

**State:** Oregon  
**Program:** VAPG Followed by a B&I Loan

**Outline of Need:** Select Onion Company is a father and two-son farming operation in Eastern Oregon that has been working for the past 9 years to vertically integrate their operation. They farm primarily onions on about 9,125 deeded and leased acres out of Ontario, Oregon. In order to allow them to market their fresh onions over a longer period of time and sell when market conditions were more favorable than at harvest time, the Larsons built a cold storage facility with the capacity to store 20 million pounds of onions in the year 2000.

The following year, the Larson's recognized that the whole-peeled onion market was under-supplied. To produce peeled onions they built additional cold storage capacity and processing space along with the needed processing equipment. Increasing demand for the peeled onions led to further expansions in both 2003 and 2004 to a 50 million pound storage capacity. Rather than selling their onions only in the industry-standard 1,500 pound crates, the Larsons began packaging their high quality peeled onions in 45, 10 and 5 pound bags to gain further markets and diversify their sales.

To utilize waste from the whole peel process and #2 onions grown on their farm, the Larson's added equipment and freezer capacity to produce Instant Quick Frozen (IQF) diced onions in 2005. Their whole-peeled onions were primarily used by onion ring manufacturers in Canada and the U.S.

One of their customers asked the Larsons if they would agree to supply raw breaded gourmet onion rings to them via a co-pack agreement. To prepare for the additional product line, the Larson's received a Value Added Producer Grant (VAPG) for working capital from Rural Development in 2006.

Following the successful launch of the new product line, their customer requested they increase their standing co-pack agreement from 4 million to 10 million pounds in 2008, and expected doubling or even tripling the agreement in 2009 and 2010. To meet the additional demand, the borrowers needed to build another processing facility and add an additional 3 processing lines to the single line they had. To finance the project the lender asked Rural Development to provide a \$10 million B&I guarantee to refinance equipment debt that had a balloon payment coming due. The lender followed the B&I loan with an additional \$23,500,000 in financing to complete the project.

**How Rural Development Helped:** The Value Added Producer Grant allowed the operation to ramp up the breaded onion ring processing and packaging line. The B&I loan removed equipment debt with a balloon payment, reduced debt service by \$77,000, and allowed the lender the opportunity to consider financing

the larger expansion project, including the addition of a new 84,870 square foot processing building.

**The Outcome:** In September of 2008 their co-pack agreement was increased again and the term of the contract was increased from 10 to 20 years. At present they are producing approximately 35 million pounds of onion rings and have become the exclusive supplier for Con Agra foods. Since closing on their B&I loan they have added additional processing lines and an additional 50 employees beyond what was originally projected when they applied for the loan.

