



Wes Moore, Governor • Aruna Miller, Lt. Governor • Will Tilburg, Director

February 23, 2024

The Honorable C.T. Wilson
Chair, House Economic Matters Committee
Room 231
House Office Building
Annapolis, MD 21401

RE: House Bill 272 – Cannabis Licensing and Registration – Use of Straw Ownership – Prohibition – Support with Amendments

Dear Chair Wilson,

The Maryland Cannabis Administration (MCA) is submitting this letter of support with amendments for House Bill 272 – Cannabis Licensing and Registration – Use of Straw Ownership – Prohibition (HB0272), and respectfully requests a favorable report on the bill with the proposed amendments outlined below. .

HB0272 prohibits certain nominal ownership of cannabis licenses for the purposes of meeting the requirements established by the General Assembly under Chapters 254/255 of 2023, the Cannabis Reform Act.

The Maryland Cannabis Administration (MCA) and Office of Social Equity (OSE) are aware of attempts to exploit social equity cannabis business licensing rounds in other jurisdictions (e.g., Arizona, Connecticut, Missouri). Prior to the licensing round, MCA and OSE were made aware that prospective and verified social equity applicants had been approached via postcards, craigslist ads, job postings, and in-person technical assistance events to serve as straw or figurehead owners in cannabis business license applications. The MCA also during the pre-application verification period identified several attempts to exploit the social equity verification portal by non-social equity businesses, and canceled the links for dozens of individuals who it identified were fraudulently submitting information.

MCA is undertaking measures to protect the integrity of the first cannabis license application round in the nation reserved exclusively for social equity applicants across all license

categories, and HB0272 is largely aligned with the MCA's strategy moving forward to ensure the integrity of the application round. The MCA is requesting the committee consider three additional measures to strengthen HB0272 and ensure the MCA is able to enforce these provisions:

1. **Clarify that other types of agreements pertaining to ownership or control are covered in the legislation.** Throughout the country, cannabis regulators are seeing operating agreements, management agreements, convertible debt agreements, and other contractual relationships between a licensee and another party that may be vehicles for inequitable relationships between the licensee and the other party. The MCA asks that the committee consider defining "genuine ownership" and including the existing definition of "control" to provisions of HB0272
2. **Allow for MCA enforcement of the HB0272 provisions without criminal conviction.** HB0272 establishes criminal penalties for entities that engage in nominal ownership agreements, however, it makes suspension or revocation of a license contingent on conviction through a criminal violation. The MCA believes there is value in adding criminal penalties to these types of ownership or control agreements, but would like to authorize administrative actions against a license that is found to be in violation of these provisions following a hearing conducted by the MCA. This would allow the MCA to move more quickly against prohibited ownership and control structures.
3. **Align effective date with MCA's licensing timeline.** As introduced, HB0272 has the effective date of October 1, 2024. The initial 30-day license application authorized under the CRA closed on December 12. All applications were notified of the status of their application on February 9, and MCA anticipates holding the license lottery in early March. Before any applicants selected in the lottery may be awarded a conditional license, MCA will investigate any claims related to ownership or control with the assistance of third-party accounting, legal, and investigatory professionals. It is during this phase and into the conditional licensing period that the provisions in HB0272 would be best applied. Moving the effective date to June 1, 2024 would make the provisions most applicable to the newly selected licenses in the early stages of the conditional license period.

The MCA would additionally like to stress that due to federal restrictions and shifting economic trends, access to capital is limited in the cannabis industry, particularly for new market entrants. With these factors in mind, the CRA permits, and even encourages, partnerships between social equity applicants and non-social equity businesses. Therefore, the MCA is seeking to ensure that social equity applicants own and control the applicant entity, and welcomes support from the General Assembly with the provisions of HB0272 to ensure that

these are fair and equitable agreements, while still permitting and facilitating investment in these businesses from outside sources.

I hope this information is useful. If you would like to discuss this further, please contact me at (410) 487-8069 or william.tilburg@maryland.gov or Andrew Garrison, Chief of the Office of Policy and Government Affairs at (443) 844-6114 or andrew.garrison@maryland.gov.

Sincerely,

A handwritten signature in blue ink that reads "William Tilburg". The signature is written in a cursive style and is followed by a long, horizontal, sweeping underline.

Will Tilburg, JD, MPH
Director, Maryland Cannabis Administration

cc: Members of the House Economic Matters Committee