

Department of Legislative Services
Maryland General Assembly
2025 Session

FISCAL AND POLICY NOTE
First Reader

House Bill 1364 (Delegate Qi)
Economic Matters

Office of Social Equity - Community Reinvestment and Repair Fund - Advisory Board and Modifications

This bill transfers the administration of the Community Reinvestment and Repair Fund (CRRF) from the Comptroller to the Office of Social Equity (OSE), requires OSE to oversee the appropriation of funds and the training of fund recipients from CRRF, and alters the authorized uses of CRRF. The bill also repeals several existing reporting requirements for OSE relating to CRRF, establishes a new reporting requirement for counties that receive CRRF funding, and establishes requirements for counties as recipients of CRRF funds. The bill also establishes the Community Reinvestment and Repair Advisory Board, establishes several findings of the General Assembly related to the cannabis industry and social equity, and requires OSE to adopt regulations to implement the bill's changes to CRRF.

Fiscal Summary

State Effect: No net effect on State finances. Special fund revenues and corresponding expenditures for the Comptroller decrease by an estimated \$16.0 million in FY 2026 and an estimated \$21.3 million annually thereafter. Special fund revenues and expenditures for OSE increase correspondingly. (An increase in OSE administrative costs, which is covered by CRRF, is discussed below.)

Local Effect: Counties may incur additional administrative costs (potentially significant for some) beginning in FY 2026. County revenues from the distribution of CRRF funds decrease minimally beginning in FY 2026.

Small Business Effect: Potential meaningful.

Analysis

Bill Summary/Current Law: For current law and background information relating to medical and adult-use cannabis, see the **Appendix – Medical and Adult-Use Cannabis**.

Findings of the General Assembly

The bill establishes the following findings of the General Assembly: (1) the goal of regulation and taxation of cannabis in the State is to create a safe and regulated industry that benefits the public interest; (2) the use of incarceration in enforcing prohibitions on the importation, manufacture, use, sale, and distribution of cannabis varied within the State by jurisdiction and racial classification; (3) analysis of geographic and demographic characteristic revealed disparities in arrests, prosecution, and imprisonment for cannabis use, with a negative and disproportionate impact on some communities and neighborhoods within the State; and (4) consequences of the disproportionate enforcement of cannabis-related offenses have contributed to the economic, public health, and social conditions of specific communities and have had significant and measurable effects on the social and financial resources available to the children, families, and local infrastructure of these communities.

The bill further establishes that the General Assembly finds that the public interest is served by (1) acknowledging and repairing the causes and consequences of disparities in arrests and imprisonment in prosecutions of cannabis-related offenses among specific populations and geographic regions; (2) developing, among existing members of communities that have been disproportionately and negatively impacted, the capacity to ascertain and address the social and economic determinants that are fundamental to reducing the impact of longstanding inequities and improving economic, educational, and health outcomes; and (3) being consistent with social equity principles and governance by allocating a significant portion of tax revenue from the adult-use cannabis market to CRRF for distribution to local jurisdictions to be administered by the local jurisdictions.

Office of Social Equity

Under current law and the bill, OSE is an independent office functioning within the Maryland Cannabis Administration (MCA), established to promote and encourage 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).

Under current law, OSE is also required to consult with and assist the Comptroller in the administration of CRRF. *Under the bill*, OSE must, with the assistance of the Comptroller, administer CRRF. The bill makes conforming changes to various provisions related to CRRF to reflect the change in the administration of the fund.

Under the bill, OSE must also adopt regulations to carry out the statutory provisions related to CRRF as modified by the bill and described below.

Under current law, OSE is required to produce and make publicly available an annual report on how CRRF funds were allocated during the preceding calendar year. Additionally, OSE is required, on a biennial basis, to solicit public input on the uses of funds in CRRF and publish a review of such input. *Under the bill*, these requirements are repealed.

Community Repair and Reinvestment Fund

Under current law and the bill, CRRF provides 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 receives 35% of the tax revenues generated from the sale of adult-use cannabis, distributed on a quarterly basis.

Under current law and the bill, funds from CRRF may only be used for (1) funding community-based initiatives intended to benefit low-income communities; (2) funding community-based initiatives that serve disproportionately impacted areas; and (3) any related administrative expenses. *The bill* provides greater specificity regarding the authorized use to provide funding for community-based initiatives intended to benefit low-income communities. Specifically, the bill specifies that such initiatives include behavioral health crisis response services, education and after-school programs, truancy and absenteeism intervention programs, and housing and homeless prevention initiatives, among other specified programs, services, and improvements. Additionally, *under the bill*, while CRRF may still be used to cover related administrative expenses, the bill limits the use of fund to cover such expenses to no more than 5% of the funds received in the fiscal year.

Under current law and the bill, each county receives a distribution from CRRF in an amount that, for the period from July 1, 2022, to January 1, 2023, both inclusive, is proportionate to the total number of cannabis possession charges in the county compared to the total number of cannabis possession charges in the State.

Under the bill, for any distribution of funds to a county, the county must (1) treat the funds as special funds; (2) restrict the use of the funds for uses as specified in the provision

governing the authorized uses of CRRF (as described above); and (3) hold the funds separately from other revenue and general funds.

Under current law and the bill, subject to the limitations regarding the authorized uses of CRRF, each county is required to adopt a law establishing the purpose for which money received from CRRF may be used. *Under the bill*, OSE must also require each county to develop a plan for the distribution of funds to community-based organizations for use in accordance with statute. The plan must be (1) established before distributing funds; (2) developed in consultation with stakeholders; and (3) the subject of a public hearing before the plan is finalized. *The bill* also specifies that the county's administration and distribution of CRRF funds is solely the responsibility of a county and may not be delegated to an outside organization.

Additionally, *under the bill*, by October 1, 2026, and annually thereafter, each county must submit a report to OSE regarding funds received from CRRF, the organizations that received funding from the county, the methods the county used to solicit, review, and select organizations eligible for funding, and administrative expenses related to the county's administration and distribution of CRRF funds.

Community Reinvestment and Repair Advisory Board

The bill establishes the Community Reinvestment and Repair Advisory Board. The advisory board must (1) consider matters submitted by the Governor, the General Assembly, or OSE; (2) provide oversight and recommendations for the equitable distribution and use of CRRF; (3) review and evaluate CRRF's expenditures for alignment with the fund's stated objectives; and (4) meet annually with the Executive Director of OSE. OSE must provide staff and administrative support for the advisory board. Advisory board members may not receive compensation but are eligible for reimbursement for expenses, as specified.

State Fiscal Effect:

Transfer of the Administration of the Fund

There is no net effect on special fund finances. Special fund revenues and expenditures for the Comptroller decrease by an estimated \$16.0 million in fiscal 2026 (due to the bill's October 1, 2025 effective date) and an estimated \$21.4 million annually thereafter due to the transfer of the administration of CRRF to OSE. OSE special fund revenues and expenditures increase correspondingly. This estimate is based on the amount of sales and use tax revenues distributed to CRRF in fiscal 2024 and assumes that those revenues remain constant in the out-years.

Under the bill, up to 5% of CRRF revenues are authorized to be used for administrative expenses, which, based on the estimated special fund revenues deposited into CRRF each year, means approximately \$800,000 is available for OSE’s administrative costs in fiscal 2026 and approximately \$1.1 million is available for OSE’s administrative costs annually thereafter. Thus, it is anticipated that there are sufficient special funds available in CRRF to cover OSE’s estimated administrative costs, which are discussed below.

This analysis assumes that the transfer of the administration of CRRF does not materially affect the Comptroller’s administrative expenditures. The Comptroller’s Office did not provide any information regarding any such costs.

Office of Social Equity Administrative Costs

OSE’s administrative costs increase by \$192,768 in fiscal 2026, which accounts for the bill’s October 1, 2025 effective date. This estimate reflects the cost of hiring one administrator and one Assistant Attorney General to (1) develop and implement the required regulations; (2) administer CRRF and oversee the training of CRRF recipients; (3) staff and support the advisory board; and (4) provide related legal support. It includes salaries, fringe benefits, one-time start-up costs, and ongoing operating expenses.

Positions	2.0
Salaries and Fringe Benefits	\$178,030
Operating Expenses	<u>14,738</u>
FY 2026 OSE Admin. Expenditures	\$192,768

Future year administrative expenditures – which total \$231,117 in fiscal 2027, increasing to \$262,852 by fiscal 2030 – reflect full salaries with annual increases and employee turnover as well as annual increases in ongoing operating expenses.

This estimate does not reflect any additional costs that may be incurred for OSE to set up a system to distribute money from CRRF to counties.

As noted above, these administrative costs are covered by CRRF. While total CRRF spending does not increase, the distribution to counties decreases (in the aggregate) by the increased administrative costs incurred by OSE under the bill.

Local Fiscal Effect: Counties likely incur costs, potentially significant for some, to develop county plans for the distribution of funds to community-based organizations, as required by the bill. The bill also specifies that a county’s administration and distribution of funds is solely the responsibility of the county and may not be delegated to an outside organization; the extent to which counties currently delegate such tasks to outside organizations – and any fiscal effects that may result from no longer being able to do so –

is unknown. Counties may also incur costs to amend their county laws to reflect plan contents, to the extent they need to do so. The bill's changes may also cause (at least initial) delays in distributing CRRF funding to community-based organizations, as counties need to develop plans, consult with stakeholders, and hold public hearings prior to the distribution of funds. There may also be costs related to the bill's ongoing reporting requirement, but such costs are anticipated to be minimal for most counties.

Based on a limited survey of counties, Montgomery County anticipates the need to hire staff to meet the bill's requirements, and the Maryland Association of Counties (MACo) also expects that some counties may need to hire additional staff as a result of the bill. Frederick County describes the administrative impact as burdensome.

MACo also notes that depending on the county, the 5% cap on administrative costs imposed by the bill may be difficult to meet.

On the other hand, other counties, including Cecil and Baltimore counties, indicate that the bill's requirements can be met with existing resources.

County revenues and corresponding expenditures also decrease minimally each year beginning in fiscal 2026 from the decrease in available funding distributed to counties after OSE's administrative costs are deducted (as discussed above).

Small Business Effect: To the extent any community-based organizations that receive CRRF funding from counties are considered small businesses, they may be affected. Depending on how counties distribute available CRRF funding as a result of the bill's changes, some community-based organizations that provide eligible services under the types of initiatives and programs explicitly enumerated by the bill may benefit from additional funding, while others may receive less funding.

Additional Information

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

Designated Cross File: SB 894 (Senator M. Washington) - Finance.

Information Source(s): Baltimore, Cecil, Frederick, and Montgomery counties; Maryland Association of Counties; City of Frederick; Maryland Municipal League; Maryland Cannabis Administration; Office of the Attorney General; Comptroller's Office; Maryland State Department of Education; Maryland Department of Labor; Department of Public Safety and Correctional Services; Department of Legislative Services

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js/lgc

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Appendix – Medical and Adult-use Cannabis

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 medical cannabis licensees to either convert to adult-use cannabis businesses or cease operating by July 1, 2023; and (5) establishing a 9% sales and use tax on the sale of adult-use cannabis. As required under Chapters 254 and 255, in June 2023, ATCC and MCA entered into a memorandum of understanding providing that both parties agree to collaborate on enforcing provisions regarding unlicensed cannabis operations in the State.

Maryland Cannabis Administration

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. MCA adopted permanent regulations governing the cannabis industry in the State that went into effect July 22, 2024. (See DLS Control No. 24-019P).

Adult-use Cannabis

The sale of adult-use cannabis began on July 1, 2023. 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.

Medical Cannabis

MCA 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, qualifying patients, and their caregivers to provide qualifying patients with medical cannabis legally under State law via written certification.

Social Equity in the Cannabis Industry

The Office of Social Equity (OSE) is an independent office functioning within MCA, established to promote and encourage 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. Pursuant to Chapters 254 and 255, 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) converted to cannabis business licensees.

First- and Second-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). MCA conducted its first-round lottery on March 14, 2024, and a second-round lottery on June 28, 2024, awarding a total of 205 (174 in round one and 31 in round two) social equity cannabis business licenses across the micro and standard grower, processor, and dispensary categories.

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 OSE, the Governor, MCA, or the General Assembly and (2) study and make recommendations on a number of issues related to the medical and adult-use cannabis industry in the State. The advisory board began meeting in May 2024, and has established three subcommittees: Federal, Medical Cannabis, and Adult-use Cannabis.

Cannabis Sales and Tax Revenues

In the first year of adult-use cannabis sales (July 1, 2023, through June 30, 2024), total cannabis sales topped \$1.0 billion, with adult-use sales making up \$709 million of the total. Retail sales of adult-use cannabis are subject to a 9% sales and use tax rate and generated approximately \$63.8 million in sales and use tax revenues during the first year of sales. Adult-use cannabis sales and use tax collections for the first quarter of fiscal 2025 totaled \$18.3 million.

Local Authority to Regulate Cannabis

A “political subdivision,” defined as a county or municipality, is authorized to establish zoning requirements for cannabis businesses, allocate cannabis tax revenues, and adopt ordinances that reduce statutory requirements related to specified location restrictions for cannabis businesses. However, a political subdivision is prohibited from taking certain actions specific to cannabis businesses, including imposing a tax on cannabis and establishing restrictions related to transporting cannabis within the political subdivision or fees or requirements on cannabis businesses that are more burdensome than for other businesses.

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

The Cannabis Public Health Advisory Council was established to study and report its findings and recommendations by December 1 each year on specified public health impacts of cannabis legalization. The Cannabis Public Health Fund was also established to generally support the council’s work. The fund receives 5% of the tax revenues from the sale of adult-use cannabis.

Cannabis-related Special Funds

The Cannabis Regulation and Enforcement Fund is administered by MCA to cover its operating costs and the costs to administer and enforce the Medical and Adult-use Cannabis Title of the Alcoholic Beverages and Cannabis Article. The fund generally consists of fees collected by MCA (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.

The Community Reinvestment and Repair Fund is administered by the Comptroller to provide 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 receives 35% of the tax revenues from the sale of adult-use cannabis, distributed on a quarterly basis.

The Cannabis Business Assistance Fund is administered by the Department of Commerce (in consultation with OSE) to assist small, minority-owned, and women-owned businesses entering the adult-use cannabis industry through the award of grants and loans. The fund receives 5% of the tax revenues from the sale of adult-use cannabis, distributed on a quarterly basis.