

Department of Legislative Services
Maryland General Assembly
2024 Session

FISCAL AND POLICY NOTE
Third Reader - Revised

House Bill 272
Economic Matters

(Delegate Grammer)

Finance

Cannabis Licensing and Registration - Use of Straw Ownership - Prohibition

This bill prohibits a person from applying for or holding a cannabis license or registration if the ownership interest in the license or registration is (1) nominal or without the benefits and risks of “genuine ownership” or control and (2) for the limited purpose of satisfying the requirements for cannabis licensees or registrants, including requirements for social equity licensees or registrants. A person who violates this prohibition is guilty of a misdemeanor and on conviction subject to a maximum penalty of one year imprisonment and/or a \$2,500 fine. Subject to specified hearing provisions, the Maryland Cannabis Administration (MCA) must deny an application for a cannabis license or registration or revoke a cannabis license or registration if the applicant, licensee, or registrant is convicted of violating – or determined by MCA to be in violation of – the bill’s prohibition. **The bill takes effect June 1, 2024.**

Fiscal Summary

State Effect: The bill’s requirements can likely be handled with existing budgeted resources, as discussed below. The bill’s criminal penalty provision does not have a material impact on State revenues, and the bill does not materially affect special fund revenues collected by MCA from license and registration fees.

Local Effect: The criminal penalty provision of the bill does not have a material impact on local finances or operations.

Small Business Effect: Minimal.

Analysis

Bill Summary: “Genuine ownership” means an ownership interest in an applicant, a cannabis licensee, or a registrant that is evidenced by record ownership in which the owner (regardless of the amount of capital or assets that the owner contributes to the applicant, licensee, or registrant) enjoys the customary incidents of ownership and shares in the profits and losses of the cannabis license or registration proportionate to the percentage of the owner’s interest in the cannabis license or registration.

Current Law:

Cannabis Reform

Chapters 254 and 255 of 2023 established the adult-use cannabis industry in the State following the enactment of Chapter 26 of 2022 and the passage of the associated constitutional amendment by (1) creating MCA as an independent unit of State government that is responsible for the regulation of medical and adult-use cannabis; (2) attributing cannabis-related duties to the Alcohol and Tobacco Commission and renaming it the Alcohol, Tobacco, and Cannabis Commission (ATCC); (3) developing a licensing framework for the regulated sale of cannabis; (4) requiring all existing medical cannabis licensees to convert to adult-use cannabis businesses; (5) establishing a 9% sales and use tax on the sale of adult-use cannabis; and (6) creating the Office of Social Equity (OSE) in MCA and the Social Equity Partnership Grant Program in OSE. The sale of adult-use cannabis began on July 1, 2023.

Review of Applications for Cannabis License

Under current regulations, the burden of proving an applicant’s qualifications rests on the applicant. MCA may deny an application that (1) is not complete in every material detail; (2) contains a material misstatement, omission, misrepresentation, or untruth; (3) does not meet the minimum qualifications for the lottery; or (4) is not submitted by the established deadline. MCA may request additional information from any applicant if it deems the information necessary to review or process the application; if the applicant does not provide the additional requested information within 10 calendar days, MCA may deny the application.

To determine whether a submitted application meets the minimum qualifications for the lottery on a pass-fail basis, MCA must review a detailed operational plan, a business plan, a detailed diversity plan, and documentation that the applicant meets the requirements of a social equity applicant (if required). Subsequent to the lottery, MCA must notify all applicants whether their application was selected in the lottery. MCA may request any additional information or supporting documentation from an applicant selected in the

lottery necessary to verify aspects of the application, including, but not limited to, additional information and supporting documentation related to the ownership and control of the applicant. MCA may deny issuing a conditional license to an applicant selected in the lottery if (1) the applicant fails to provide any additional information or supporting documentation requested within 10 calendar days; (2) any additional information or supporting documentation submitted by the applicant demonstrates that the applicant is not eligible for a license; or (3) MCA determines that the applicant has violated a regulatory provision that specifies that an applicant, including any individual that holds an ownership interest in or control of the applicant, may only be listed on (1) one application per license type per application round and (2) two applications for any license type per application round.

Violations and Hearing Authority

After determining that a violation of Title 36 of the Alcoholic Beverages and Cannabis Article (Medical and Adult-Use Cannabis) or a regulation adopted under the title has occurred, MCA must suspend, fine, restrict, or revoke cannabis licenses and cannabis registrations, whether active, expired, or surrendered, or impose any authorized penalty. For any violation, MCA must give notice and hold a hearing in accordance with the Administrative Procedure Act.

MCA may issue a subpoena for a witness or evidence in connection with any disciplinary action or any investigation or proceeding initiated for an alleged violation of Title 36. MCA is authorized to delegate its hearing authority to an employee within the administration and hold a hearing in absentia when the person against whom action is contemplated fails to appear after due notice.

Current regulations regarding hearing procedures apply to all hearings that MCA must conduct pursuant to statute or regulation (unless specific procedural regulations have otherwise been promulgated) and are intended to supplement the procedures required by law. A licensed business, registrant, agent, owner, or selected applicant that is subject to an MCA action has the right to a hearing. MCA must provide notice of any agency action and a statement of the right to a hearing. A party must file a request for a hearing within 30 days of the notice of an agency action. If a party does not request a hearing within that timeframe, the agency action becomes final and is not subject to appeal. However, if a party requests a timely hearing, MCA acquires jurisdiction over the matter and may delegate a contested case regarding MCA determination to the Office of Administrative Hearings (OAH).

The standard of proof in a hearing must be by a preponderance of the evidence. In the hearing of a contested case involving allegations that the party violated a law or regulation, MCA has the burden of proof. In the hearing of a contested case resulting from the denial

or proposed denial of a license, registration, or permit, the applicant has the burden of establishing that the applicant is entitled to the license, registration, or permit. The hearing officer must issue a written final determination summarizing (1) any adjustments to the determination of fines or penalties and the reason for MCA's action; (2) the deadline for payment of a fine or penalty; and (3) in the case of a license suspension or revocation, the reason for MCA's action. The final determination exhausts all administrative remedies. A party may appeal the final determination of MCA to a circuit court if it does so within 30 days of receipt of the final determination.

For additional information on the State's cannabis industry, see the **Appendix – Medical and Adult-use Cannabis Reform**.

State Expenditures:

Alcohol, Tobacco, and Cannabis Commission

The Field Enforcement Division within ATCC is charged with enforcing the Alcoholic Beverages and Cannabis Article. ATCC advises that it is not currently performing the type of investigation that the bill requires, and that to do so it would need increased access to materials within the control of MCA, including application materials, financial records, and organizational documents. While the bill's changes may increase the investigatory work for ATCC, it is assumed that ATCC can handle any increase in workload with existing budgeted resources.

Office of Administrative Hearings

MCA currently delegates hearings to OAH. While MCA has yet to refer any contested hearings to OAH since its creation, OAH did receive contested hearing referrals from the Natalie M. LaPrade Medical Cannabis Commission (MMCC) (for which MCA is the successor). Historically, the contested hearings delegated by MMCC were multi-day proceedings with written decisions issued at the conclusion of the hearing.

OAH advises that the bill likely increases the number of hearings delegated to OAH, which may result in a fiscal impact, but that the number of additional hearings cannot be reliably estimated at this time.

MCA advises, however, that all applications for licenses are reviewed to ensure that each application meets the minimum requirements for licensure before being entered into the lottery. If selected during the lottery, an additional review of the application materials commences (including a review of the ownership structures of selected applicants) to ensure that all statutory and regulatory licensure requirements are met before a conditional

license is awarded. Moreover, MCA reviews any transfer of control or ownership equal to 5% or more.

Due to the extensive internal review of applications by MCA, this analysis assumes that any increase in the number of hearings resulting from the bill is likely minimal. In addition, MCA advises that it plans to eventually conduct hearings internally, so the extent to which OAH will continue to be solely responsible for MCA hearings in the future is unclear. Thus, OAH can likely absorb any increase in hearings with existing budgeted resources.

Penalty Provision

The criminal penalty provision of the bill does not have a material effect on State expenditures.

Additional Information

Recent Prior Introductions: Similar legislation has not been introduced within the last three years.

Designated Cross File: None.

Information Source(s): Alcohol, Tobacco, and Cannabis Commission; Maryland Cannabis Administration; Office of Administrative Hearings; Department of Legislative Services

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Analysis by: Amber R. Gundlach

Direct Inquiries to:
(410) 946-5510
(301) 970-5510

Appendix – Medical and Adult-use Cannabis Reform

Chapters 254 and 255 of 2023 established the adult-use cannabis industry in the State by, among other things, (1) attributing cannabis-related duties to the Alcohol and Tobacco Commission and renaming it the Alcohol, Tobacco, and Cannabis Commission (ATCC); (2) establishing the Maryland Cannabis Administration (MCA) as an independent unit of State government that is responsible for the regulation of adult-use and medical cannabis; (3) creating a licensing framework for the regulated sale of cannabis; (4) requiring all existing medical cannabis licensees to either convert to adult-use cannabis businesses or cease operating by July 1, 2023; (5) establishing a 9% sales and use tax on the sale of adult-use cannabis; (6) creating the Office of Social Equity (OSE) in MCA and the Social Equity Partnership Grant Program within OSE; (7) establishing an advisory board on medical and adult-use cannabis; and (8) creating the Maryland Incubator Program. Additionally, ATCC and MCA must enter a memorandum of understanding providing that both parties agree to collaborate on enforcing provisions regarding unlicensed cannabis operations in the State. Multiple special funds (discussed below) were also established to hold specified revenues and cover specified expenses related to the cannabis industry.

Maryland Cannabis Administration

MCA is an independent unit of State government established to administer and enforce the Medical and Adult-use Cannabis Title of the Alcoholic Beverages Article (including being the successor to the Natalie M. LaPrade Medical Cannabis Commission (MMCC) in matters concerning medical cannabis). MCA's responsibilities generally include promulgating cannabis industry regulations, licensing and registering cannabis businesses in the State, and enforcing the statutes and regulations related to the cannabis industry.

Adult-use Cannabis

The sale of adult-use cannabis began on July 1, 2023. Pursuant to Chapter 26 of 2022 and the passage of the associated constitutional amendment, a person at least age 21 may use and possess the personal use amount of cannabis, while the possession of the personal use amount of cannabis by a person younger than age 21, as well as the possession of the civil use amount of cannabis, are subject to civil penalties. Possession of more than the civil use amount of cannabis by anyone is subject to a criminal penalty.

“Personal use amount” means (1) up to 1.5 ounces of usable cannabis; (2) up to 12 grams of concentrated cannabis; (3) cannabis products containing up to 750 milligrams of delta-9-tetrahydrocannabinol (THC); or (4) up to two cannabis plants. “Civil use amount” means (1) more than 1.5 ounces but not more than 2.5 ounces of usable cannabis; (2) more

than 12 grams but not more than 20 grams of concentrated cannabis; or (3) cannabis products containing more than 750 milligrams but not more than 1,250 milligrams of delta-9-THC.

Medical Cannabis

Pursuant to Chapters 254 and 255, MCA – rather than MMCC – is responsible for the State’s medical cannabis program, which is intended to make medical cannabis available to qualifying patients in a safe and effective manner. There is a framework to certify health care providers (including physicians, physician assistants, dentists, podiatrists, nurse practitioners, and nurse midwives), qualifying patients, and their caregivers to provide qualifying patients with medical cannabis legally under State law via written certification. Qualifying patients may possess (1) up to 120 grams of usable cannabis; (2) cannabis-infused products containing up to 36 grams of delta-9-THC; or (3) for a qualifying patient who is at least age 21, no more than four cannabis plants.

Cannabis Industry Regulations

MCA proposed emergency regulations that took effect July 1, 2023; the emergency regulations are supplemental to the existing medical cannabis regulations. The emergency regulations (1) carry out the requirements for licensure of cannabis businesses, including implementing procedures related to applications, licenses, and registrations; (2) assist the Comptroller in the collection of taxes imposed on the sale of adult-use cannabis; (3) implement inventory management and tracking; (4) establish operating requirements for cannabis licensees or cannabis registrants; (5) establish limits on the maximum potency of cannabis products sold in the State; and (6) establish child protections, including child-resistant packaging and prohibitions on advertising to children.

Chapters 254 and 255 require that the July 1, 2023 emergency regulations be followed by nonemergency regulations adopted by MCA by July 1, 2024. These regulations must govern Internet sales of cannabis; implement and supplement packaging and labeling requirements for cannabis products; establish procedures for the use of point-of-sale technologies by dispensaries for all transactions that verify a consumer’s age using a driver’s license or other valid identification; and establish health, safety, security, and tracking requirements for the packaging and repackaging of cannabis by a dispensary. Additionally, MCA must adopt minimum standards for licensed growers to protect the rights of growers and employees.

Social Equity in the Cannabis Industry

MCA must (1) conduct extensive outreach to small, minority, and women business owners and entrepreneurs who may have an interest in applying for a cannabis license before

accepting and processing cannabis license applications and (2) connect potential social equity applicants with OSE. MCA began to implement this requirement in 2023 by attending fairs and festivals, visiting Maryland colleges and universities, and conducting technical assistance seminars.

Chapters 254 and 255 established OSE as an independent office functioning within MCA, with the general purpose of promoting and encouraging full participation in the regulated cannabis industry by people from communities that have been disproportionately impacted by the war on drugs in order to positively impact those communities. OSE has several responsibilities in furtherance of its purpose, including consulting with other agencies, providing recommendations to and working with MCA, assisting businesses to obtain financing through the Capital Access Program, and managing the Social Equity Partnership Grant Program (established to promote qualifying partnerships between operational licensees and social equity licensees).

Cannabis Licensing

To operate a cannabis business in the State, a person must obtain a cannabis license from MCA. A license is valid for five years on initial licensure and five years upon renewal. MCA must issue licenses for growers, processors, dispensaries, incubator spaces, and on-site consumption. Additional licenses include micro licenses for growers, processors, and dispensaries. Licensing and renewal fees are established by MCA and range from \$5,000 for social equity applicants for certain licenses to \$50,000 for standard grower licenses. Existing medical licensees (growers, processors, and dispensaries) were required to pay a conversion fee based on the licensee's gross revenues for calendar 2022 to convert to medical and adult-use cannabis business licensees of the same type. Essentially all medical licensees (18 grower, 23 processor, and 96 dispensary licensees) entered payment installment agreements to convert into cannabis business licensees.

First Round Social Equity Licenses: Social equity applicants are those with at least 65% ownership and control held by one or more individuals who meet certain criteria, such as living in or attending a public school in a disproportionately impacted area (*i.e.*, determined to have had above 150% of the State's 10-year average for cannabis possession charges). As announced by MCA, the available standard licenses for social equity applicants in round one total 16 grower licenses, 32 processor licenses, and 75 dispensary licenses. The available micro licenses for such applicants total 24 grower licenses, 24 processor licenses, and 8 dispensary licenses. MCA accepted 1,708 on-time applications for first round social equity licenses from November 13 through December 12, 2023.

While first round licenses were expected to be awarded through a public lottery prior to January 1, 2024, MCA was forced to delay the lottery. Before the lottery can take place, MCA must review each of the 1,708 applications (1,400 of which were received within

72 hours of the application deadline) to ensure that it meets the minimum requirements for licensure before being entered into the lottery. If selected during the lottery, an additional review of the application materials will commence before a conditional license is awarded. During the conditional period (18 to 24 months), a licensee must complete a supplemental license application to undergo a criminal and financial history background check and take additional actions, including demonstrating legal control and local zoning and planning approval of the proposed site for the cannabis business. An unconditional license is issued to applicants who satisfy the supplemental application requirements and pay a license fee.

Additional Grower License Awards for Specified Class Members: Chapters 254 and 255 also required MCA to establish a process for issuing up to five additional grower licenses to recognized class members of *Pigford v. Glickman*, 185 F.R.D. 82 (D.D.C. 1999) or *In re Black Farmers Litig.*, 856 F. Supp. 2d 1 (D.D.C. 2011) that also meet other specified criteria. As of January 1, 2024, MCA reports awarding four conditional grower licenses to qualifying class members in the State.

Second Round Licenses: Beginning May 1, 2024, MCA must begin issuing a second round of licenses. The licenses may be limited to social equity applicants or opened to applicants from the general public, dependent on the outcome of a disparity study.

Subsequent Licenses: MCA may issue additional cannabis licenses up to the maximum limit authorized per statute based on the results of a market demand study. Future applications for licenses may be limited to social equity applicants and employ remedial measures based on the results of the disparity study.

Advisory Board on Medical and Adult-use Cannabis

Chapters 254 and 255 also established the Advisory Board on Medical and Adult-use Cannabis. The advisory board must (1) consider all matters submitted to it by ATCC, the Governor, MCA, or the General Assembly; (2) on its own initiative, provide recommendations to ATCC and MCA regarding guidelines, rules, and regulations that the advisory board considers important or necessary for review and consideration; and (3) establish at least two subcommittees to focus on medical and adult-use cannabis. As of January 1, 2024, the advisory board has not yet convened.

Cannabis Sales and Tax Revenues

The fiscal and policy note for Chapters 254 and 255 estimated adult-use sales revenues of \$400.0 million in the first fiscal year, and MCA estimated sales of \$600.0 million in the first fiscal year. However, adult-use cannabis sales from July through December 2023 totaled \$331.8 million. With six months remaining to be counted during the first fiscal year of adult-use cannabis sales, revenues will likely exceed the fiscal and policy note estimate

and possibly MCA's estimate. At the established tax rate of 9%, approximately \$29.9 million in tax revenues have already been generated during the first six months of adult-use cannabis sales.

Local Authority to Regulate Cannabis

A "political subdivision" – defined as a county or municipality – may (1) establish reasonable zoning requirements for cannabis businesses that do not "unduly burden" licensees; (2) decide how to distribute its allocation of tax revenues; and (3) adopt an ordinance to *reduce* the statutory requirements for how far a dispensary may be located from specified locations (*e.g.*, schools, child care centers, playgrounds, libraries, etc.).

A political subdivision may not (1) prohibit transportation through or deliveries within the political subdivision of cannabis; (2) prevent the conversion of an existing medical cannabis licensee to a cannabis business license; (3) impose fees or requirements on cannabis businesses that are disproportionately greater than or more burdensome than other businesses; and (4) impose a tax on cannabis.

Additionally, an on-site consumption establishment may not operate in a location unless the political subdivision affirmatively authorizes the operation by issuing a permit or license. The political subdivision may also place restrictions on or prohibit the operation of on-site consumption establishments.

Public Health Actions Related to Adult-use Cannabis

Chapter 26 (and the subsequent passage of the associated constitutional amendment) established the Cannabis Public Health Advisory Council to study and report its findings and recommendations by December 1 each year on specified public health impacts of cannabis legalization. The council convened its first meeting in August 2023, forming data collection and youth mitigation workgroups. The Cannabis Public Health Fund was also established to (1) support the advisory council; (2) support data collection and research on the effects of cannabis legalization in the State; (3) provide funding for education and public awareness campaigns related to cannabis use, including funding for educational programs to be used in schools; (4) support substance use disorder counseling and treatment for individuals; (5) provide training and equipment for law enforcement to recognize impairments due to cannabis; and (6) purchase technology proven to be effective at measuring cannabis levels in drivers. The Maryland Department of Health must administer the fund, which consists of revenues distributed to the fund based on tax revenues from the sale of adult-use cannabis (5% of those revenues), money appropriated in the State budget to the fund, and any other money from any other source accepted for the benefit of the fund. The fiscal 2023 budget included \$5.0 million for initial capitalization of the fund.

Cannabis-related Special Funds

Cannabis Regulation and Enforcement Funds: Chapters 254 and 255 established the Cannabis Regulation and Enforcement Fund, administered by the Comptroller at the direction of MCA, to cover the costs of (1) operating MCA and (2) administering and enforcing the Medical and Adult-use Cannabis Title of the Alcoholic Beverages Article. The fund generally consists of fees the administration may impose (including application and registration fees) and tax revenues from the sale of adult-use cannabis sufficient to defray the entire cost of operating the administration. In addition, the balance of the Natalie M. LaPrade Medical Cannabis Fund, approximately \$12.3 million, was credited to the fund to cover the costs of implementing the Acts and regulating the cannabis industry in Maryland.

Community Reinvestment and Repair Fund: Chapter 26 also established the Community Reinvestment and Repair Fund, to be administered by the Comptroller, with the stated purpose of providing funds to community-based organizations that serve communities determined by OSE (in consultation with the Office of the Attorney General) to have been the most impacted by disproportionate enforcement of the cannabis prohibition before July 1, 2022. The fund consists of conversion fees paid by medical licensees totaling approximately \$60.9 million. The fund also receives 35% of the tax revenues from the sale of adult-use cannabis, distributed on a quarterly basis.

Cannabis Business Assistance Fund: Chapter 26 (and the subsequent passage of the associated constitutional amendment) established the Cannabis Business Assistance Fund to assist small, minority-owned, and women-owned businesses entering the adult-use cannabis industry. The Department of Commerce (in consultation with OSE) must administer the fund and must prioritize awarding grants and loans to (1) populations that have been historically disproportionately impacted by the enforcement of cannabis laws and (2) individuals who have been convicted of cannabis offenses. Commerce may not award grants or loans to small, minority, and women business owners and entrepreneurs with a personal net worth exceeding \$1.7 million. The fiscal 2023 budget included \$40.0 million for initial capitalization of the fund, and the fiscal 2024 budget includes \$40.0 million for the fund. The fund also receives 5% of the tax revenues from the sale of adult-use cannabis, distributed on a quarterly basis.