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2019 OCT -3 PM 3:51



CITY OF OAKLAND

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COUNCILMEMBER LOREN TAYLOR  
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**AGENDA MEMORANDUM**

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Date: October 2, 2019  
To: Members of the City Council and Members of the Public  
From: Councilmember Loren Taylor  
Subject: Supplemental Report re: Ordinance Amending Cannabis Business Tax Rates

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Colleagues on the City Council and Members of the Public:

Included in this Supplemental Report is a PowerPoint presentation summarizing key findings from various stakeholder meetings the District 6 office has conducted over the past 3 months. On pages 7 and 8 of the slide deck you will find 2 proposals (A & B) that incorporate these learnings into potential cannabis tax policy.

I look forward to discussing these findings in the upcoming 10/8/19 Finance Committee Meeting.

Thank you for your consideration.

Sincerely,

A handwritten signature in black ink, appearing to read 'Loren Taylor'.

Loren Taylor

September 24, 2019

# CANNABIS TAX RELIEF FOCUSED ON EQUITY AND SMALL BUSINESSES

IMPROVING CANNABIS TAX POLICY IN OAKLAND

**Loren**  
**TAYLOR**  
OAKLAND CITY COUNCIL



# I. TAXES ARE JUST ONE OF SEVERAL TOOLS WE HAVE AVAILABLE

## I. What are Oakland's goals with respect to cannabis industry?

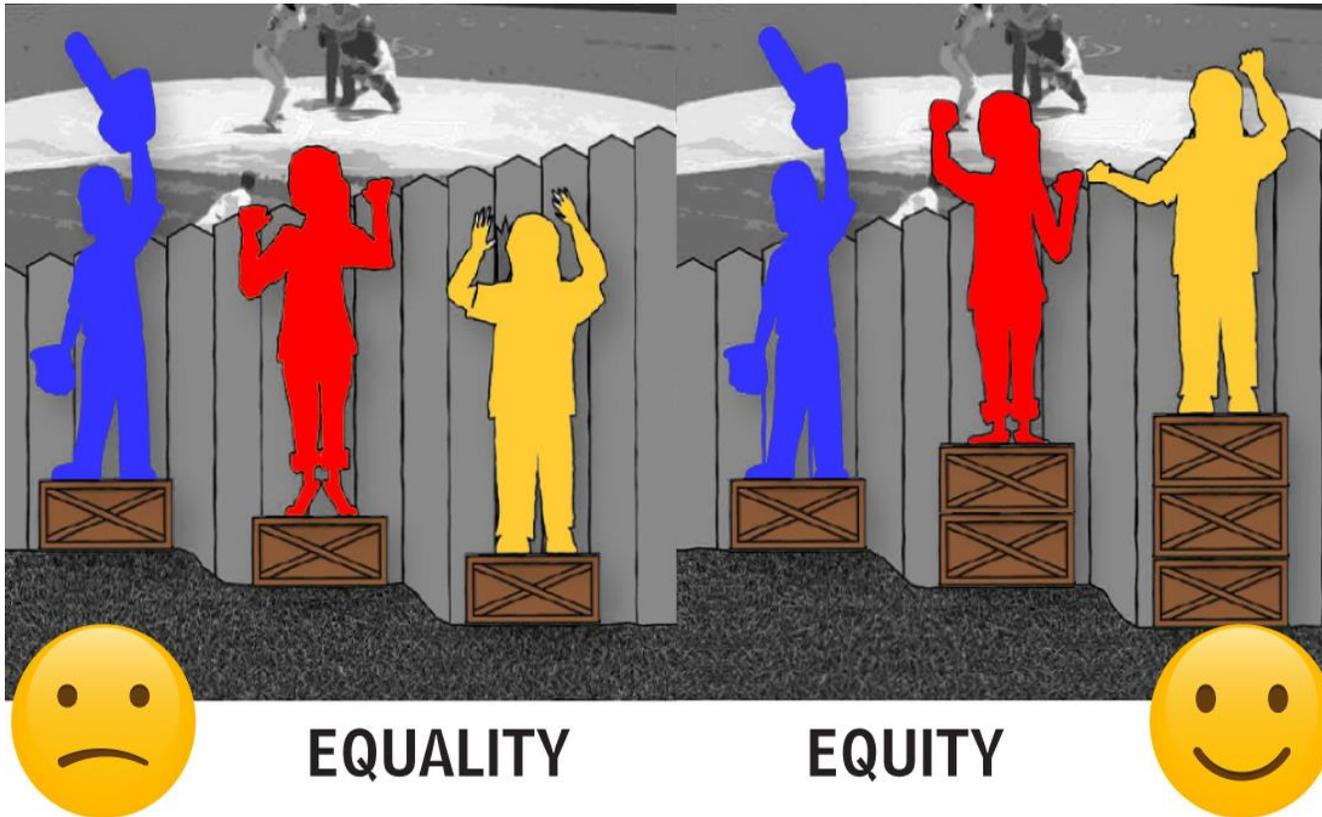
- Revenue to the city (near term... longer-term)
- Job creation (Total jobs, Jobs for at-risk/ Under-employed populations)
- Catalyze creation/ growth of other Oakland businesses (equity and non-equity)
- Oakland as destination for residents of other Bay Area cities
- Increased neighborhood improvement and provision of services to under-resourced communities
- Other

## 2. What are Oakland's levers it has available to achieve these goals?

- Business Assistance
- Licensing/Permitting (of businesses and events)
- Zoning
- Taxes and Fees
- Grants/ investments
- Policy/ legislation
- Effective enforcement of legislation/ codes
- Building and Fire (critically helpful and/or an impediment)
- Other

# I. Key Learnings

## 2. EQUITY MUST BE AT THE HEART OF MARIJUANA LEGALIZATION



EQUALITY

EQUITY

Equality = sameness

Equity = fairness

WE MUST MAINTAIN  
THIS FOCUS WITH  
OUR TAX POLICY

## I. Key Learnings

### 3. EACH VALUE CHAIN SEGMENTS HAS UNIQUE CHARACTERISTICS

|   | Cultivation               | Manufacturing                       | Distribution                          | Labs/ Testing | Retail     |
|---|---------------------------|-------------------------------------|---------------------------------------|---------------|------------|
| <b># of business permits in OAK</b> (195 licensed businesses holding 291 permits) | 43(indoor)<br>/5(outdoor) | 21 (volatile)/ 53<br>(non-volatile) | 73 (distribution)/<br>8 (Transporter) | I             | 87 permits |
| <b>Sales Tax Revenue to City</b>  | N/A                       | N/A                                 | N/A                                   | N/A           | YES        |
| <b>Margins (H, M, L)</b>  | L                         | L-M                                 | L                                     | L             | H          |
| <b>Jobs per sq. ft</b>  | L                         | M                                   | M-H                                   | M             | H          |
| <b>Skill/ Education Level (non-mgmt)</b>  | L                         | L-H                                 | L-M                                   | L-H           | L          |
| <b>Likely to be commoditized?</b>   | Y                         | N                                   | N                                     | N             | TBD?       |



## I. Key Learnings

### 5. LAB/TEST COMPANIES - NOT DIRECTLY PART OF CANNABIS VALUE CHAIN



**HOW ARE THEY DIFFERENT FROM OTHER SERVICE PROVIDERS, E.G., AN ACCOUNTANT, OR A JANITOR, OR A SECURITY SERVICE THAT PAYS 0.12% TAX RATE??**

## II. Proposal - A

# PROPOSED CANNABIS EQUITY TAX INCENTIVE PROGRAM

|                                      |   | Tax Rate                       | Tax Deduction   |
|--------------------------------------|---|--------------------------------|---|
| <b>Baseline Tax Rate</b>             |   |                                |   |
| 1                                    | Manufacturing, Distribution, and Retail                 | 8% NonMedical /<br>5% Medical  |   |
| 2                                    | Cultivation   | 10% NonMedical /<br>5% Medical |   |
| 3                                    | Laboratory & Testing                                    | 0.12%                          |   |
| <b>Equity Business Tax Relief</b>    |   |                                |   |
| 4                                    | Equity businesses with revenue up to \$1.5M             | 0.12%                          |   |
| 5                                    | Non-Equity businesses with revenue up to \$500K         | 0.12%                          |   |
| <b>Local Equity Hiring Incentive</b> |   |                                |   |
| 6                                    | Equity Businesses with revenue greater than \$1.5M      |                                | %-age calculation: 1% tax deduction for every 10% of workforce that comes from police beats (TBD) in Oakland with the highest levels of cannabis enforcement (minimum tax rate of 2%) |
| 7                                    | Nonequity businesses with minimum of 40 total employees |                                | %-age calculation: 1% tax deduction for every 10% of workforce that comes from police beats (TBD) in Oakland with the highest levels of cannabis enforcement (minimum tax rate of 2%) |

## II. Proposal - B

# PROPOSED CANNABIS EQUITY TAX INCENTIVE PROGRAM

|  |   | Tax Rate           | Tax Deduction (2% tax minimum through rebate program)  |
|--|---|--------------------|--|
| <b>Baseline Tax Rate</b>                                   |   |                    |  |
| 1  | Manufacturing, and Retail                       | 8% NonMed/ 5% Med  |  |
| 2  | Cultivation                                     | 10% NonMed/ 5% Med |  |
| 3  | Distribution & Lab/Testing                      | 5%                 |  |
| <b>Equity Business Tax Relief</b>                          |   |                    |  |
| 4  | Equity businesses with revenue up to \$1.5M     | 0.12%              |  |
| 5  | Non-Equity businesses with revenue up to \$500K | 0.12%              |  |
| <b>Local Equity Hiring Incentive (3% Max Rebate)</b>       |   |                    |  |
| 6  | Local Hiring Incentive A                        |                    | <b>1% Tax Rebate</b> – 51% of workforce consists of verified members of equity target population   |
| 7  | Local Hiring Incentive B                        |                    | <b>1% Tax Rebate</b> – 30% of essential jobs of the permit performed by verified members of equity target population ( <i>e.g, mfg jobs for a manufacturer</i> ) |
| 8  | Local Hiring Incentive C                        |                    | <b>1% Tax Rebate</b> – 30% of managerial staff are verified members of equity target population  |
| <b>Equity Program Supply Chain Support (2% Max Rebate)</b> |   |                    |  |
| 6  | Local Supply Chain Discount A                   |                    | <b>1% Tax Rebate</b> – 51% of product comes from equity distributor  |
| 7  | Local Supply Chain Discount B                   |                    | <b>1% Tax Rebate</b> – 51% of product on shelves are equity brand  |
| <b>Workforce Quality of Life Incentive (2% Max Rebate)</b> |   |                    |  |
| 6  | Living Wage Discount                            |                    | <b>1% Rebate</b> – No staff earns less than \$20/hr* (COLA adjustment each year)   |
| 7  | Full-time Hire Discount                         |                    | <b>1% Tax Rebate</b> – 80% of staff is full time   |

# Tax Rate Summary for Proposals A and B for each industry subsegment

| Proposal A           | Original Tax Rate |                | Stated Tax Rate   |                | Effective Tax Rate (w/o Rebates) |                | Lowest Possible Tax Rate (w/ Rebates) |                |
|----------------------|-------------------|----------------|-------------------|----------------|----------------------------------|----------------|---------------------------------------|----------------|
|                      | <i>NonMedical</i> | <i>Medical</i> | <i>NonMedical</i> | <i>Medical</i> | <i>NonMedical</i>                | <i>Medical</i> | <i>NonMedical</i>                     | <i>Medical</i> |
| <b>Cultivation</b>   | 10%               | 5%             | 10%               | 5%             | 5%                               | 2.5%           | 2%                                    | 2%             |
| <b>Manufacturing</b> | 10%               | 5%             | 8%                | 5%             | 4.8%                             | 3%             | 2%                                    | 2%             |
| <b>Distribution</b>  | 10%               | 5%             | 8%                | 5%             | 8%                               | 5%             | 2%                                    | 2%             |
| <b>Lab/ Test</b>     | 10%               | 5%             | 0.12%             | 0.12%          | 0.12%                            | 0.12%          | 0.12%                                 | 0.12%          |
| <b>Retail</b>        | 10%               | 5%             | 8%                | 5%             | 8%                               | 5%             | 2%                                    | 2%             |

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| Proposal B           | Original Tax Rate |                | Stated Tax Rate   |                | Effective Tax Rate (w/o Rebates) |                | Lowest Possible Tax Rate (w/ Rebates) |                |
|----------------------|-------------------|----------------|-------------------|----------------|----------------------------------|----------------|---------------------------------------|----------------|
|                      | <i>NonMedical</i> | <i>Medical</i> | <i>NonMedical</i> | <i>Medical</i> | <i>NonMedical</i>                | <i>Medical</i> | <i>NonMedical</i>                     | <i>Medical</i> |
| <b>Cultivation</b>   | 10%               | 5%             | 10%               | 5%             | 5%                               | 2.5%           | 2%                                    | 2%             |
| <b>Manufacturing</b> | 10%               | 5%             | 8%                | 5%             | 4.8%                             | 3%             | 2%                                    | 2%             |
| <b>Distribution</b>  | 10%               | 5%             | 5%                | 5%             | 5%                               | 5%             | 2%                                    | 2%             |
| <b>Lab/ Test</b>     | 10%               | 5%             | 5%                | 5%             | 5%                               | 5%             | 2%                                    | 2%             |
| <b>Retail</b>        | 10%               | 5%             | 8%                | 5%             | 8%                               | 5%             | 2%                                    | 2%             |

## CANNABIS EQUITY TAX INCENTIVE PROGRAM

### **1. How much will these proposed reductions affect our budget?**

RESPONSE - Finance Department to provide response

### **2. Where will the budget offset come from?**

RESPONSE - Finance Department to provide response

### **3. Which police beats should be included b/c of having higher levels of cannabis enforcement?**

RESPONSE - The same police beats and criteria for equity program participation as described in Ordinance 13464

### **4. Are there other incentives we should consider tying to a tax rebate?**

RESPONSE - As captured in proposal B, we have included incentives related to (a) local equity hiring, (b) equity supply chain, and (c) workforce quality of life