

City of Oakland Equity Loan Program Overview

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BACKGROUND

In the spring of 2017, the Oakland City Council enacted landmark cannabis legislation to minimize disparities within the cannabis industry by providing equity applicants with prioritized permitting, exemption from application and permit fees, technical assistance, and now financial assistance via the Equity Loan Program. The Oakland City Council determined that such a Loan Program was needed to begin to close the financial gap between well-resourced and historically marginalized cannabis operators given the lack of personal wealth in low-income communities and federal restrictions on bank lending. By re-investing cannabis tax revenue into economic opportunities for those most impacted by the War on Drugs, the City of Oakland seeks to reduce the costly fallout that results from economic marginalization and to contribute to a more thriving and resilient City of Oakland for all residents.

PROGRAM SUMMARY

The Equity Loan Program consists of public funds and repayments will be needed to make loans to equity applicants in the future. Accordingly, loan applicants must undergo a due diligence process and loan amounts will be disbursed in the following Tiers that are designed to help loan applicants build sustainable businesses. *In September, 2020, the loan amounts were increased for Tiers 4, 5 and 6, and the loan term was extended from four years to six years.*

- I. Tier 1 - Establish the Business. Loan amount – Up to \$5,000
- II. Tier 2 – Get Compliant. Loan amount – Up to an additional \$10,000
- III. Tier 3 – Open the Business. Loan amount – Up to an additional \$15,000
- IV. Tier 4 – Start Operations. Loan amount – Up to an additional \$40,000
- V. Tier 5 – Grow the Business. Loan amount – Up to an additional \$100,000. Tier 5 is only available to businesses that are either 100% owned by equity qualified individuals or businesses that match the City’s loan amount with an equal-sized loan or investment from a third-party.
- VI. Tier 6 – Expand the Business. Loan amount – Up to an additional \$50,000. Tier 6 is only available to businesses that are either 100% owned by equity qualified individuals or businesses that match the City’s loan amount with an equal-sized loan or investment from a third-party.

Loan Qualifications: To qualify for a loan; loan applicant must:

1. Be an Equity Qualified Individual. The business in which the Equity Qualified Individual owns 50% or more may also be a loan applicant
2. Have submitted a cannabis permit application
3. Meet the Income Verification Criteria at the time that they apply for a loan
4. Submitted the required prerequisite materials
5. Meet the requirements associated with that Tier (see chart below)

Applicants can apply for the aggregate loan amount associated with all Tiers for which they qualify. For example, if an applicant meets the requirements for Tiers 1, 2 and 3, they may apply for \$30,000 at once. However, first-time Applicants may only apply for a maximum amount of \$50,000. Tier 6 is only available to Applicants that have been previously issued a \$100,000 City of Oakland equity loan. Applicants can also apply for less than the full amount of a given tier for which they qualify.

Follow-on Loan Qualifications: Applicants may also apply for the next loan Tier (Follow-on Loan) without fully re-paying their prior loan(s), as long as they:

1. They meet the requirements for the next Tier or Tiers for which they are applying
2. Provide receipts showing they spent 70% of their previous loan on eligible expenses,
3. Are not delinquent and has made on-time loan payments for the three previous consecutive months.
4. Are compliant with required licenses, permits and taxes
5. Are active in the City of Oakland Equity Entrepreneurship Program known as “GRASS” - Gaining Resources to Achieve Sustainable Success (GRASS program description found at ElevateImpactOakland.com)

If a borrower is approved for a Follow-on Loan, their original loan agreement will be amended such that the borrower does not have more than one Equity Loan outstanding at a time.

PREREQUISITE MATERIALS

Before a Loan Applicant can apply for an Equity Loan, they must have completed the following (samples can be found at “ElevateImpactOakland.com/sample forms”):

- P0. Registered for an account at ElevateImpactOakland.com website in order to complete the loan application.
- P1. Supplied Contact information from the City of Oakland Cannabis Permit Application
- P2. Received an email from the City Administrator’s Office verifying the Loan Applicant’s equity status
- P3. Has been issued a City of Oakland cannabis permit inspection card for the site where the Loan Applicant intends to operate their business.
- P4. Has completion certificate for Equity Qualified Individual(s) from the Make Green Go’s entrepreneurship training course titled “Start, Run and Grow your Cannabis Company” and has registered for GRASS
- P5. Provides Verified Equity Individual legal identification (Driver’s license, Passport, Government ID)
- P6. For those who own more than 20% of the business, provides legal identification (Driver’s license, Passport, Government ID)
- P7. Bank statement first page with the name of the party that the loan check should be made payable to (either to Verified Equity Applicant as an individual or to a Business of which the Verified Equity Applicant owns 50% or more)
- P8. Tax returns for the most recent past two years which demonstrate that the Applicant had an annual income at or less than eighty (80) percent Oakland average median income (AMI) adjusted for household size.
- P9. Number in household as declared on tax return
- P10. Provides a written explanation of how they plan to use the funding
- P11. Completed Budget for the funding amount, also known as a Use of proceeds statement.
- P12. Completed a business plan
- P13. Completed 12-month monthly financial projections

APPLICATION PROCESS

Once a loan applicant has met the Tier requirements, they are eligible to complete an online Loan Application at ElevateImpactOakland.com. Loan Applications must be submitted online, and Loan Applicants will be required to register for an account.

A completed Loan Application will be reviewed by the Elevate Impact Loan Committee and scored according to the *Equity Loan Assessment* attached. Given the limited loan funds and the fiduciary responsibility associated with collecting and relending the loan capital, loans will be made on a first come first served basis and Loan Applications must also receive a minimum score of 60 out of 100 points on the Loan Assessment. If a Loan Application does not score 60 points or higher, feedback will be provided, and the Applicant can resubmit their Loan Application to improve their score. Additional details about the Equity Loan Program are provided on the following pages.

ASSESSMENT SCORE DOCUMENTATION

The documents that will be reviewed as a part of the Equity Loan Assessment (Score Card available at ElevateImpactOakland.com) include the following (samples can be found at “ElevateImpactOakland.com/sample forms):

- A1. Evidence of ownership percentage (%)
- A2. Loan applicant resume or answer experience questions
- A3. Partner(s) resume or answer experience questions
- A4. Current or future customer reference
- A5. Current or future supplier reference
- A5. Work reference
- A7. Strategic or joint venture partner reference
- A8. Personal reference
- A9. Reference from someone that Loan Applicant borrowed and repaid at least \$1,000.00
- A10. Description of Prior Successful Project
- A11. Assessment of explanation of how funding will be used (uploaded with prerequisites)
- A12. Assessment of Use of Proceeds Statement/Budget (uploaded with prerequisites)
- A12. Assessment of Business Plan (uploaded with prerequisites)
- A14. Assessment of 12-Month Monthly Financial statement (uploaded with prerequisites)

LOAN APPROVAL PROCESS

The five steps required to apply for an Equity Loan, are as follows:

- I. **STEP 1: Online Application:** Applicants must register for an account at “ElevateImpactOakland.com” and complete the loan application online. Paper applications will not be accepted. Applications can be completed online at local public libraries.
- II. **STEP 2: Application Review:** A loan application will be reviewed by an Elevate Impact Loan Manager to ensure that the applicant has met the Tier requirements and submitted the required documents for that Tier.
 - If the Loan Application is complete, the Applicant will receive an email saying that the application is complete and has been sent to the Loan Committee for review.
 - If the Loan Application is not complete, the Applicant will receive an email explaining which documents are missing and/or which Tier requirements have not been met. The Applicant will be able to complete and resubmit their application.
- III. **STEP 3: Loan Committee Review:** A completed Loan Application will be submitted to the Elevate Impact Loan Committee for loan review and scoring according to the *Equity Loan Assessment* attached. A Loan Application must receive a minimum score of 60 out of 100 points to be approved for a loan.
 - If the Loan Application scores 60 points or more, the Applicant will receive an email saying that the application has been approved and will be sent to an Elevate Impact Loan Manager for loan closing.
 - If the Loan Application scores 59 points or less, the Applicant will receive an email explaining that they did not meet the minimum score of 60 points. A Loan Committee member will call and/or meet with the Applicant to explain what they can do to improve their score. The Applicant can resubmit their Loan Application to improve their score.
- IV. **STEP 4: Loan Closing:** An Elevate Impact Loan Manager will close the loan as follows:
 - Send an email to the Applicant and to the City of Oakland stating that the loan has been approved.
 - Meet with the Applicant to review, complete and sign the closing documents.
 - Send completed loan documents to City of Oakland for City’s signature and payment processing.
- V. **STEP 5: Loan Funding:** Once funds are available, the City of Oakland contacts Applicant to pick up the loan payment and fully executed Loan Agreement at the Special Activity Permits Office and sign for payment receipt.

CANNABIS EQUITY LOAN FUNDING TIERS

Tier/Amount Description	Loan Application Requirements	Potential Use of Proceeds (not limited to these)
Tier 1 / \$5,000 “Establish the Business”	1.1 Completed Equity Loan online application at www.elevateimpactoakland.com including uploading of the following: 1.2 Prerequisite Documentation 1.3 Assessment Documentation 1.4 Lease, sublease or incubator agreement 1.5 Personal Financial Statement	Legal fees Branding (name/logo) Consultants Staff and contractors Loan payment reserve
Tier 2 /An Additional \$10,000 “Get Compliant”	2.1 Completed requirements for Tier 1 2.2 Proof of trademark search and business name usability 2.3. Organization documents for the business entity 2.4. Operating agreement signed by the business partners 2.5. Fictitious business name statement (or evidence of application) 2.6. City of Oakland business Tax Certificate (or evidence of application) 2.7. State of California seller’s permit (or evidence of application, if applicable) 2.8. City of Oakland Certificate of Occupancy # (not the actual certificate) and field inspection date	Items in Tier 1 Insurance Bookkeeping system Accounting fees State license fees Loan payment reserve
Tier 3 / An Additional \$15,000 “Open the Business”	3.1 Completed requirements for Tier 1 and 2 3.2 Temporary, provisional or annual state cannabis license 3.3 Evidence of compliance with Oakland’s Minimum Wage Ordinance, such as hourly payroll report or employee manual 3.4 If Loan Applicant has employees, upload paycheck stub and required quarterly payroll reports that demonstrates the company follows Employment Development Department regulations (i.e. payroll tax, unemployment insurance, state disability insurance, etc.)	Items in Tiers 1 & 2 Bring space into compliance Equipment & furniture Architect Structural engineer Loan payment reserve

	<p>3.5 Evidence of a bookkeeping system, such as check/transaction register with information and/or financial report from QuickBooks, Mint, Zero, Sage (or equivalent accounting system), or spreadsheet from Google Docs or Excel</p> <p>3.6 Insurance with policy endorsement showing the City of Oakland its council members, directors, officers, agents, employees and volunteers listed as additional insured (general liability and auto insurance are required; worker’s compensation is required if the business has employees)</p>	
<p>Tier 4 / An Additional \$40,000 “Start Operations”</p>	<p>4.1 Completed requirements for Tier 1, 2 and 3</p> <p>4.2. Copy of EITHER: (i). Copy of completed and signed inspection card; OR (ii). Copy of invoices (including Scope of Work) for costs associated with bringing the loan applicant’s cannabis facility into compliance with building & fire code requirements in order to obtain a completed inspection card</p>	<p>Items in Tiers 1, 2 & 3</p> <p>Inventory</p> <p>Packaging</p> <p>Marketing and Advertising</p> <p>Event permits</p> <p>IT and Website</p> <p>Acquiring more space</p> <p>Maintenance/upgrades</p> <p>Completing construction</p> <p>Loan payment reserve</p>
<p>Tier 5/ An Additional \$100,000 “Grow the Business”</p>	<p>5.1 Completed requirements for Tier 1, 2, 3 and 4</p> <p>5.2. Copy of completed and signed inspection card</p> <p>5.3. Proof that the business is EITHER: (i). 100% owned by individuals satisfying the City of Oakland equity criteria as evidenced by the operating agreement; OR (ii). Will match the City of Oakland loan amount in cash with an equal size loan or investment from a Third-Party as evidenced by uploading a completed and signed “Tier Match Form”</p>	<p>Items in Tiers 1, 2, 3 & 4</p> <p>Loan payment reserve</p>

	5.4 Has been previously issued a City of Oakland Equity Loan, is not delinquent and has made on-time loan payments for the three previous consecutive months.	
Tier 6/ An Additional \$50,000 "Expand the Business"	6.1 Completed requirements for Tier 1, 2, 3, 4, and 5 and 6.2. Proof that the business is EITHER: (i). 100% owned by individuals satisfying the City of Oakland equity criteria as evidenced by the operating agreement, OR (ii). Will match the City of Oakland loan amount in cash with an equal size loan or investment from a Third-Party as evidenced by uploading a completed and signed "Tier Match Form" 6.3. LOAN ONLY: Has been previously issued a City of Oakland Equity Loan of \$100,000, is not delinquent and has made on-time loan payments for the three previous consecutive months.	Items in Tiers 1, 2, 3, 4 & 5 Loan payment reserve

PRIMARY LOAN TERMS:

- I. **Who may apply (Loan Applicant):** Loan Applicants must be a City of Oakland Verified Equity Applicant that has received an inspection card for the space in which they intend to operate the business for which they are applying for the Equity Loan (NOTE: the inspection card does not have to be completed before applying for an Equity Loan).
- II. **No interest as mandated by Oakland's City Council**
- III. **Loan Maturity:** In September 2020 the loan term was extended from 4 years (48 months) to six years (72 months).
- IV. **Loan repayment:** Loan repayments will begin one month after the date on which the funds are made available to the borrower via a check (or other means acceptable by the City of Oakland). Next, monthly repayments are required, until the loan has been repaid in full. Repayment amounts will be listed on a loan repayment schedule provided to the borrower. Sample monthly payment amounts by

Tier are provided on the chart below. Given that some borrowers may have loans outstanding under more than one Tier, the chart also includes a combined monthly payment for all loans received under preceding Tiers.

Tier	Purpose	Loan Amount (Up to)	Monthly Payment	Combined Previous Tiers Loan Amount	Combined Previous Tiers Monthly Payment
Tier 1	Establish the Business	\$5,000	\$70	\$5,000	\$70
Tier 2	Get Compliant	\$10,000	\$139	\$15,000	\$209
Tier 3	Open the business	\$15,000	\$208	\$30,000	\$417
Tier 4	Start Operations	\$40,000	\$556	\$70,000	\$972
Tier 5	Grow the Business	\$100,000	\$1,389	\$170,000	\$2,361
Tier 6	Expand the Business	\$50,000	\$695	\$220,000	\$3,056

V. Maximum loan size:

- a. The maximum amount lent to any one individual that qualifies as a Verified Equity Applicant is \$220,000, regardless of the number of permits held by that individual or the number of Verified Equity Applicants in which the individual is an owner. For example, if a Verified Equity Applicant is an owner in five businesses, the Applicant may apply for \$220,000 and give \$44,000 to each business. Or they may decide to apply and give \$220,000 to only one of the five businesses in which they are an owner. When applying for a loan for the first time, an applicant may only apply for a maximum amount of \$50,000. Applicants may apply for additional loan funding for subsequent Tiers if they are not delinquent and have made on-time loan payments for three consecutive months, and they meet the requirements of the Tier for which they are applying.
- b. The maximum amount lent to any one business is \$220,000, regardless of the whether the Loan Applicant has any other outstanding Equity Loans, or the number of permits held by that business. For example, if two partners in a business are both eligible for an Equity Loan, even though each partner could apply for a maximum of \$220,000, or \$440,000 total, the most they could borrow for the business is only \$220,000. This is to minimize the risk associated with a concentration of loans going to one business by helping to ensure diversification in the loan portfolio.
- c. If a borrower defaults on a loan in one business, this will not trigger a loan default in another business.

VI. **Personal guarantee:** Borrowers that own more than 20% of an entity that receives a loan will be required to provide a personal guarantee for 100% of the loan. For example, if a business has four owners, each of whom own 25%, each owner would be required to guarantee 100% of the loan (not just 25% of the loan).

VII. Ineligible Uses of Loan Funds:

- Unlicensed cannabis business
- Buying unlicensed inventory
- Relending or investing
- Non- cannabis businesses that serve the cannabis industry
- Personal expenses or the acquisition of personal property such as cars, homes, etc.
- To engage in prohibited operations as specified in the regulation

VIII. Other City of Oakland Equity Programs

In addition to the Equity Loan Program, the City of Oakland has also launched the following programs to support Oakland Cannabis Equity Entrepreneurs:

1. Business Coaching: The City of Oakland is offering a business coaching program for Equity loan and grant recipients. Information about this program which is called the “Gaining Resources to Achieve Sustainable Success (GRASS)” program is available here <https://www.elevateimpactoakland.com/business-program-overview/>. The GRASS business coaching program is for all Equity loan and grant recipients and is designed to support the growth and sustainability of their businesses. Please note, the “GRASS” program is a requirement for all Equity loan and grant recipients.
2. Equity Grants: Equity applicants can now apply for grants to support their businesses' start-up and ongoing costs. More information about the grant program can be found here: <https://www.elevateimpactoakland.com/grant-program-overview>. Later this year, we anticipate increasing the grant amounts after the City Council approves receipt of a \$6.5 million Go-Biz grant. It is important to note that Equity Loan recipients that are delinquent are not eligible for a grant unless they enter into an Equity Loan Modification Agreement whose program is described below. If an Equity Loan recipient has entered into a Loan Modification Agreement, they are eligible to apply for 50% of the amount available for the grant tier(s) that they qualify for.
3. Loan Modification: The City of Oakland understands the challenges that Equity entrepreneurs face, particularly in light of the COVID19 global pandemic. For this reason, Equity loan applicants who have fallen behind on their Equity loan payments can avoid the penalties outlined in their Equity loan agreement by both entering into a Loan Modification Agreement and being in compliance with the GRASS program described above. The goal of the Loan Modification Program is both to acknowledge the financial challenges involved in starting a cannabis business and to ensure that ongoing loan funding is available to new Equity applicants through Equity loan repayments. Loan Modification Agreements still require loan applicants to repay their loans, however, the Loan Modification Program allows for a good faith deposit, extension of total loan term by 12 months and reduced initial repayments as

Equity entrepreneurs get their businesses back on track. Note that entering into a Loan Modification Agreement does not cause the City of Oakland to waive any of its rights under the Commercial Loan Agreement. For more information please visit <https://www.elevateimpactoakland.com/business-program-overview/loan-modification-program/>.

RESERVATION OF RIGHTS

The City of Oakland reserves the right to evaluate and revise the Equity Loan Program in the future based on information gathered in its evaluation.