

## Chairman's Report



Mark Utz

The current state of the economy is a topic that is reported and editorialized daily in newspapers across the country. Rochester Area Economic Development, Inc. (RAEDI) remains focused on the local economy. As a private/public partnership formed in 1985, RAEDI's mission is to facilitate the continued growth of the Rochester area economy. RAEDI routinely tracks economic indicators which we publish in a variety of reports on a regular basis.

Continued job growth in the greater Rochester area distinguishes our region from other Minnesota regions. There were 109,085 people employed in the Rochester area as of December 31, 2007. This is 1,708 more people than this time last year representing an annual growth rate of 1.8 percent - a rate that is higher than the five-year average rate of 1.3 percent. This rate of growth is historically typical for our area with the exception of the years 1996-2001 when we experienced an extraordinary 4 percent rate of growth. Data for the entire state of Minnesota by comparison shows a net loss of 350 jobs.

Not every sector of our economy is growing. Building permit values are down approximately 25 percent and sales of single family homes are off almost 3 percent on the year. Both of these trends are indicative of state and national trends and remind us that we are not totally immune to larger economic forces. However, 11 of 15 economic sectors have produced new jobs over the last 12 months. Education and health led the way followed by growth in the transportation and services sectors. Job loss was experienced in manufacturing, construction, information, and retail sectors. The bottom line however remains; there are more people working today than at this time last year.

Entrepreneurial activity is setting the stage for further growth. Technology developed locally is being commercialized in our area. In the past 12 months, RAEDI has directly invested in three businesses and is presently negotiating with a fourth. These new ventures have the potential to create hundreds of new living wage jobs for Rochester area residents.

We believe there is reason to be bullish about the future. An emerging biobusiness industry, which now includes the Minnesota Partnership for Biotechnology and Medical Genomics, the University of Minnesota, Mayo Clinic, IBM, and the soon to be constructed Minnesota BioBusiness Center, creates critical mass for increased collaboration and partnership. These entities, along with the many other businesses that form the foundation of our economy, provide a base for continued growth.

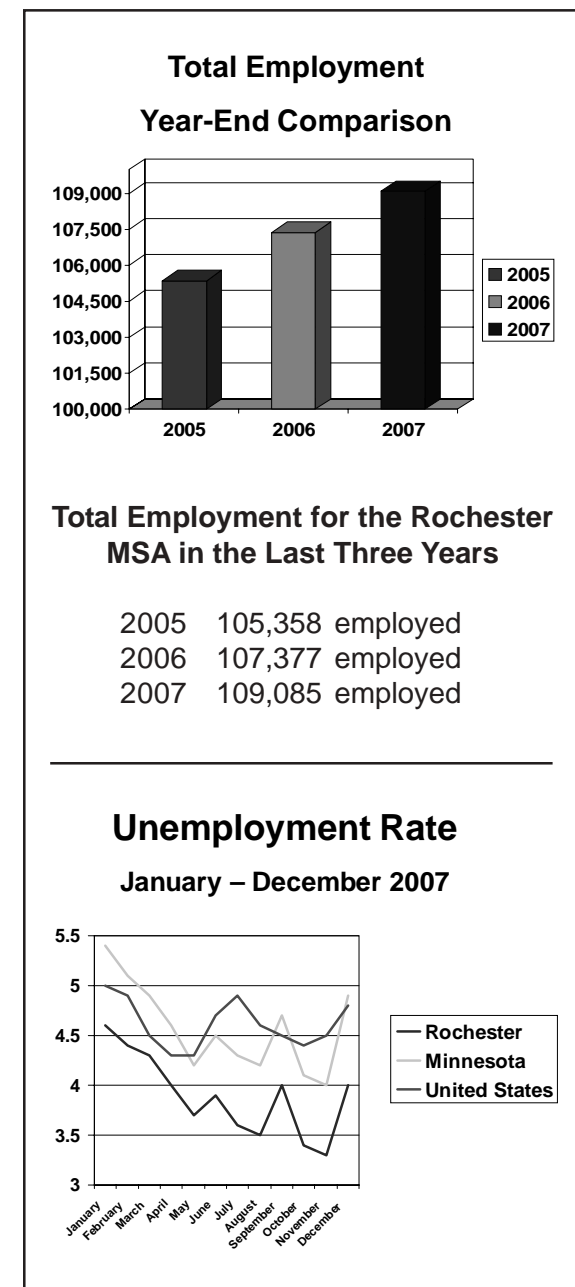
There are a number of community organizations leading initiatives relating to education, workforce development, community development, housing, and diversity. All of these efforts are important pieces of the puzzle that help define our competitive position. RAEDI will continue to do its part but, in the end, it is not what we do as one organization but rather what we do as a community of private and public organizations that ultimately assures success.

Mark Utz, 2007 Chairman

## 504 Corporation

RAEDI provides management services including operations, loan packaging, closings, and servicing for the 504 Corporation. Normally, the 504 loan program leverages a bank and an SBA 504 loan to finance up to 90 percent of project costs. With a smaller down payment and a low 20-year fixed interest rate, businesses are better able to expand their operations by utilizing cash for working capital.

In 2007, 20 SBA 504 loans totaling \$9.7 million were approved for area businesses. These projects represented total investments of over \$25.5 million from the SBA, banks, and businesses. The 504 Corporation's year-end loan portfolio included 99 loans with an outstanding balance of \$32.9 million.



## Year-End Review

### Minnesota BioBusiness Center

Construction of the Minnesota BioBusiness Center began in November 2007. The key tenant for the building is the Mayo Foundation for Medical Education and Research who will lease five floors. Space on the remaining three floors will be dedicated to a combination of ground-floor retail and biobusiness companies other than Mayo. The building is designed so that six additional floors could be added later. Total cost of the project, with the expansion of the First Avenue parking ramp, is approximately \$34 million.



Groundbreaking, December 2007

### University Square

The University of Minnesota Rochester started fall semester 2007 in its new location in downtown Rochester. The former Galleria Mall, now known as University Square, welcomed 400 students as it opened the doors in September. Health Sciences and the biotechnology fields are the focus of studies at this location. The University occupies the top two floors of the building while the first and second floors house a welcome center, bookstore, retail shops, and a restaurant.



### RAEDI Seed/Venture Fund Activity

RAEDI made three direct investments in Rochester high-tech companies in 2007 through its Seed/Venture Fund which include:

#### Hylas Incorporated

Hylas Incorporated is a Rochester-based medical telematics company who is setting out to improve the quality of life for seniors and their families by developing and marketing innovative products that incorporate the latest advances in disruptive wireless sensor technologies.

#### Hardcore Computer, Inc.

Hardcore Computer, Inc. plans to manufacture industry-leading, high-end desktop computers with improved cooling technology. These computers will make use of patent-pending, liquid-cooling technology as well as several other proprietary innovations.

#### Nesos Health LLC

Nesos is in the process of developing a non-invasive device used to relieve joint pain and improve quality of life in patients suffering from osteoarthritis through the use of electromagnetic thermal therapy (EMT2).

### Performance Report - 2007

RAEDI has adopted a return on investment strategy to monitor and evaluate its year-end and historical results for its 2003-2007 reporting cycle. 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.

<b>INCOME:</b>	
New Annual Income (result of businesses' expenditures for payroll, local purchases of goods & services)	\$23,547,240
<b>OTHER INCOMES:</b>	
Service Fee Income	\$317,000
Grants Received	\$900,000
<b>Total Community Income</b>	<b>\$24,764,240</b>
<b>COMMUNITY INVESTMENT:</b>	
RAEDI Operating Expenses	645,000
Local Project Investment	\$586,500
<b>Total Community Investment</b>	<b>\$1,231,500</b>
<b>Total Private Dollars Invested in Projects</b>	<b>\$30,333,500</b>
<b>PERFORMANCE MEASURES:</b>	
Return on Community Investment (amount of income compared to total community investment)	\$25.95
Private Project Investment/Community Investment (amount of private dollars invested in projects to community dollars invested)	\$24.63
Community Marginal Investment in Project (the percentage of project funding provided by community investment)	4.1%
Return on RAEDI Operating Budget (the amount of community income produced per dollar expended for RAEDI operations)	\$38.39
New Tax Base	\$6,000,000
Total New Jobs	286
Cost Per Job	\$3,822
<b>Total Economic Activity</b> (assumes a multiplier of 2 on community income from payrolls and purchases of goods & services)	<b>\$47,094,480</b>

## 2007 RAEDI Board of Directors

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Greg Walters, Minnesota Energy Resources, Inc.

## 2007 Annual Report

*Breaking Ground For Future Growth*



### Special Thanks to RAEDI 2007 Investors

A.B. Systems, Inc.  
Alvin E. Benike, Inc.  
Associated Bank  
Benchmark Electronics  
Bouquet Companies  
Byron, City of  
C.O. Brown Agency, inc.  
Chafoulias Companies  
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Johnson Printing Company  
Kane & Johnson Architects, Inc.  
Knutson Construction Services  
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Mayo Clinic  
McGhie & Betts  
McGladrey & Pullen LLP  
Merchants National Bank  
Minnesota Energy Resources, Inc.  
Nationwide Business Services  
Olmsted County  
Olmsted Medical Center  
Olmsted National Bank  
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Rochester Area Chamber of Commerce  
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of Realtors  
Stewartville, City of  
U.S. Bank  
Weis Builders  
Wells Fargo Bank Minnesota  
Wendland, Utz, Stahl & Mintz, Ltd.  
Yaggy Colby Associates

### RAEDI Staff

Gary Smith, President  
Tonya Bernard, Administrative Assistant  
Molly Schmidt, Marketing Specialist  
Dwayne Lee, Director of Business Development  
Jim Snackenber, Senior Business Development Officer  
Laura Hart, Loan Services Specialist

### RAEDI

Rochester Area Economic Development, Inc.

220 South Broadway, Suite 100  
Rochester, Minnesota 55904  
(507) 288-0208 • Fax (507) 282-8960

[www.raedi.com](http://www.raedi.com)

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[raedi.com](http://raedi.com)