

Department of Legislative Services
Maryland General Assembly
2025 Session

FISCAL AND POLICY NOTE
Third Reader - Revised

House Bill 1253

(The Speaker)

Appropriations

Education, Energy, and the Environment

Department of Social and Economic Mobility - Established

This bill creates the Department of Social and Economic Mobility (DoSEM) as a principal department in the Executive Branch. The bill establishes a related special fund and transfers to DoSEM all staff and 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); DoSEM is the successor to all three of those offices.

Fiscal Summary

State Effect: General fund expenditures increase by \$2.3 million in FY 2026 for new staff, moving costs, and related operating expenses for DoSEM, of which \$2.2 million is budgeted; out-years reflect annualization, inflation, and ongoing costs. The Transportation Trust Fund (TTF) continues to fund OMBE (only in DoSEM), resulting in no net effect on TTF finances in any year. General and special funds for GOSBA and OSE, respectively, are redirected to DoSEM beginning in FY 2026. DoSEM special fund revenues and expenditures increase by the amount of the transfers in FY 2026; beginning in FY 2027, these special fund revenues and expenditures are *offset* by the shift in funding for OSE, as discussed below. The bill's *net* effect by fund type is shown below. **This bill establishes a mandated appropriation and a mandated distribution beginning in FY 2027.**

(\$ in millions)	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030
SF Revenue	\$5.4	\$4.2	\$4.3	\$4.4	\$4.4
GF Expenditure	\$2.3	\$1.6	\$1.7	\$1.7	\$1.8
SF Expenditure	\$5.4	\$4.2	\$4.3	\$4.4	\$4.4
Net Effect	(\$2.3)	(\$1.6)	(\$1.7)	(\$1.7)	(\$1.8)

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

Local Effect: The bill does not directly affect local governmental operations or finances.

Small Business Effect: Potential meaningful.

Analysis

Bill Summary: The head of DoSEM is the Secretary of Social and Economic Mobility, who is appointed by the Governor with the advice and consent of the Senate. DoSEM consists of three units (corresponding to the three offices transferred to the new department under the bill):

- the Office of Minority Business Enterprises (still referred to as OMBE);
- the Office of Small, Minority, and Women Business Affairs (OSBA); and
- the Office of Social Equity (still referred to as OSE).

The purpose of DoSEM 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;
- ensure the fulfillment of the roles and responsibilities of the entities and social equity programs in the State for which it is the successor;
- track the performance of social equity programs and small or disadvantaged business assistance programs;
- promote and encourage full participation in the regulated cannabis industry by individuals that have previously been disproportionately impacted by the war on drugs, as specified;
- support small or disadvantaged businesses in the State through all duties (currently) assigned to GOSBA; and
- carry out OMBE's duties (as currently undertaken within MDOT), including duties assigned to support small or disadvantaged businesses.

The bill enumerates DoSEM'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, DoSEM must report to the Governor and the General Assembly on its work and recommended changes to laws or policies to promote social equity.

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

Department of Social and Economic Mobility Special Fund

The bill creates the DoSEM Special Fund; the stated purpose of the fund is to pay the costs of the operation of OSE and OMME in the department. The Governor must include in the annual budget bill an appropriation from TTF to the fund equal to the amount needed to cover OMME's operating and administrative expenses. Also, revenues collected from the sales and use tax imposed on the sale of adult-use cannabis must be deposited into the fund in an amount necessary to cover OSE's operating and administrative expenses.

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 (Cannabis Regulation and Enforcement (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 MDOT as the certification entity for MBEs. Within MDOT, OMME is responsible for the certification of (1) MBEs; (2) disadvantaged business enterprises, the MBE equivalent for federally funded transportation projects; (3) airport concessions disadvantaged business enterprises, in accordance with federal requirements for airport concessionaires; and (4) small business enterprises for federally aided transportation projects. As OMME is located in MDOT, it is funded entirely by TTF revenues.

State Fiscal Effect:

Fiscal 2026 Transfer of Existing Funding and Staff to the New Department

In general, all revenues, expenditures, and staffing allocated to GOSBA, OSE, and OMBC in the fiscal 2026 budget are authorized to be transferred to DoSEM. **Exhibit 1** shows the budgeted amounts, positions, and fund sources in the fiscal 2026 budget *as introduced*; two of the affected offices (OSE and OMBC) currently receive special funds. None of the affected offices has contractual positions in the budget. This analysis assumes that the Governor transfers funding for the three offices as authorized by the bill; however, as the bill takes effect October 1, only a portion (three-quarters) of budgeted amounts transfers in fiscal 2026. Accordingly, the same *amount* of funding is expended in fiscal 2026 for the three offices as would happen under current law – for the first three months of the year, the existing entities cover the costs. Thereafter, the funding is instead expended by DoSEM.

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
OMBC	-	4.10	32
Total	\$7.62	\$7.23	57

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

OMBC: Office of Minority Business Enterprises

OSE: Office of Social Equity

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

This analysis assumes that all special funds appropriated in the fiscal 2026 budget that are transferred flow through the new DoSEM Fund, which results in special fund revenues and expenditures increasing correspondingly – by \$5.4 million in fiscal 2026. However, the actual effect nets out to the same amount of monies being expended as would have been for the offices under MCA and MDOT. Again, the amount of special funds assumed to be transferred and flow through the DoSEM Fund is prorated in fiscal 2026 due to the bill's October 1, 2025 effective date.

Future Funding Mandate and Redirection of Funds

Beginning in fiscal 2027, the bill requires the Governor to include an appropriation for OMBe from TTF. The bill further establishes that the portion of cannabis sales and use tax revenue currently distributed to CREF (for OSE under MCA) is instead distributed *directly* to the DoSEM Fund (for OSE under DoSEM). Thus, special fund revenues and expenditures for CREF decrease and special fund revenues and expenditures for the DoSEM Fund increase correspondingly – for no overall *net* effect on special fund revenues or expenditures related to OSE. However, as TTF revenues still accrue to TTF and then are appropriated to the DoSEM Fund for OMBe, overall TTF finances are not affected by the bill (TTF must continue to support OMBe even though it is no longer part of MDOT). Nevertheless, the requirement for those revenues to also flow through the DoSEM Fund results in DoSEM special fund revenues and expenditures increasing. More specifically, the OSE funding is offset by a reduction for MCA, whereas there is no such reduction for TTF expenditures.

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 (including OSE). Revenues not allocated to CREF are distributed to a variety of other purposes. The bill allocates the portion of cannabis sales and use tax revenues for OSE to the DoSEM Fund instead of to CREF, so the net sales and use tax revenues available for distribution to other purposes is not affected.

GOSBA is currently funded with general funds, and the bill authorizes the DoSEM Fund to be used only to support OSE and OMBe. Therefore, this analysis assumes that OSBA continues to be funded entirely with general funds, which is reflected as a decrease in general fund expenditures for GOSBA and a corresponding increase in general fund expenditures for DoSEM.

The mandated \$5.0 million general fund appropriation for OSE continues, but at DoSEM, and out-year expenditures for the three offices that transfer to DoSEM under the bill are assumed to increase by 2% annually.

In addition, the general fund may benefit, through fiscal 2028, by having interest earned on the DoSEM Fund credited to it. Currently, TTF monies are exempt from this temporary redirection of interest income to the general fund. Any such impact has not been quantified but is expected to be minimal.

Additional Costs for the New Department

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

New Positions: DoSEM 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) DoSEM requires a deputy secretary to help oversee and coordinate all of the various functions of the new department and (2) that the three current office heads (including the Special Secretary of GOSBA) do not become Secretary of Social and Economic Mobility but instead retain their status as heads of their respective offices within DoSEM (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, DoSEM requires a principal counsel and two legal support staff.

Moreover, although the staff transferring to DoSEM 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 DoSEM 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 financial management. As none of those functions is transferring to the new department, DoSEM 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.

The fiscal 2026 budget as passed by the General Assembly includes nine new regular positions, contingent on the enactment of this bill.

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 DoSEM 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 DoSEM 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 the 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

Most of the costs for fiscal 2026 are budgeted. As noted above, the fiscal 2026 budget as passed by the General Assembly includes \$2.2 million in general funds, along with the nine new positions, all contingent on the enactment of the bill.

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.

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

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 Comments: The bill authorizes the Governor to transfer budgeted amounts for OMBE from TTF to the DoSEM Fund in fiscal 2026, and further requires, beginning in fiscal 2027, that the Governor annually include an appropriation from TTF to the DoSEM Fund for OMBE's operational and administrative expenses. However, the Maryland Constitution prohibits TTF funds from being used for purposes not related to transportation or from being transferred to the general fund or any special fund of the State unless (1) the Governor, by executive order, declares a fiscal emergency and (2) the General Assembly, by a three-fifths vote of both houses, concurs with the use or transfer of funds from TTF. To the extent that these conditions are not met, TTF funds cannot be transferred to the DoSEM Fund and general funds are needed to fund the operations of OMBE.

This analysis reflects \$5.0 million in general funds included in the fiscal 2026 budget (as introduced) for OSE to award Social Equity Partnership Grants. However, the fiscal 2026 budget as passed by the General Assembly includes a general fund reduction of

\$5.0 million and a corresponding \$5.0 million increase in special fund (CREF) expenditures for the grants, contingent on the enactment of legislation authorizing the use of CREF for that purpose. The Budget Reconciliation and Financing Act (BRFA) of 2025 as passed by the General Assembly includes that authorization, thereby effectuating the contingent fund swap. The resulting increase in CREF expenditures for the Social Equity Partnership Grants results in offsetting reductions in special fund (CREF) expenditures for other purposes specified in statute. As the fund swap is effectuated by the BRFA and not by this bill, the resulting changes in general and special fund expenditures are not reflected in this analysis. The fiscal 2026 budget also includes an additional \$5.0 million in general funds for OSE to realign funds for the Cannabis Incubator Project from the Department of General Services, which are not contingent on any legislation and are not reflected in this analysis.

GOSBA advises that the Office of Small and Minority Business Policy (OSMBP) in MDOT oversees the periodic disparity study, which provides the constitutionally required justification and legal underpinning for the MBE program overseen by GOSBA. The disparity study is conducted approximately every five years, with the most recent version due to be completed during calendar 2025. The bill does not transfer OSMBP to DoSEM, so costs related to future disparity studies are not affected.

The bill specifies that money expended from the DoSEM Fund for OSE or OMBE is supplemental to and not intended to take the place of funding that otherwise would be appropriated for those offices. However, under the bill, those offices are exclusively funded in that manner. This analysis assumes that provision has no effect.

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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