy.

RAEDI STAFF



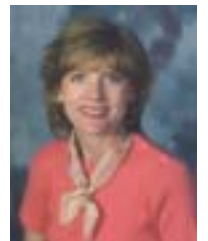
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A Public and Private Partnership For Economic Development

RAEDI

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