

Department of Legislative Services
 Maryland General Assembly
 2025 Session

FISCAL AND POLICY NOTE
First Reader - Revised

House Bill 1253
 Appropriations

(The Speaker)

Maryland Department of Social Equity - Established

This bill creates the Maryland Department of Social Equity (DoSE) as a principal department in the Executive Branch. It transfers to DoSE all staff – and authorizes the transfer of funding from – (1) the Governor’s Office of Small, Minority, and Women Business Affairs (GOSBA); (2) the Office of Social Equity (OSE) in the Maryland Cannabis Administration (MCA); and (3) the Office of Minority Business Enterprises (OMBE) in the Maryland Department of Transportation (MDOT); DoSE is the successor to all three of those offices.

Fiscal Summary

State Effect: General and special fund expenditures increase by \$13.4 million in FY 2026 to establish DoSE, including \$2.3 million in general funds for new staff, moving costs, and related operating expenses. General and special fund (Transportation Trust Fund (TTF) and Cannabis Regulation and Enforcement Fund (CREF)) expenditures decrease correspondingly (by a combined \$11.1 million) for GOSBA, MCA, and MDOT. Out-years reflect use of general funds only to support the new department, annualization, inflation, ongoing expenses, and the termination of one-time costs. Beginning in FY 2027, sales and use tax revenues that would otherwise be distributed to CREF for OSE are redistributed to the general fund, various other special funds, and local governments (in accordance with current law), as discussed below. (The *net* effect by fund type is shown below.)

(\$ in millions)	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030
GF Revenue	\$0	\$1.6	\$1.6	\$1.8	\$1.9
SF Revenue	\$0	(\$1.8)	(\$1.8)	(\$2.0)	(\$2.0)
GF Expenditure	\$2.3	\$9.0	\$9.2	\$9.4	\$9.6
SF Expenditure	\$0	(\$6.3)	(\$6.4)	(\$6.5)	(\$6.6)
Net Effect	(\$2.3)	(\$2.9)	(\$3.0)	(\$3.1)	(\$3.2)

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

Local Effect: Local revenues and expenditures increase from the redistribution of sales and use tax revenues from the sale of adult-use cannabis, as discussed below.

Small Business Effect: Potential meaningful.

Analysis

Bill Summary: The head of DoSE is the Secretary of Social Equity, who is appointed by the Governor with the advice and consent of the Senate.

The purpose of DoSE is to:

- provide support for units of State government, individuals, and businesses for the maintenance of social equity policies in the State;
- monitor trends in social equity programs and policies across the nation;
- propose new and innovative approaches to social equity programs;
- compile and produce reports and recommendations related to social equity; and
- ensure the fulfillment of the roles and responsibilities of the entities and social equity programs in the State for which it is the successor.

The bill enumerates DoSE’s responsibilities and requires it, by July 1, 2026, to submit a report to the Governor and the General Assembly that (1) identifies all State programs and units dedicated to social equity or that have a social equity component and (2) makes recommendations regarding how State programs and units can be reorganized, coordinated, or otherwise made more effective and more efficient to promote social equity. By December 1, 2026, and annually thereafter, DoSE must report to the Governor and the General Assembly on its work and recommended changes to laws or policies to promote social equity.

DoSE must employ staff to carry out its duties as provided in the State budget. The Attorney General is the legal adviser to DoSE.

Current Law: GOSBA, located in the Executive Department, is the Governor’s coordinating office charged with connecting the small business community to expanded opportunities in the public and private sectors. Among other responsibilities, GOSBA (1) oversees the Minority Business Enterprise (MBE) program, the Small Business Reserve program, and the Veteran-owned Small Business Enterprise Program; (2) conducts outreach to MBEs and other small businesses in the State; and (3) reports annually on program performance. The head of GOSBA is the Special Secretary for Small, Minority,

and Women Business Affairs, who is appointed by and serves at the pleasure of the Governor.

OSE is an independent office within MCA that is responsible for the promotion of social equity initiatives around the State's cannabis program, including the management of the Social Equity Partnership Grant Program and the Community Reinvestment and Repair Fund. OSE is funded by a combination of mandated general funds (\$5.0 million annually beginning in fiscal 2025 for the grant program) and special (CREF) funds for operations and administrative costs.

The Board of Public Works (BPW) must designate an agency responsible for the certification and decertification of MBEs. Through regulation, BPW has designated OMBE as the certification entity for MBEs; OMBE also (1) certifies disadvantaged business entities, the MBE equivalent for federally funded transportation projects and (2) certifies airport concessions disadvantaged business enterprises in accordance with federal requirements for airport concessionaires. As OMBE is located in MDOT, it is funded entirely by TTF revenues.

State and Local Fiscal Effect:

Transfer of Existing Funding and Staff

In general, all revenues, expenditures, and staffing currently allocated to GOSBA, OSE, and OMBE are authorized to be transferred to DoSE; however, as the bill takes effect October 1, only a portion (three-quarters) of budgeted amounts transfers in fiscal 2026. **Exhibit 1** shows the budgeted amounts, positions, and fund sources in the fiscal 2026 budget as introduced. None of the affected offices has contractual positions in the budget.

Although two of the affected offices currently receive special funds, they do so by virtue of their location in special funded agencies. However, the bill authorizes the Governor to transfer to DoSE all appropriations in the fiscal 2026 budget as introduced. Therefore, this analysis assumes that all special funds appropriated in the fiscal 2026 budget transfer to DoSE, resulting in no net change in special fund expenditures in fiscal 2026. Expenditure reductions for existing agencies and increases for DoSE due to the transfer are prorated in fiscal 2026 due to the bill's October 1, 2026 effective date. The mandated \$5.0 million general fund appropriation for OSE continues, but at DoSE, and other foregone expenditures for GOSBA, OSE, and OMBE are assumed to increase by 2% annually beginning in fiscal 2027.

Exhibit 1
Fiscal 2026 Budget as Introduced for Affected Offices
(\$ in Millions)

<u>Office</u>	<u>General Funds</u>	<u>Special Funds</u>	<u>Regular Positions</u>
GOSBA	\$2.62	-	18
OSE	5.00	\$3.13	7
OMBE	-	4.10	32
Total	\$7.62	\$7.23	57

GOSBA: Governors’ Office of Small, Minority, and Women Business Affairs

OMBE: Office of Minority Business Enterprises

OSE: Office of Social Equity

Source: Maryland Department of Transportation; Department of Budget and Management; Department of Legislative Services

Beginning in fiscal 2027, this analysis assumes that removing OSE and OMBE from special funded agencies results in their operations being funded entirely by general funds. Therefore, special fund expenditures for TTF and CREF decrease beginning in fiscal 2027, and general fund expenditures for DoSE increase correspondingly.

Special fund revenues for TTF are not affected by the bill, but special fund revenues for CREF also decrease correspondingly beginning in fiscal 2027, as current law requires that revenues from the sales and use tax on the sale of adult-use cannabis must first be distributed to CREF to defray the entire cost of the operations and administrative expenses of MCA. As those funds are no longer needed for OSE beginning in fiscal 2027, revenues that would otherwise accrue to CREF for OSE are redistributed, as discussed later in this analysis.

Additional Costs

As discussed further below, general fund expenditures increase by \$2.3 million in fiscal 2026 due to the designation of DoSE as a principal department and the consolidation of existing entities into the new department.

New Positions: DoSE is designated as a principal department in the Executive Branch, and the bill requires the appointment of a Secretary; this analysis further assumes that (1) DoSE requires a deputy secretary to help oversee and coordinate all of the various functions of the new department and (2) that the Special Secretary of GOSBA does not become

Secretary of DoSE but instead retains status as head of a new office within DoSE (with no diminution in pay or benefits, as required by the bill). Thus, the bill results in two new positions in the Executive Pay Plan. Also, although two assistant Attorneys General (one each from MCA and OMBE) are among the staff that transfer to the new department, DoSE requires a principal counsel and two legal support staff.

Moreover, although the staff transferring to DoSE should be sufficient to carry out the core functions of each of the three offices, they are not sufficient to maintain the day-to-day operations of the department. All three of the offices transferring to DoSE are currently located in larger agencies (MDOT, MCA, and the Executive Department) that provide various support services to the offices, including human resources, information technology (IT), and finances. As none of those functions is transferring to the new department, DoSE requires new positions to carry out these “overhead” functions. Costs associated with all new personnel are shown below and are assumed to be paid entirely with general funds.

Moving Costs and Rent: As a key purpose of the new department is to consolidate and coordinate social equity programs and services currently located in three different agencies, this analysis assumes that personnel transferring to DoSE must relocate to a new, single location that is not currently used for State personnel. This analysis includes one-time moving expenses totaling \$1.0 million in fiscal 2026 and annual rent of approximately \$200,000 for a total of 66 DoSE employees (57 transfers and 9 new positions). Rent costs are pro-rated in fiscal 2026.

Minimum New Costs: Therefore, general fund expenditures increase by \$2.3 million in fiscal 2026, which accounts for the bill’s October 1, 2025 effective date. This estimate reflects the cost of hiring nine new positions, including a Secretary, deputy secretary, and principal counsel, as well as support personnel for human resources, finance, IT, and legal services for the new department. It includes salaries, fringe benefits, one-time start-up costs, and ongoing operating expenses, including one-time moving costs and rent.

Positions	9.0
Salaries and Fringe Benefits	\$1,084,920
Moving Expenses	1,000,000
Rent	147,015
Other Operating Expenses	<u>66,319</u>
New FY 2026 General Fund Expenditures	\$2,298,254

Future year expenditures reflect full salaries with annual increases and employee turnover, annual increases in ongoing operating expenses, and the termination of one-time costs, including moving expenses.

The personnel and expenses included in this analysis are considered the minimum necessary to launch a new agency. To the extent that DoSE requires additional staff or resources, costs may increase in the out-years for additional resources requested through the annual budget process.

Effect on Distribution of Sales and Use Tax Revenues

As noted above, the decreased need for CREF revenues affects the *distribution* of sales and use tax revenues from the sale of adult-use cannabis beginning in fiscal 2027. Current law requires that those revenues must *first* be distributed to CREF to defray MCA's operating and administrative costs; the remaining revenue is distributed according to a statutory formula. Thus, once OSE is transferred, less funding from sales and use tax revenues is needed to defray MCA's operating and administrative costs (those associated with OSE).

More specifically, after sales and use tax revenues are distributed to MCA to defray its operating and administrative costs, remaining tax revenues are then distributed as follows: 50% to the State's general fund (through fiscal 2028, after which the general fund distribution increases to 55%); 35% to the Cannabis Reinvestment and Repair Fund (CRRF), which is administered by the Comptroller's Office; 5% to the Cannabis Public Health Fund, which is administered by the Maryland Department of Health; 5% to the Cannabis Business Assistance Fund, which is administered by the Department of Commerce (through fiscal 2028, after which this distribution terminates); and 5% as a separate direct allocation to counties.

As the bill results in a decrease in MCA's administrative costs (and hence CREF revenues and expenditures) beginning in fiscal 2027, the bill also results in an increase in general fund revenues, special fund revenues for other affected special funds, and county revenues, as shown in **Exhibit 2**.

Also, as shown in Exhibit 2, county revenues increase by approximately \$160,000 or more beginning in fiscal 2027 due to the direct distribution of 5% of sales and use tax revenues from the sale of adult-use cannabis to counties that would have otherwise gone to CREF. Municipal revenues are also affected, as each county must distribute to a municipality located in the county 50% of the county's allocation that is attributable to the cannabis sales and use tax revenue generated by a dispensary located in that municipality.

CRRF expenditures (for the distribution of CRRF funds by the Comptroller to counties, as required by current law) increase correspondingly to the increase in CRRF revenues beginning in fiscal 2027. County revenues increase further – from the increased distributions from CRRF – beginning in fiscal 2027.

Accordingly, county (and municipal) expenditures increase correspondingly.

Exhibit 2
Effect on Distribution of Sales and Use Tax Revenues
Fiscal 2027-2030

	<u>FY 2027</u>	<u>FY 2028</u>	<u>FY 2029</u>	<u>FY 2030</u>
Redistributed Revenues	\$3,190,739	\$3,254,553	\$3,319,644	\$3,386,037
State Revenues				
General Fund	\$1,595,369	\$1,627,277	\$1,825,804	\$1,862,320
CRRF	1,116,758	1,139,094	1,161,876	1,185,113
CPHF	159,537	162,728	165,982	169,302
CBAF	159,537	162,728	0	0
<i>Subtotal for the State</i>	<i>\$3,031,202</i>	<i>\$3,091,826</i>	<i>\$3,153,662</i>	<i>\$3,216,735</i>
County Revenues	\$159,537	\$162,728	\$165,982	\$169,302

CBAF: Cannabis Business Assistance Fund
 CPHF: Cannabis Public Health Fund
 CRRF: Community Reinvestment and Repair Fund

Notes: Numbers may not sum due to rounding. Redistributed revenues reflect the amount of Cannabis Regulation and Enforcement Fund (or CREF) monies no longer needed for the Maryland Cannabis Administration.

Source: Department of Legislative Services

Small Business Effect: The consolidation and coordination of services targeted at small and minority-owned businesses may enhance their viability and expand their opportunities to participate in State procurement.

Additional Information

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

Designated Cross File: None.

Information Source(s): Maryland Commission on Civil Rights; Maryland Municipal League; Alcohol, Tobacco, and Cannabis Commission; Governor’s Office of Small, Minority, and Women Business Affairs; Maryland Cannabis Administration; Office of the

Attorney General; Comptroller's Office; Department of Budget and Management;
Maryland Department of Transportation; Department of Legislative Services

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