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In the spring of 2021, IGS launched a two-year Diversity and Entrepreneurship Fellowship Program. Cal-in-Sac Fellows conducted original research focused on the challenges and opportunities facing women- and POC-owned small businesses and diverse entrepreneurs in California. This series includes Op-Eds, blogs, policy briefs and other research products that capture key findings of the students' research. Learn more at <https://igs.berkeley.edu/matsui-center/fellowships/cal-in-sacramento>.

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Cannabis Social Equity: The Battle to Compete in a Competitive Marketplace by Victor Vasquez

The grassroots effort to create social equity in the cannabis industry is only beginning. The cannabis social equity movements started in the Bay Area and quickly grew into a statewide trend.

In 2018, the California Cannabis Equity Act (Senate Bill 1294) was signed into law. It created a grant program that awarded funding to certain localities that developed equity programs. Unfortunately, allowing for local control contributes to a lack of accountability by the state bureaucracy. This creates a mixed bag of experiences from one city to another.

Meanwhile, the cannabis industry is rapidly growing. Qualifying equity applicants and license holders must fight to survive in a cutthroat industry that requires a lot of capital upfront before a business can begin.

While these challenges persist, industry leaders of color are using their platform to support others like them.

Oakland

Amber E. Senter is a Black cannabis entrepreneur and Executive Director and co-founder of Supernova Women. This nonprofit group of women empowers people of color to become self-sufficient shareholders in the cannabis industry. Operating since 2015, Supernova Women and Senter are credited with playing a significant role in developing Oakland's social equity program.

Senter says that access to capital is the most significant barrier to entry for Black, Indigenous, and People of Color (BIPOC) in the cannabis industry (Senter, 2020). To qualify for equity status, the entrepreneur must come from a low income and/or system impacted background. Generational wealth is limited in this community, affecting entrepreneurs' ability to gain footing.

Things that are common in the business world are inaccessible to equity operators. Little access to capital creates barriers to accessing real estate and technical assistance. Equity operators cannot afford consultants, accountants, insurance fees, etc. These barriers are what motivated Senter to advocate for change in her community.

The established City of Oakland social equity program currently offers grant funding of up to \$50,000 and zero percent interest loans of up to \$100,000. It also includes an incubator program where general (non-equity) operators are incentivized with priority access to the next available cannabis business permit and free real estate of at least 1,000 square feet for at least 3 years; a shared manufacturing kitchen where operators can come and make products for free; as well as free technical assistance through its Make Green Go Program. This program offers both business and legal advice to program participants.

Today, Oakland boasts a marketplace where equity operators hold most cannabis business permits. Equity or incubator operators combine to total 549 out of 576 cannabis business permits, with most in the delivery and distribution sectors that have the lowest startup costs (Bonde, Spring 2020).

Even with the support from the city, there are still challenges for equity operators. Incubators can become predatory toward the businesses they support. By leveraging resources, incubator businesses can demand more equity or create a first right to acquisition clauses in initial partnership contracts. There is no policy protecting small businesses from these predatory actions.

Taxes are also an issue for equity operators. Equity qualifying businesses pay a tax rate of 0.12 percent, yet this applies only up to \$1.5 million in profit. The alternative cannabis business tax is 2.5 percent, the highest tax rate of any business in Oakland. (The second highest tax rate is applied to businesses classified as “Firearms Dealers” at 2.4 percent.) This condition makes it difficult for equity businesses to support each other by acquisition and merger.

“You've got to advocate for these things,” Senter says. “None of this was just handed to us. We demanded that these things happen, and Oakland said OK... You’ve got to constantly continue to push them.” Equity operators are not just entrepreneurs; they must be advocates for themselves and companies like them to continue to sustain themselves in the industry.

It is the grassroots movement being built by equity operators that makes the difference in Oakland.

Humboldt County

The passing of SB 1294 was the catalyst for the creation of social equity programs in Humboldt County. In Humboldt County, social equity focuses on the county’s known status as a hub for cannabis cultivation. When creating Humboldt County’s social equity program, research compiled found that more cannabis arrests occurred in California’s rural counties (including Humboldt) than in other counties and the state. This fact is attributed to the federally funded Campaign Against Marijuana Planting started in the 1980s and continued through the early 2000s.

To date, the state has awarded Humboldt County three cannabis equity grants totaling \$4.78 million. A report by the State Bureau of Cannabis Control (BCC) published in July 2020 stated that as of June 8, 2020, the county had 1,531 applicants and 480 licensees. Yet, Humboldt County has not disbursed any grant funds (California Bureau of Cannabis Control, 2020).

BCC reports plans to use funds to provide direct financial assistance to equity applicants and licensees through fee waivers for local permits and costs associated with training and certification, loans, and grants to assist in compliance with regulatory requirements.

Timo Espinoza identifies as a second-generation Latinx cannabis entrepreneur. Espinoza’s father has been in the cannabis industry since the 60s. He moved from San Francisco to Humboldt

County after buying property from his father's former business connections. He reported seeing little to no support from the county in obtaining his cannabis micro-business license.

"I have not received one dime [from the social equity program] ... All in all, zero to little help (Espinoza, 2020)."

He said he was told about reimbursements for local licensing fees yet never received said reimbursement.

Espinoza's company Seventh Wave LLC is a family business. Its only employees are his wife and his father-in-law. They have put their life savings into making this company a success. At the time of our interview, Espinoza expressed to me that his company was just breaking even.

Without social equity funds to support, Espinoza says, "We don't have the capital to compete in this highly regulated industry... We are just trying to survive."

"There are opportunities for investors to give us funding, but it's very predatory... I have had so many people offer me contracts where I take it to a lawyer, they look at it and say, 'oh, they're promising you the world, but in two years did they tell you they are going to buy your whole company.'"

The office of workforce development runs the social equity program in Humboldt County. Humboldt county's social equity program is a part of the county's broader "Project Trellis," including a micro-grant and marketing component. This is funded by state grants and 10 percent of a local tax on cannabis cultivation Measure S.

Where is this money going? SB 1294 asks for data from localities about where funding is going. Yet, when asked, the Bureau of Cannabis Control stated these reports were not available to the public. According to state policy found in SB 1294, all State funds must be budgeted as 10% administrative, 10% direct technical assistance, and 80% grants.

"Once I was finally able to apply, I was told they were only offering services," Espinoza said.

Instead of giving direct funding to equity businesses, grants are being offered to outside agencies that service cannabis businesses overall.

One of the grant recipients is the Redwood Alternative Agriculture Fund. This nonprofit corporation covers the cost of environmental and social sustainability certification for legal Cannabis operations in Humboldt County. They received a \$50,000 grant from Project Trellis.

There is a conversation within the industry that certifying cannabis cultivators as environmentally sustainable and organic will benefit smaller growers, including equity growers, from a marketing standpoint. Yet, this overlooks the biggest problem for equity operators, access to capital.

Furthermore, Project Trellis' has a marketing component that's purpose is to promote and maintain Humboldt grown cannabis as a national and industry brand. Marketing for the County may be a place where BCC grants funding is going.

Espinoza feels disappointed by Humboldt County's social equity program.

"All in all. All the work we've been doing [as equity operators]. It feels like we got a target on our backs... they are just waiting for us to fold."

Espinoza must look for alternatives to make his business sustainable. His plan is to team up with another equity operator with a cultivation license and vertically integrate. "That's what we have to do to stay alive. Join forces and try to compete with these bigger companies."

Conclusion

Oakland's social equity program is looked at as a success and a model for the rest of the nation. Yet, in the greater state of California, equity operators are struggling to survive. Without the ability for the state to hold localities accountable for misuse of funds, it seems that SB 1294 only takes performative action on a problem that needs real solutions.

Ultimately, the state needs to play a more significant role in cannabis social equity by creating uniform statewide standards for equity qualification. This way, state data can reflect equity status, and business owners outside of the few localities that run programs will also have a chance to apply for funding.

Secondly, the state needs a standing committee of industry leaders working on equity. Amber E. Senter and successful cannabis entrepreneurs of color are doing more for equity operators than many localities. Getting thought leaders in the cannabis industry together will help focus efforts to create opportunities in the industry.

Finally, the state needs to challenge the non-BIPOC cannabis industry leaders and business owners to do something that is perhaps against their immediate interests and altruistically help equity operators. Taking restorative justice to the war on drugs means leading with empathy, and I challenge the cannabis industry to be empathic to the most marginalized business owners.

Amber E. Senter said it best. "What pushes me in this industry is the fact that we can create the world we want to live in... Having the power and impact on making a difference makes it all worth it."

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