

Department of Legislative Services
 Maryland General Assembly
 2025 Session

FISCAL AND POLICY NOTE
 First Reader

House Bill 992 (Delegate Korman)
 Economic Matters

Business Regulation - Maryland Franchise Registration and Disclosure Law -
 Alterations (Franchise Reform Act)

This bill alters the time periods within which specified legal actions may be taken by the Securities Commissioner in the Office of the Attorney General (OAG) or by a franchisee under the Maryland Franchise Registration and Disclosure Law. Among other provisions, the bill also (1) specifies rights of association for franchisees and (2) requires the Securities Commissioner to establish a pilot program to waive the franchise registration renewal fee, as specified, and by September 30, 2030, submit a report with related information to the Senate Finance Committee and the House Economic Matters Committee. **The bill’s provisions related to the pilot program terminate September 30, 2031.**

Fiscal Summary

State Effect: General fund expenditures for OAG increase by approximately \$206,000 in FY 2026 for staff; future years reflect annualization and inflation. General fund revenues for OAG decrease beginning in FY 2026 through the beginning of FY 2032 to the extent the \$250 registration renewal fee is waived under the pilot program, as discussed below.

(in dollars)	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030
GF Revenue	(-)	(-)	(-)	(-)	(-)
GF Expenditure	\$205,900	\$247,900	\$258,800	\$270,300	\$281,900
Net Effect	(-)/-	(-)/-	(-)/-	(-)/-	(-)/-

Note:() = decrease; GF = general funds; FF = federal funds; SF = special funds; - = indeterminate increase; (-) = indeterminate decrease

Local Effect: This bill does not materially affect local government operations or finances.

Small Business Effect: Potential meaningful.

Analysis

Bill Summary/Current Law:

Maryland Franchise Registration and Disclosure Law – Generally

The Maryland Franchise Registration and Disclosure Law (Title 14, Subtitle 2 of the Business Regulation Article) governs an offer to sell or sale of a franchise if (1) the franchisee must pay a franchise fee of more than \$100 and (2) the offeree or franchisee is a resident of the State; the franchised business will be or is operated in the State; the offer to sell is made in the State; or the offer to buy is accepted in the State. A franchise means an expressed or implied, oral or written agreement in which (1) a purchaser is granted the right to engage in the business of offering, selling, or distributing goods or services under a marketing plan or system prescribed in substantial part by the franchisor; (2) the operation of the business under the marketing plan or system is associated substantially with the trademark, service mark, trade name, logotype, advertising, or other commercial symbol that designates the franchisor or its affiliate; and (3) the purchaser must pay, directly or indirectly, a franchise fee. The Maryland Franchise Law is enforced by the OAG Securities Commissioner.

Enforcement Remedies

Under current law, whenever the commissioner finds that a person has violated or is about to violate the applicable statute or a regulation adopted or order passed under it, the commissioner may (1) order the person to cease and desist from the further offer to sell or sale of the franchise or (2) sue in circuit court to enjoin the violation or enforce the statute or the regulation or order. Statute includes additional specifications regarding the court procedures. Under current law, the commissioner may not exercise these powers more than *three* years after the violation occurs. The bill extends this time period to *five* years.

Civil Liability

A person who sells or grants a franchise is civilly liable to the person who buys or is granted a franchise if the person who sells or grants a franchise offers to sell or sells a franchise, as further specified. The person who buys or is granted a franchise may sue to recover damages sustained by the grant of the franchise. Under current law, an action must be brought within *three* years after the grant of the franchise. The bill extends the applicable time period to the later of *five* years after the grant of the franchise or two years after the date of the initial commencement of operations of the franchise.

The bill also specifies that the aforementioned provisions (in regard to civil liability) only apply to (1) a franchisee or franchisor who is a resident of the State or (2) a franchised business that operates or will be operated in the State.

Registration Requirement and Exemptions

Generally, under current law, a person must register the offer of a franchise with the Securities Commissioner before the person offers to sell, through advertisement or otherwise, or sells the franchise in the State. Statute specifies exemptions to the registration requirement, including any transaction that the Securities Commissioner exempts by regulation because (1) the transaction is not within the purpose of the statute and (2) the registration of the transaction is not necessary or appropriate in the public interest or for the protection of investors. COMAR (02.02.08.10) specifies that the registration provisions of the Maryland Franchise Law do not apply to any offer or sale of a franchise when the franchisor has (1) a net equity, according to its most recently audited financial statements, of not less than \$10.0 million on a consolidated basis *or* \$1.0 million and is at least 80% owned by a corporation or entity that has a net equity, on a consolidated basis, according to its most recently audited financial statements, of not less than \$10.0 million, which 80% owner guarantees the performance of the franchisor's obligations and (2) had at least 25 franchisees conducting the same franchised business at all times during the five-year period immediately preceding the offer or sale.

The bill requires the Securities Commissioner to account for inflation or deflation based on the Consumer Price Index for All Urban Consumers by the U.S. Department of Labor, with respect to the net equity amounts specified for a franchisor in the franchise registration exemption specified in regulations above.

Franchisee's Right of Free Association

The bill specifies that a franchisor may not, directly or indirectly, through any officer, agent or employee (1) restrict or inhibit the right of a franchisee to join a trade association consisting of other franchisees of the same franchise or (2) prohibit the right of free association among franchisees for any lawful purpose. A violator may be sued in circuit court for temporary or permanent injunctive relief; damages, if any; and costs of the suit, including reasonable attorney's fees. The injunctive relief may be sought from the circuit court in the county where the individual who is alleged to be in violation resides or the franchise affected by the violation conducts business. The plaintiff may not be required to allege or prove actual damages suffered to obtain injunctive relief. An action must be brought within the earlier of (1) two years after the alleged violation occurred or (2) one year after the discovery by the plaintiff of the facts of the alleged violation.

Pilot Program for Waiver of Franchise Renewal Fee

Franchise Renewal Fee: Generally, under current law, a registration expires on the first anniversary of its effective date, unless registration of an offer of a franchise is renewed for a one-year term. The Securities Commissioner by regulation or order may set a different term of registration. Before the registration expires, the registrant periodically may renew it for an additional one-year term, if the registrant (1) at least 15 business days before the expiration of registration files with the Securities Commissioner, a renewal application and a prospectus; (2) otherwise is entitled to be registered; and (3) pays a renewal fee of \$250. The Securities Commissioner by order may allow a registrant to submit a renewal application after the fifteenth business day before expiration of the registration. Unless a stop order or other order is in effect, renewal of the registration of the offer of a franchise automatically takes effect at noon on the day when the previous registration is due to expire, or an earlier time set by the Securities Commissioner.

Pilot Program: The bill requires the Securities Commissioner to establish a pilot program to waive the franchise registration renewal fee as required by statute, if a registrant, at least 60 business days before the end of the registrant's fiscal year, files with the Securities Commissioner (1) a renewal application on the form the Securities Commissioner requires; (2) a prospectus; (3) an unaudited financial statement; and (4) documentation of any material changes in the financial condition of the registrant from the date of the most recent audited financial statement.

By September 30, 2030, the Securities Commissioner must submit a report to the Senate Finance Committee and the House Economic Matters Committee that includes:

- the number and total amount of franchise registration renewal fees waived under the pilot program;
- the amount of time required to administer the pilot program, including the processing of franchise registration renewal fees as required by statute; and
- an analysis of whether there was any impact on registrants who did not qualify for the waiver of the franchise registration renewal fee under the pilot program.

State Expenditures: OAG anticipates that the bill's provisions specifying the rights of association of a franchisee, establishing the pilot program, and extending the period of time during which the Securities Commissioner may exercise its enforcement powers require additional staff. Specifically, OAG advises that one assistant Attorney General and one investigator are needed. Accordingly, general expenditures increase by \$205,907 in fiscal 2026, which accounts for the bill's October 1, 2025 effective date. This estimate includes salaries, fringe benefits, one-time start-up costs, and ongoing operating expenses.

Positions	2.0
Salaries and Fringe Benefits	\$191,169
Operating Expenses	<u>14,738</u>
Total FY 2026 State Expenditures	\$205,907

Future year expenditures reflect full salaries with annual increases and employee turnover as well as annual increases in ongoing operating expenses.

State Revenues: OAG did not respond to a request for information about the revenue impact of the bill. Thus, although a precise estimate is not available, this analysis assumes that general fund revenues decrease beginning in fiscal 2026 through the first quarter of fiscal 2032 to the extent the \$250 registration renewal fees is waived under the pilot program.

Small Business Effect: Franchisees that are small businesses may meaningfully benefit from the bill’s requirements related to (1) a longer period of time to bring a civil action for damages against a franchisor and (2) the pilot program waiving the franchise registration renewal fee.

Additional Information

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

Designated Cross File: None.

Information Source(s): Office of the Attorney General (Securities Division); Judiciary (Administrative Office of the Courts); Department of Legislative Services

Fiscal Note History: First Reader - February 19, 2025
km/jkb

Analysis by: Joanne E. Tetlow

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