Department of Legislative Services

Maryland General Assembly
2025 Session

FISCAL AND POLICY NOTE
Third Reader - Revised

Senate Bill 894 (Senator M. Washington)
Finance Economic Matters

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

This bill requires the Office of Social Equity (OSE), with the assistance of the Comptroller, to oversee the Community Reinvestment and Repair Fund (CRRF); OSE must also oversee the appropriation of funds and the training of fund recipients from CRRF. In addition, the bill alters the authorized uses of CRRF, 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 several findings of the General Assembly related to the cannabis industry and social equity. OSE must adopt regulations to implement the bill's changes to CRRF. **The bill takes effect June 1, 2025.**

Fiscal Summary

State Effect: No impact assumed in FY 2025. Special fund expenditures for OSE increase by $66,000 in FY 2026 for staff; future years reflect inflation and ongoing costs. As a result, special fund revenues for the Maryland Cannabis Administration's (MCA) Cannabis Regulation and Enforcement Fund (CREF) increase correspondingly to cover those costs, and the amount of sales and use tax revenue remaining for distribution to the general fund and various other special funds (in accordance with current law) decreases, as discussed below. The *net* effects by fund type are shown below.

(in dollars)	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030
GF Revenue	($33,000)	($29,000)	($30,300)	($34,800)	($36,300)
SF Revenue	$36,300	$31,900	$33,300	$38,000	$39,600
SF Expenditure	$42,900	$37,700	$39,400	$41,200	$42,900
Net Effect	($39,600)	($34,800)	($36,300)	($38,000)	($39,600)

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

Local Effect: Counties may incur additional administrative costs (potentially significant for some) beginning in FY 2026 but may also use up to 15% of their CRRF allocation to cover those costs. Local government revenues decrease minimally beginning in FY 2026 due to the redistribution of sales and use tax revenues, including direct allocations; local government expenditures decrease correspondingly.

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 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 and the bill, the Comptroller administers CRRF. *Under current law*, OSE is required to consult with and assist the Comptroller in the administration of CRRF. *Under the bill*, OSE must, with the assistance of the Comptroller, oversee CRRF; OSE must also oversee the appropriation of funds and the training of recipients of funds from CRRF.

Under the bill, by October 1, 2025, 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 the fund to cover such administrative expenses to those expenses incurred by a local government in administering the funds that do not exceed 15% 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 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.

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.

State/Local Fiscal Effect:

Office of Social Equity Administrative Costs

OSE advises that it can likely implement the bill's changes with existing budgeted resources. The Department of Legislative Services (DLS), however, disagrees; the bill establishes new responsibilities for OSE and establishes a framework to enhance the oversight of CRRF. Therefore, DLS advises that OSE's administrative costs increase by $65,986 in fiscal 2026, which accounts for a 30-day start-up delay. This estimate reflects the cost of hiring one part-time (50%) administrator to (1) develop and implement the required regulations; (2) oversee CRRF, the appropriation of CRRF funds, and the training of CRRF recipients; and (3) receive annual reports from counties. It includes a salary, fringe benefits, one-time start-up costs, and ongoing operating expenses.

Position	0.5
Salary and Fringe Benefits	$58,893
Operating Expenses	7,093
FY 2026 OSE Administrative Expenditures	**$65,986**

Future year administrative expenditures – which total $57,923 in fiscal 2027, increasing to $66,001 by fiscal 2030 – reflect the part-time salary with annual increases and employee turnover as well as annual increases in ongoing operating expenses.

Because OSE is an independent office functioning within MCA, special fund revenues to CREF for MCA increase correspondingly to cover the increase in OSE's costs, 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 (including OSE's administrative expenditures).

No Material Effect on the Comptroller's Office

This analysis assumes that restricting the use of CRRF funds for *only* administrative expenses incurred by *local governments* does not materially affect the Comptroller's Office. The Comptroller's Office did not provide any information regarding any such costs.

Effect on Distribution of Sales and Use Tax Revenues

The bill does not affect overall sales of adult-use cannabis and, therefore, the total amount of sales and use tax revenue collected each year. However, the bill does affect the *distribution* of sales and use tax revenues, as discussed below.

As noted above, 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 MCA's (including OSE's) 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 CRRF; 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.

Thus, because the bill results in an increase in OSE's administrative costs (beginning in fiscal 2026), the bill also results in a decrease in general fund revenues, special fund revenues for affected special funds (including CRRF), and county revenues beginning in fiscal 2026, as shown in **Exhibit 1**.

Exhibit 1
Effect on Distribution of Sales and Use Tax Revenue
Fiscal 2026-2030

	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030
Funds Available for Distribution	($65,986)	($57,923)	($60,559)	($63,325)	($66,001)
State Revenues					
General Fund	($32,993)	($28,962)	($30,280)	($34,829)	($36,301)
CRRF	(23,095)	(20,273)	(21,196)	(22,164)	(23,100)
CPHF	(3,299)	(2,896)	(3,028)	(3,166)	(3,300)
CBAF	(3,299)	(2,896)	(3,028)	-	-
Subtotal for the State	***($62,687)***	***($55,027)***	***($57,331)***	***($60,159)***	***($62,701)***
County Revenues	($3,299)	($2,896)	($3,028)	($3,166)	($3,300)

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

Notes: With respect to the direct allocation, the decrease in county revenues is in the aggregate. Numbers may not sum due to rounding.

Source: Department of Legislative Services

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 to counties) decrease correspondingly to the decrease in CRRF revenues beginning in fiscal 2026. County revenues decrease further as a result of the decreased distributions from CRRF beginning in fiscal 2026.

Accordingly, county (and municipal) expenditures decrease correspondingly.

Other Fiscal Effects on Counties to Implement the Bill's Requirements: 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. 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 those costs are anticipated to be minimal for most counties.

However, as the bill allows local governments to use CRRF monies to cover their administrative expenses associated with administering those funds – up to 15% of the amount received each year, at least a portion of those costs may be defrayed. Even so, 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 also expects that some counties may need to hire additional staff as a result of the bill. Frederick County describes the administrative impacts as burdensome. On the other hand, other counties, including Cecil and Baltimore counties, indicate that the bill's requirements can be met with existing resources.

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. Further, due to less overall funding distributed to counties under the bill and the ability for counties to cover up to 15% of their administrative costs, less funding is available for distribution to community-based organizations.

Additional Information

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

Designated Cross File: HB 1364 (Delegate Qi) - Economic Matters.

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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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.