



Rochester Community and Technical College football players wearing GoRout's play assignment displays on their wrists square off in practice. GoRout bridged a startup funding gap with \$75,000 borrowed from a business loan fund created by the city of Rochester. (Submitted)

Rochester loan fund builds startup investment

By: [Matt M. Johnson](#) August 8, 2016 4:43 pm 0

As the Rochester bulks up its economy at the outset of the \$6 billion Destination Medical Center initiative, a comparatively small business loan program is spurring ground-floor investment in medical and technology startups.

For the past four years, [Rochester Area Economic Development Inc.](#) has been using a \$5 million, city-funded loan program to build up companies that promise to bring new money to town. So far, the Rochester Economic Development Fund has committed about \$1.1 million in financing to nine startups and growing concerns in Rochester's medical and technology sectors.

Gary Smith, RAEDI's president, said the loans — which range from \$25,000 to \$200,000 — can make the difference between a business staying in town to generate jobs and lease property, and losing that activity to another city or state.

“If we don't do it, they'll form the companies, but the companies probably won't wind up in Minnesota,” he said.

Companies that have received loans from the city-funded program have drawn \$32 million in additional investment and have created 65 new jobs, Smith said. RAEDI administers the loans on behalf of the city.

The fund is all about taking risks in hopes of a payoff for the Rochester economy. Smith said it is money that startups and other companies can access to keep early operations on track long enough to gain more investment or income. RAEDI's board of directors can extend loans for less than \$75,000 on its own authority, speeding the financing process. Larger amounts require a vote of the Rochester City Council.

Smith said RAEDI is making the best bets it can and has seen companies grow thanks to the financing. But he also admits that some program participants may fail and that a few loans may not be repaid.

"These are very high-risk loans," he said. "We expect that there are going to be some losses."

Program participant Mike Rolih knows something about risk. He started his company, [GoRout](#), in early 2014 with a concept and no working product. GoRout is a hardware and software product that allows football coaches to communicate play assignments to players via displays the players wear on their wrists.

Rolih said that when he introduced the concept to several high school teams, he wound up taking several orders on the spot for a product that did not yet exist. To fulfill those orders, he flew to China and lived there for three months while GoRout was engineered, programmed and manufactured.

Last year, Rolih went to RAEDI to get a loan to help him expand operations. The company took a \$75,000 loan, enough money to keep going until it could move from the angel funding that got it started to a round of seed funding. Since that time, GoRout has grown from two employees to six and has picked up \$1.1 million in additional investment. It has also moved out of an office space in the Mayor Clinic Business Accelerator in downtown Rochester to its own space a few blocks away at 4 Third St. SW.

Rolih said the city loan sped the process of bringing capital into GoRout at the moment the company needed it.

"You have to figure out ways to survive as a business," he said. "Having it right here in Rochester really made the process easy."

Rolih said GoRout will earn about \$500,000 in 2016 on sales to high schools, colleges and professional teams. The company has paid its loan back in full.

Another Rochester entrepreneur who has used the loan program is Al Berning. The city loan fund has committed up to \$250,000 to [Ambient Clinical Analytics](#), a medical software company Berning started in 2014.

Berning, who previously took an \$80,000 loan from the Rochester fund for another company, said Ambient used the money to keep operations going between other cash infusions. He said that sort of funding is difficult to get in Minnesota because he has found the state to lack "a broad set of venture firms."

“Having that bridge funding available to move the company along is very important,” he said. Now operating with 10 employees, Ambient has developed several software products and has partnered with international technology company Philips to develop a cloud-based clinical analytics dashboard called IntelliSpace Console Critical Care. Berning declined to disclose the company’s annual revenue figures.

As Rochester works toward the 20-year implementation of the Destination Medical Center and the associated development that goes with it, the relatively small RAEDI fund may grow in importance. Smith said most of the fund’s loans have gone to medical startups, expanding the city’s base in the medical technology sector. The Destination Medical Center effort had attracted over \$152 million in private investment to Rochester as of the end of 2015. City planners expect it will bring billions of dollars in construction and 45,000 new jobs to the city.

So far, businesses have been requesting Rochester Economic Development Fund funding at a rate of one or two per month. Smith said he has not seen the rate of requests increase, but he believes there is a need for more business startup and bridge funding. RAEDI is organizing local private angel investment fund that will launch when commitments reach \$1 million. It has reached about 60 percent of that total.