Department of Legislative Services
Maryland General Assembly
2026 Session

FISCAL AND POLICY NOTE
First Reader

House Bill 1250   (Delegate Qi, *et al.*)

Economic Matters

Consumer Protection and Product Liability - Chatbots

This bill establishes a regulatory framework governing "chatbots" (*i.e.*, generative artificial intelligence (AI) systems with a natural language interface that provide adaptive responses to user inputs). The Office of the Attorney General (OAG) must adopt regulations to carry out the bill, as specified. The bill also contains a severability clause. If OAG recovers a civil penalty that is not payable to an individual who is affected by a violation of the bill, it must distribute the penalty to the Behavioral Health Workforce Investment Fund within the Maryland Department of Health (MDH). Violation of the bill is an unfair, abusive, or deceptive trade practice under the Maryland Consumer Protection Act (MCPA), subject to MCPA's civil and criminal penalty provisions, as well as certain additional enforcement and penalty provisions.

Fiscal Summary

State Effect: General fund expenditures increase by approximately $522,900 in FY 2027 for staff; future years reflect annualization and inflation. The bill's penalty provisions are not anticipated to have a material impact on State revenues.

(in dollars)	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031
Revenues	$0	$0	$0	$0	$0
GF Expenditure	522,900	621,200	649,800	678,900	708,600
Net Effect	($522,900)	($621,200)	($649,800)	($678,900)	($708,600)

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

Local Effect: Local government expenditures may be affected, as discussed below. The bill's penalty provisions do not have a material impact on local government revenues.

Small Business Effect: Minimal.

Analysis

Bill Summary:

Definitions

A "developer" means a person that designs and creates a chatbot that an operator makes available to a user in the State. An "operator" is a person, including a developer, that makes available a chatbot to a user in the State.

For purposes of the bill, "AI" means an engineered or machine-based system that varies in its level of autonomy and that can, for explicit or implicit objectives, infer from the input it receives how to generate outputs that can influence physical or virtual environments.

Provisions Requiring Affirmative Consent

If a provision of the bill requires a person to obtain a user's affirmative consent, the request must (1) be provided in a clear and conspicuous manner; (2) be reasonably accessible to a user with a disability; (3) be available to a user in each language in which the chatbot is available to the user; and (4) contain an option to refuse to provide affirmative consent that is comparable to the option to provide affirmative consent.

The request for affirmative consent may *not* (1) infer from a user's inaction or continued use of the chatbot that the user provides affirmative consent; (2) be part of the chatbot's general terms of use; or (3) be offered using a user interface designed or manipulated with the substantial effect of subverting or impairing the autonomy, decision making, or choice of a user.

If a person obtains a user's consent by use of a materially false or misleading statement or representation, the user's consent is void and unenforceable.

De-identified Data

For information to be considered de-identified data under the bill (which also means that the data is not considered "personal data"), an operator must (1) ensure and publicly commit in a clear and conspicuous manner that aggregated data may not be used to infer information about a user or establish a link to an identifiable user and (2) contractually obligate a third party that receives data from an operator to ensure that aggregated data may not be used to infer information about a user or establish a link to an identifiable user.

Chatbot Restrictions

An operator may not make available to a user in the State a chatbot that is capable of:

- subject to requirements related to parental consent for minors described below, (1) using input data as training data for the chatbot, unless the user provides affirmative consent or (2) processing or using personal data other than input data as training data for the chatbot, unless necessary to respond to a user prompt and the user provides affirmative consent;
- processing a user's chat log for certain advertising purposes;
- profiling a user other than for what is necessary to respond to a user prompt;
- retaining a chat log for longer than 10 years, unless required by law; or
- providing advice or a service that an individual cannot lawfully provide without a license, in violation of applicable State licensing laws.

If an operator or a developer knows (or reasonably should know) that a user is a minor who is younger than age 13, unless the parent or guardian provides written affirmative consent to the operator or the developer, the operator and the developer may not (1) use input data as training data for the chatbot or (2) process personal data other than input data.

Warnings to Users

A developer must establish and an operator must provide to a user of the operator's chatbot clear and conspicuous warnings that chatbots are artificially generated and not human using both static and dynamic warnings that meet specified requirements.

Inspection of Chat Log

A developer must establish, and an operator must provide to a user of the operator's chatbot, a mechanism for a user to inspect the user's chat log that the operator has retained in a format that is portable, downloadable, and human- and machine-readable.

Data Security Program

A developer must establish and an operator must provide (1) a comprehensive data security program that contains administrative, technical, and physical safeguards that are proportionate to the volume and nature of the personal data and chat logs retained by the operator and (2) monthly safety testing. An operator must publish a written explanation of the data security program and publish monthly updates on the required safety testing, as specified.

Prohibitions

An operator or a developer may not:

- sell a chat log;
- discriminate or retaliate against a user for refusing to provide affirmative consent or accessing or reviewing a chat log;
- advertise that a chatbot is capable of providing advice or a service that an individual cannot lawfully provide without a license, including a representation that user inputs or chat logs are protected by an inapplicable fiduciary or other legal duty of confidentiality.

The disclosure of input data (including personal data) to a third party responsible for processing the data is not considered selling a chat log.

Enforcement Provisions

In addition to the remedies contained in MCPA:

- OAG may bring an action to seek declaratory relief;
- an individual who is affected by a violation of the bill may bring an action to seek an injunction, declaratory relief, or treble damages (described below); and
- a chatbot must be considered a product for which (1) an operator and a developer have an affirmative duty to ensure does not inure or harm a user; (2) an operator or a developer may be held strictly liable for causing injury or harm to a user; and (3) an individual may bring an action for a design defect, a manufacturing defect, or a marketing defect.

In addition to compensatory damages awarded under an action to recover for injury or loss under MCPA, a court may order a person who knowingly violates the bill to pay an individual affected by a violation punitive damages of up to three times the amount of any actual damages resulting from the injury or loss.

Applicability to Other Units of Government

Except for the penalty provisions noted above, the requirements of the bill apply to any unit of State and local government that designs, creates, or makes available a chatbot.

Educational Materials

The Behavioral Health Administration (BHA) within MDH must develop educational materials that contain information (1) describing how a person may obtain behavioral health care from a licensed medical professional in the State and (2) about free or low-cost services available to individuals in the State who are experiencing a mental health crisis. The materials must be disseminated to the public by OAG and used for any other purpose as determined by MDH.

Current Law:

Behavioral Health Administration

BHA is responsible for planning and developing a comprehensive system of services for the mentally ill; supervising State-run psychiatric facilities; reviewing and approving local plans and budgets for mental health programs; providing consultation to State agencies concerning mental health services; establishing personnel standards; and developing, directing, and assisting in the formulation of educational and staff development programs for mental health professionals.

"Behavioral health" includes substance-related disorders, addictive disorders, and mental disorders. "Behavioral health care" includes prevention, screening, early intervention, treatment, recovery, support, wraparound, and rehabilitation services, for individuals with substance-related disorders, addictive disorders, mental disorders, or a combination of these disorders.

Behavioral Health Workforce Investment Fund

The Behavioral Health Workforce Investment Fund was established to provide reimbursement for costs associated with educating, training, certifying, recruiting, placing, and retaining behavioral health professionals and paraprofessionals. It consists of money appropriated in the State budget, interest earnings, and any other money from any source accepted for the benefit of the fund. Each year, MDH must report, for the immediately preceding fiscal year (1) the amount of funds transferred and distributed from the fund; (2) the number of behavioral health professionals and paraprofessionals educated, trained, recruited, certified, placed, or retained with money from the fund, aggregated as specified; (3) the amount of any unspent funds; and (4) the reason why any unspent funds were not spent.

Artificial Intelligence

As defined by the State Finance and Procurement Article, "AI" means a machine-based system that (1) can, for a given set of human-defined objectives, make predictions, recommendations, or decisions influencing real or virtual environments; (2) uses machine and human-based inputs to perceive real and virtual environments and abstracts those perceptions into models through analysis in an automated manner; and (3) uses model inference to formulate options for information or action.

For additional information on the status of AI in the State and nation, please see the **Appendix – Artificial Intelligence**.

Maryland Consumer Protection Act

An unfair, abusive, or deceptive trade practice under MCPA includes, among other acts, any false, falsely disparaging, or misleading oral or written statement, visual description, or other representation of any kind which has the capacity, tendency, or effect of deceiving or misleading consumers. The prohibition against engaging in any unfair, abusive, or deceptive trade practice encompasses the offer for or actual sale, lease, rental, loan, or bailment of any consumer goods, consumer realty, or consumer services; the extension of consumer credit; the collection of consumer debt; or the offer for or actual purchase of consumer goods or consumer realty from a consumer by a merchant whose business includes paying off consumer debt in connection with the purchase of any consumer goods or consumer realty from a consumer.

The Consumer Protection Division is responsible for enforcing MCPA and investigating the complaints of aggrieved consumers. The division may attempt to conciliate the matter, issue a cease and desist order, or file a civil action in court. A merchant who violates MCPA is subject to a fine of up to $10,000 for each violation and up to $25,000 for each repetition of the same violation. In addition to any civil penalties that may be imposed, any person who violates MCPA is guilty of a misdemeanor and, on conviction, is subject to a fine of up to $1,000 and/or imprisonment for up to one year.

State Expenditures: As the bill establishes significant new responsibilities related to the regulation of chatbots, additional staff within OAG are needed to enforce the bill. Thus, general fund expenditures increase by $522,945 in fiscal 2027, which accounts for the bill's October 1, 2026 effective date. This estimate reflects the cost of hiring two assistant Attorneys General; one technologist; one administrator; and one mediation supervisor to perform the functions required by the bill. It includes salaries, fringe benefits, one-time start-up costs, and ongoing operating expenses.

Positions	5.0
Salaries and Fringe Benefits	$477,241
Operating Expenses	45,704
Total FY 2027 State Expenditures	**$522,945**

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

MDH can develop the required educational materials with existing resources.

Local Fiscal Effect: Although the bill's provisions apply to any local government that designs, creates, or makes available a chatbot, this provision is not expected to have any immediate effect on the majority of local governments. However, the Maryland Municipal League advises that local governments may incur compliance costs in the future as chatbots are more widely adopted for government use. Prince George's County advises that it anticipates costs totaling several hundred thousand dollars annually for contractual services and additional staff to comply with the bill.

Additional Information

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

Designated Cross File: SB 827 (Senator Hester) - Finance.

Information Source(s): Department of Information Technology; Howard and Prince George's counties; Maryland Municipal League; Office of the Attorney General (Consumer Protection Division); Judiciary (Administrative Office of the Courts); Maryland Department of Health; Department of Legislative Services

Fiscal Note History: First Reader - March 1, 2026
caw/rld

Analysis by: Eric F. Pierce

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

Appendix – Artificial Intelligence

Artificial Intelligence – Generally

Artificial intelligence (AI) is a broad field of computer science that deals with the creation of "intelligent" systems that can reason, learn, and act autonomously. There are many different branches of AI, each with its own focus and set of techniques, such as machine learning, neural networks, robotics, expert systems, fuzzy logic, and natural language processing. AI research has been successful in developing algorithms for solving a wide range of problems, from game playing to conversation simulation.

AI use has expanded significantly in recent years. Many of the largest technology companies have each developed their own AI systems and have integrated the systems into their respective companies' products and services. AI's ability to quickly synthesize and summarize vast amounts of data and apply the results have made it a useful tool in modern society while also raising questions about its use. The following list briefly describes a few of the impacts of and issues surrounding AI.

- Related to education, AI may have potential benefits to help tutor or otherwise provide additional resources to assist students in their studies. However, some students use AI to cheat on their schoolwork;
- Related to energy use, the significant power draw necessary to run the data systems that host AI systems has contributed to localized energy shortages and increased energy costs;
- Regarding environmental issues, these data centers require a significant amount of water for cooling and increasingly have been using freshwater resources for this purpose;
- Related to criminal justice, AI image and video generation systems can be used to make "deep fake" pictures and videos that may be difficult or impossible to differentiate from actual events;
- AI's reliance on information from the internet has raised concerns regarding the accuracy of AI-generated content as well as copyright infringement and data privacy.
- Related to health, AI is being used to assist doctors in developing medical diagnoses, but is also being used by insurance companies to screen requests for care and claims;
- Related to labor and employment, the expansion of AI has led to concerns about employees being replaced by AI systems as a means to save money on labor costs.

Governance at the State Level

The State defines AI as a machine-based system that (1) can, for a given set of human-defined objectives, make predictions, recommendations, or decisions influencing real or virtual environments; (2) uses machine and human-based inputs to perceive real and virtual environments and abstracts those perceptions into models through analysis in an automated manner; and (3) uses model inference to formulate options for information or action. At the State level, AI is governed primarily by the Department of Information Technology (DoIT) and the Governor's AI Subcabinet. This governance structure was established by Chapter 496 of 2024 and, broadly speaking:

- requires DoIT to adopt policies and procedures, in consultation with the Governor's AI Subcabinet, concerning the development, procurement, deployment, use, and ongoing assessment of systems that employ high-risk AI by a unit of State government;
- prohibits units of State government from procuring or deploying a new system that employs AI unless the system complies with the policies and procedures adopted by DoIT;
- requires each unit of State government to conduct a data inventory to identify data that meets criteria established by the Chief Data Officer and that is (1) necessary for the operations of the unit or otherwise required to be collected as a condition to receive federal funds or by federal or State law and (2) in a form prescribed by the Chief Data Officer, including when the data is used in AI; and
- requires each unit of State government to conduct an inventory of systems that employ high-risk AI.

Most recently, DoIT and the subcabinet have released the [2025 Maryland AI Enablement Strategy & AI Study Roadmap](#), which includes plans for studying opportunities, risks, and next steps associated with the use of AI in State services. Additionally, in November 2025, the Governor's Office announced a [State partnership](#) with two AI companies to integrate certain AI systems into a portion of the State's workforce.

Other Recent State Laws and Policies

In addition to the direct governance effectuated by Chapter 496, various other laws and policies address some of the issues posed by AI.

Chapter 105 of 2025 established the Workgroup on AI Implementation to monitor issues and make recommendations related to AI, including (1) the regulation of AI used in decisions that significantly impact the livelihood and life opportunities of individuals in the State; (2) deployer and developer obligations related to labor and employment and

protection of individual privacy rights; (3) protection of consumer rights; (4) current private sector use of AI; (5) general AI disclosures for all consumers; (6) enforcement authority for the Office of the Attorney General's Consumer Protection Division; and (7) the impact of the use of AI in the determination of government benefits. The first report from the workgroup is due July 1, 2026.

Chapter 747 of 2025 requires a carrier (*i.e.*, insurance company or another organization that provides health benefit plans), pharmacy benefits manager, or a private review agent that uses AI, algorithms, or other software tools for utilization review (including working through an entity that uses such tools) to ensure that such tools are used in a specified manner. Notably, the Act specifies that an AI, algorithm, or other software tool may not deny, delay, or modify health care services and that carriers must submit in their quarterly appeals and grievance reports whether an AI, algorithm, or other software tool was used in making an adverse decision.

Chapter 17 of the 2025 special session established an AI Evidence Clinic Pilot Program in the Administrative Office of the Courts to provide expertise in AI to the circuit courts and the District Court in the form of expert testimony on the authenticity of electronic evidence that a court determines may have been created or altered using AI.

Regarding education, the Maryland State Department of Education has begun an AI initiative to develop policies and procedures for AI use by students and teachers. Additionally, Chapter 237 of 2025 specifies that, for school years 2025-2026 through 2027-2028, certain requirements for the procurement and use of digital tools to assure equivalent access to technology for students with disabilities do not apply to digital tools that use AI.

Federal Action

The National Artificial Intelligence Initiative Act of 2020 became law on January 1, 2021. The aim of the Act is to promote U.S. leadership in AI research and development with the goal of accelerating the nation's economic prosperity and national security through the development and use of trustworthy AI in the public and private sectors and preparation of the workforce for the inevitable integration of AI systems. This multi-agency initiative has included work by the U.S. Department of Energy, in consultation with the National Institute of Standards and Technology, to develop the AI Risk Management Playbook as a reference guide to support responsible and trustworthy AI use and development. Though not a binding document, the playbook addresses common AI risks and steps that AI leaders, practitioners, and procurement teams can take to manage data privacy and bias risks.

Other Executive Orders guiding and governing AI use of the federal level signed during the previous administration were revoked under the current administration. Moreover, an

Executive Order signed in December 2025 generally expresses the federal government's attempt to preempt State AI laws and regulations, directs certain federal agencies to penalize states that are found to not be in compliance with the preemption, and directs certain federal entities to prepare a legislative recommendation establishing a uniform federal policy framework for AI that preempts state AI laws.