



2002 Annual Report

RAEDI

Rochester Area Economic Development, Inc.

raedi.com

RAEDI BOARD OF DIRECTORS



John Benike
Alvin E. Benike, Inc.



Paul Bucher
Dunlap & Seeger, P.A.



Dr. David Carl
U of M-Rochester



Mack Evans
City of Rochester



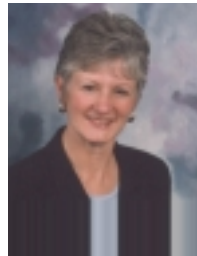
Mike Fogarty
C.O. Brown
Agency, inc.



Mayor Chris Gray
City of Stewartville



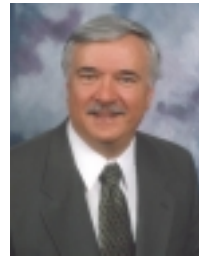
Bruce Gudlin
U.S. Bank



Karen Jothen
Qwest



Carol Kamper
Olmsted County



Larry Koshire
Rochester Public
Utilities



Keith Kremers
Hirman Insurors



Dick Landwehr
Rochester Public
Utilities



Michelle Leak
Mayo Clinic



Jon Losness
Post-Bulletin Co.



Marcia Marcoux
City of Rochester



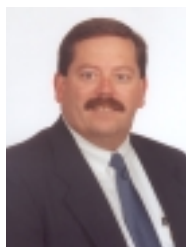
Gary Moore
Celestica



Thomas P. Moyer,
Ph.D.
Mayo Clinic



Bernie Nigon
McGladrey & Pullen



Scott Ordahl
Wells Fargo Bank



Mike Rietz
City of Kasson



Al Schafer
Smith, Schafer &
Associates



Ginny Smith
Ginny's Fine Fabrics



Mark Tasler
Express Personnel
Services



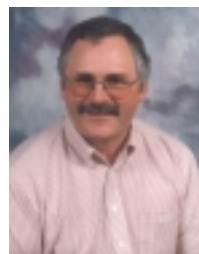
Jeff Thompson
Olmsted County



Mark Utz
Wendland & Utz, Ltd.



John Wade
Rochester Area
Chamber of Commerce



Dan Wagner
SE MN Assoc. of
Realtors



Greg Walters
Aquila

PRESIDENT'S MESSAGE



Karen Jothan

RAEDI's work in 2002 once again contributed to our area's long-term economic growth. This report details our activities over the past 12 months. Clearly, a highlight was our effort to assist JDS Uniphase. Completion of this project will result in the retention of over 125 jobs and the construction of a 40,000 square foot development lab. The lab, located in Rochester's Technology Park, is presently under construction and is scheduled for completion in the spring of 2003. RAEDI staff also assisted several area firms in obtaining the

financing needed to expand their businesses. Our present loan assistance portfolio consists of 88 loans with an outstanding balance in excess of \$22.7 million.

One major disappointment during the year was when our effort to secure a Ford Motor Company distribution facility did not achieve our desired outcome. RAEDI staff worked with the City of Stewartville in preparing our area's response to this opportunity. Ford eventually chose Wisconsin over Minnesota for reasons relating to the disparity between costs for taxes and workers compensation. The good news is that both of these factors relate to state policy and not local. While we all would have preferred to win the project, the process validated an important fact: that the "A" in RAEDI means *Area* -- in action as well as in name.

Despite all our good efforts, the Rochester area economy in the past twelve months demonstrated that we are not immune to economic cycles. Our local economy has experienced a net loss of nearly 700 jobs over the past year. So, while the local economy continues to outperform both state and national economies, the need for RAEDI has never been stronger. We must be as aggressive as ever in our attempt to facilitate the growth and diversity of our local economy.

On behalf of the Board of Directors and staff, I would like to thank all of our investor members and partners for your continued support. Our work would not be possible without you. I look forward to 2003 and the opportunity to continue RAEDI's contribution to further local economic growth.

OUR MISSION

RAEDI's mission is to facilitate the growth and diversity of the Rochester area economy by providing businesses and entrepreneurs with value-added services as well as advocating private/public actions which improve the area's competitive position within the global economy.

SPECIAL THANKS

to our investors

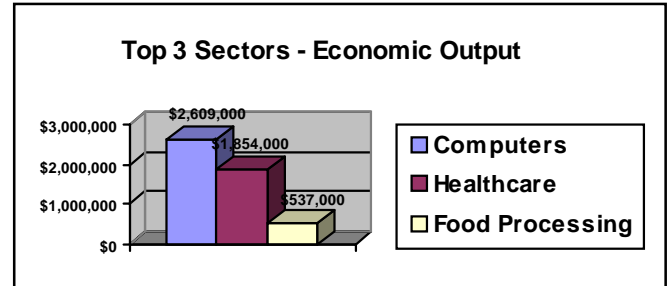
A.B. Systems, Inc.
Alvin E. Benike, Inc.
Aquila
Bigelow Enterprises, Inc.
Bouquet Builders, Inc.
C.O. Brown Agency, inc.
Celestica, Inc.
Chafoulias Companies
Coffman, Nehring & Christopherson
Comprehensive Business Services
Custom Alarm/Custom Communications, Inc.
Davies Printing
Dunlap & Seeger, P.A.
Eastwood Bank
Express Personnel Services
First Federal
First Security Bank-Byron
FoxCroft Corporation/Wynwood Company
General Growth Properties, Inc.
Heartman Insurance
HGA
Hirman Insurors
Home Federal Savings Bank
Johnson Printing Company
Kasson, City of
KTTC-TV
Mayo Clinic
McGhie & Betts
McGladrey & Pullen
Olmsted County
Olmsted Medical Center
PEMSTAR Inc.
Post-Bulletin Company
Premier Bank
Qwest
Rochester Area Chamber of Commerce
Rochester, City of
Rochester Public Utilities
Rochester Ready-Mix Concrete Co.
Rochester Sand & Gravel
- Division of Mathy Construction
Root River State Bank - Chatfield
Schmidt-Goodman Office Products, Inc.
Smith, Schafer & Associates
Southeast Minnesota Association of Realtors
Stewartville, City of
Sulla's Lithography & Printing, Inc.
U.S. Bank
Weis Builders
Wells Fargo Bank Minnesota
Wendland and Utz, Ltd.
Yaggy Colby Associates

Olmsted County Economic Impact Study

In 2002, Olmsted County released information from an economic impact study conducted by the Ohio State University Strategy Store. Three key findings demonstrate the impact of the Olmsted County economy on the state of Minnesota's overall economy.

1. Olmsted County generates 87.7% of all regional output (\$14 billion) and 89.2% of regional employment (159,300 jobs).

2. With approximately 2.5 percent of the state's population, Olmsted County has an annual economic impact of \$16 billion, which is twice the impact one would expect given the county's population. Olmsted County is also a significant net contributor to the State of Minnesota's tax system. For example, in 1999 Olmsted County contributed \$268 million in major state taxes and received back \$168 million in state aid. For every \$1 paid in state taxes, the county received approximately \$0.63 in state aid.



Olmsted County typically receives less state aids/credits on the dollar than similar sized counties.

3. The structure of the Olmsted County economy is heavily concentrated in two sectors: healthcare and the computer Industry. The heavy concentration of these two knowledge-based industries has been one of the leading factors in the region's strong economic growth.

JDS Uniphase Breaks Ground



Ground breaking for JDSU, Fall 2002

JDS Uniphase broke ground in October 2002. The telecommunications equipment maker purchased IBM's optical transceiver operations and is building a 40,500 square-foot laboratory and office building in Technology Park on the city's far northwest side. The building will be completed in March 2003, and the company plans to move 125 local employees from current quarters on the IBM Rochester campus to the new facility.

The Minnesota Department of Trade and Economic Development provided a \$250,000 grant while the city of Rochester contributed the write down of land through the use of Tax Increment Financing (TIF).

Dairy Industry Receives Grant

A partnership was formed between Rochester Community and Technical College (RCTC), Pace Dairy Food and Marigold Foods to develop and deliver Programmable Logic Controller (PLC) training to engineering and maintenance employees. This need was identified through a collaborative effort by RAEDI, the Rochester Area Chamber of Commerce, and RCTC.

A \$40,000 grant was awarded by the Job Skills Partnership Program and matched dollar for dollar by participating businesses. The goal of this program is to improve the effectiveness and efficiency of the production system and provide a process for evaluation. Currently, the availability of training is limited forcing the employers to send employees outside the geographic location. Shorter training sessions will allow employees to participate in group sessions enabling employees to get the same information and work collaboratively to solve problems that relate specifically to company situations. In addition, there are only a limited number of employees that have the responsibility for operating and maintaining PLC equipment in each company. The partnership will allow employees access to short-term, content specific training.

Rochester MSA Population & Growth

Historical and Projected Population

Rochester MSA

1970	84,320
1980	92,400
1990	106,960
2000	124,340
2010	142,640

Minnesota

1970	3,815,020
1980	4,086,730
1990	4,387,230
2000	4,919,479
2010	5,483,300

United States

1970	203,982,310
1980	227,225,620
1990	249,440,650
2000	281,421,906
2010	310,519,050

Olmsted County is projected to remain one of Minnesota's fastest-growing counties over the next 30 years, while Rochester will be part of the fastest-growing metropolitan areas in the state.

Over the past two decades, annual population growth in Olmsted County has been about 1.6 percent. It is estimated that the county will grow by 1.3 percent annually over the next 10 years, 1.1 percent per year for the next 10 year after that, and .9 percent per year in the final decade of study.

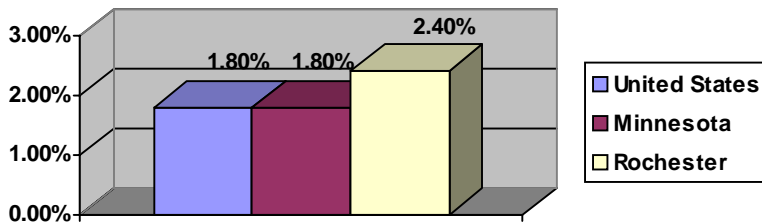
Over the next 30 years, the elderly will assume a larger share of the Olmsted County population. The 2000 census says 14 percent of the county's residents are older than 60. By 2030, that figure is expected to jump to 25 percent.

Source: Woods & Poole Economics - 2002 MSA Profile

Source: Minnesota Planning Department

Rochester MSA Employment Growth

1993-2002 Employment Growth Rates



From 1993-2002, the Rochester MSA grew jobs 25% faster than the national and state of Minnesota as a whole.

Sources: Minnesota Workforce Center
U.S. Dept. of Labor

Rochester MSA Assessed Market Property Growth

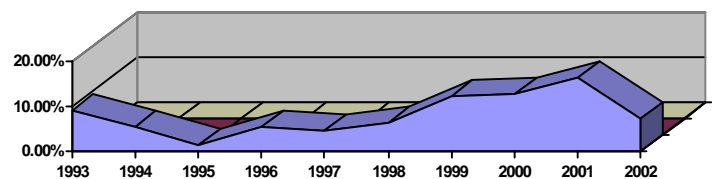
Assessed Market Value 1993 - 2002

1993	\$3,779,117,070	1998	\$4,742,241,000
1994	\$3,982,703,589	1999	\$5,328,558,100
1995	\$4,042,526,800	2000	\$6,015,830,500
1996	\$4,258,963,500	2001	\$7,014,905,510
1997	\$4,449,900,900	2002	\$7,533,838,600

Source: Olmsted County Assessor

Source: Olmsted County Assessor's Office

Rochester MSA
Assessed Market Property Value
Annual Growth Rates
1993-2002



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 their useful life, the 504 loan program provides up to 20 years of financing for assets. 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 2002, 5 SBA 504 loans totaling \$2,073,000, were approved for area businesses by the SBA. The 5 projects represent a total investment of about \$5.3 million from SBA, area banks, and businesses. Currently, there are 7 loans in the application process representing approximately \$7.2 million of investment. The 504 Corporation's servicing portfolio has a total of 88 loans with an outstanding balance of over \$22.7 million.

RAEDI SERVICES

RAEDI, a public/private partnership, serves as a linch pin between business and government, 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 - 2002

RAEDI has adopted a return on investment strategy to monitor and evaluate our 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 as a Result of Businesses' Expenditures for Payroll, Local Purchases of Goods & Services	\$13,743,840
OTHER INCOMES:	
Service Fee Income	\$ 125,000
State & Fed. Funds Returned thru Grant	\$ 290,000
Other	
Total Community Income	\$14,158,840
COMMUNITY INVESTMENT:	
City Investment	\$ 304,920
SEED Fund Investment	
RAEDI Operating Expenses	\$ 343,000
Other	
Total Community Investment	\$ 647,920
Total Private Dollars Invested in Projects	\$17,450,460
PERFORMANCE MEASURES:	
Return on Community Investment (amount of income compared to total community investment)	\$ 21.85
Private Project Investment/Community Investment (amount of private dollars invested in projects to community dollars invested)	\$ 26.93
Community Marginal Investment in Project (the percentage of project funding provided by community investment)	3.7%
Return on RAEDI Operating Budget (the amount of community income produced per dollar expended for RAEDI operations)	\$ 41.28
New Tax Base	\$ 5,330,000
Total Tax Revenue Generated/RAEDI Operating Expense	\$.61
Total New Jobs	289
Cost Per Job	\$ 2,242
Total Economic Activity (assumes a multiplier of 2 on community income from payrolls and purchases of goods and services)	\$27,487,680

A LOOK AHEAD TO 2003



Larry Koshire

As we think about 2003 and what it will bring in terms of our economic future, RAEDI will continue to do its part by supplying emerging and expanding companies the assistance they need to grow and flourish in the Rochester area. We will do this in an economic environment that appears, at least in the near term, to remain somewhat soft. Many businesses are optimistic but are waiting for consistent revenue growth and a more certain future before committing to any expansion plans. Our prospects for continued long-term growth is tied more than ever to the cycles of a global economy. Nonetheless, all of us at RAEDI remain optimistic about the future and for good reason.

There is little doubt that RAEDI's work contributes to the growth and diversity of our area economy. Our economy consistently outperforms other regional economies in the state by posting higher growth rates for changes in employment and population. Rest assured we do not intend to rely on past performance. However, we will use our past success as the foundation for building an economic future that all Rochester area residents are proud of.

During the next year, RAEDI will continue to focus on what it does best. That is, doing every thing we can to attract and assist the growth and expansion of base businesses. It is these businesses that provide the "real" growth of our local economy.

Additionally, for the first time in several years, RAEDI will be faced with the task of raising additional operating capital. This funding will be needed if we are to maintain the high level of service Rochester area entrepreneurs and business owners expect. This will not be an easy task, but we are confident that potential investors will recognize the benefits they will receive by making such an investment.

I look forward to the future with anticipation, and I hope you do as well.

RAEDI STAFF



Gary Smith
Executive Vice
President



Tonya Bernard
Administrative
Assistant



Dwayne Lee
Director of
Business
Development



Molly Schmidt
Marketing
Specialist

raedi.com

In 2002, raedi.com received an average of 922 page views a month, totaling more than 11,000 visits to the website for the year.

Our site provides visitors with the following information:

- RAEDI Services
- Community Profile on the Rochester MSA
- Salary Survey
- Quarterly Reports
- Annual Reports
- Available Land and Buildings
- 504 Corporation Loan Information
- Technology Brochure
- Annual Economic Development Updates
- and more

A Public and Private Partnership For Economic Development

RAEDI

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