

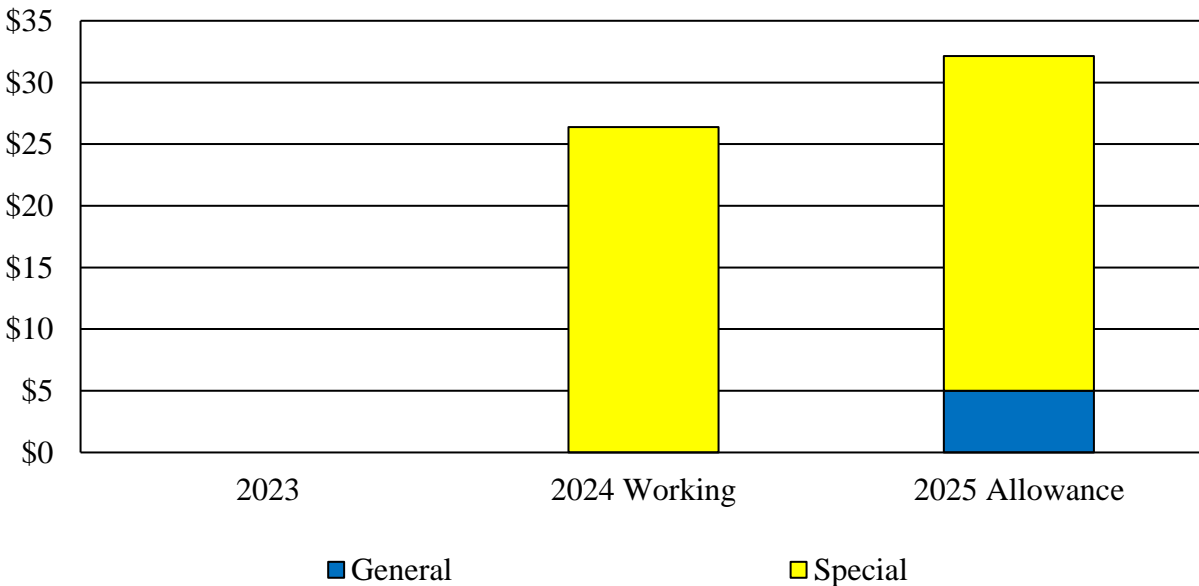
D23 Maryland Cannabis Administration

Program Description

The Maryland Cannabis Administration (MCA) works to create an equitable, safe, and accessible medical and adult-use cannabis program. MCA includes the former Maryland Medical Cannabis Commission (MMCC), which was established in calendar 2014 to develop policies, procedures, and regulations to implement Maryland’s medical cannabis program. MCA was established as an independent agency in Chapters 254 and 255 of 2023 and oversees all licensing, registration, inspection, and testing measures relating to the State’s medical and adult-use cannabis industry and provides program information to relevant stakeholders.

Operating Budget Summary

Fiscal 2025 Budget Increases \$5.7 Million, or 21.8%, to \$32.1 Million
(\$ in Millions)



Note: The fiscal 2024 impacts of statewide salary adjustments appear in the Statewide Account in the Department of Budget and Management (DBM), and adjustments are not reflected in this agency’s budget. The fiscal 2025 impacts of the fiscal 2024 statewide salary adjustments appear in this agency’s budget. The fiscal 2025 statewide salary adjustments are centrally budgeted in DBM and are not included in this agency’s budget.

- MCA is primarily funded by special funds through the Cannabis Regulation and Enforcement Fund.

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Fiscal 2024

Chapters 254 and 255, as introduced, would have transitioned MMCC staff to a Division of the Alcohol, Tobacco, and Cannabis Commission (ATCC). Supplemental Budget No. 2 correspondingly added staff to the Cannabis Regulation and Enforcement Division intended to be a part of the successor agency for cannabis regulation at ATCC. Chapters 254 and 255, as enacted, established MCA as an independent State agency. A fiscal 2024 budget amendment aligned the new positions and funding from Supplemental Budget No. 2 into the new agency. The transfers included 83 positions from MMCC and 27 positions from ATCC to MCA to support legal cannabis enforcement.

Implementation of Legislative Priorities and Planned Reversion

Section 19 of the fiscal 2024 Budget Bill included \$2 million in ATCC for the Social Equity Partnership Grant program administered by the Office of Social Equity (OSE), which was transferred by budget amendment to MCA. The Governor’s fiscal 2025 budget assumes a reversion of \$2 million for the Social Equity Partnership Grant program, which would be the entire appropriation in that year. MCA reported that for the Social Equity Partnership Grant program to get off the ground, the next round of business licenses needs to be issued. MCA reported that there is not enough time to meaningfully roll out the funds appropriated in fiscal 2024, as they are currently in the process of issuing those business licenses with the license lottery being held next month and awarding conditional licenses by May 2024. In accordance with the mandated appropriation for the grant program beginning in fiscal 2025, the fiscal 2025 allowance includes \$5 million for the Social Equity Partnership Grant Program. MCA anticipates utilizing the funding in its entirety going forward.

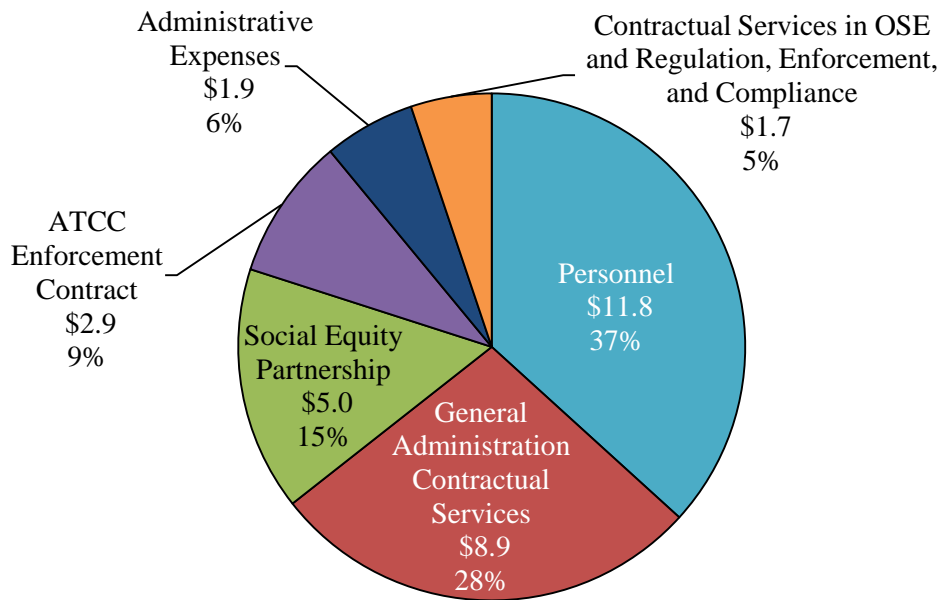
Proposed Deficiency

Among other responsibilities, MCA issues and administers business licenses and registrations, in addition to establishing and promulgating the regulations governing the medical and adult-use cannabis industries in Maryland. MCA holds authority over the regulation and enforcement of licensed cannabis businesses in the State. ATCC holds statutory authority over unlicensed operators. A memorandum of understanding (MOU) between ATCC and MCA outlines the details of the agencies’ collaboration on the enforcement of the cannabis laws. A fiscal 2024 budget amendment added a reimbursable fund appropriation in ATCC to support its work under this MOU. The fiscal 2025 allowance includes one proposed deficiency of \$2.8 million in special funds from the Cannabis Regulation and Enforcement Fund to fund MCA’s support for ATCC’s cannabis enforcement activities. The proposed deficiency provides funding for the level of support included in the budget amendment.

Fiscal 2025 Overview of Agency Spending

Exhibit 1 shows the MCA fiscal 2025 allowance by use of funding. The largest expenditure is \$11.8 million for regular and contractual personnel, constituting 37% of agency spending. Approximately 28% of the agency’s spending is for contractual services within the General Administration subprogram, including \$3.4 million for public health education, \$2 million for maintenance of the patient application enterprise system, a new licensee and registrant enterprise system and record management system developed, and \$6.4 million for various smaller contractual services. The fiscal 2025 allowance for the agency includes \$5 million (or 15% of the funding) to support the Social Equity Partnership grant program. The level of funding for the Social Equity Partnership was mandated by Chapters 254 and 255 and is intended to promote qualifying partnerships between operational cannabis licensees and social equity licensees. Agency spending also includes \$2.9 million (9%) for the cannabis enforcement contract with ATCC, \$1.9 million (6%) for various administrative expenses, and \$1.7 million (5%) for contractual services within the OSE and the Regulation, Enforcement, and Compliance subprograms.

Exhibit 1
Overview of Agency Spending
Fiscal 2025 Allowance
(\$ in Thousands)



ATCC: Alcohol, Tobacco, and Cannabis Commission
OSE: Office of Social Equity

Note: The fiscal 2025 statewide salary adjustments are centrally budgeted in the Department of Budget and Management and are not included in this agency’s budget.

Source: Department of Budget and Management

Proposed Budget Change

As shown in **Exhibit 2**, the fiscal 2025 allowance increases by \$5.7 million compared to the fiscal 2024 working appropriation after accounting for proposed deficiency appropriations and a planned reversion. The largest changes in the budget are within OSE, due to the \$5 million grant to support the Social Equity Partnership and \$0.9 million for technical assistance support services for additional investigation of selected license applications. The MCA fiscal 2025 allowance also includes various changes in the Research and Education program, including a \$1.4 million increase for public health education and a \$1.2 million decrease relating to various studies of adult-use cannabis impact required by Chapters 254 and 255.

Exhibit 2
Proposed Budget
Maryland Cannabis Administration
(\$ in Thousands)

How Much It Grows:	General Fund	Special Fund	Total
Fiscal 2023 Actual	\$0	\$0	\$0
Fiscal 2024 Working Appropriation	0	26,389	26,389
Fiscal 2025 Allowance	<u>5,000</u>	<u>27,130</u>	<u>32,130</u>
Fiscal 2024-2025 Amount Change	\$5,000	\$741	\$5,741
Fiscal 2024-2025 Percent Change		2.8%	21.8%

Where It Goes:	Change
Personnel Expenses	
Salary increases and associated fringe benefits including fiscal 2024 cost-of-living adjustment and increments	\$247
Turnover adjustments from 4.17% to 5.17%	-112
General Administration – Program Direction and Operations	
Call center services	350
Platform used to verify applicant eligibility in upcoming licensing rounds	175
Contract expenses for statutory mandates for cannabis use survey, outreach, and data publications	168
Technical and legal research	150
Sales Force licenses and DocuSign	117
Security services	112
Patient and caregiver ID card printing materials	-100
Procurements for patient applications and licensing requirement	-100
General Administration – Research and Education	
Public health education, including outreach and communications on safe consumption, drugged driving, preventing youth use and access, and other public health-focused messaging and campaigns	1,400

D23 – Maryland Cannabis Administration

Where It Goes:	<u>Change</u>
Data analysis, including data integration with State's seed-to-sale tracking for compliance of licensees	350
Survey on cannabis impact in Maryland.....	40
Analysis of medical cannabis products.....	-50
Cannabis health and safety analysis.....	-88
Public relations consulting services.....	-250
Best practice implementation and capacity building request for proposals.....	-350
Legal resource center	-400
One-time spending on various studies of adult use cannabis impacts.....	-1,250
Office of Social Equity	
Social Equity Partnership grant mandated funds to promote qualifying partnerships between operational cannabis licensees and social equity licensees, in accordance with Chapters 254 and 255	5,000
Technical assistance support services for additional investigation of selected license applications	918
Regulation, Enforcement, and Compliance	
Contract with ATCC to assist with legal and illicit cannabis enforcement	117
Vendor expenditures to outfit statutorily mandated State Reference Lab	-368
Motor vehicle costs	-435
Other Changes	
Contractual personnel expenses associated with a net increase of 6 positions...	567
Rent.....	506
Cost allocations.....	63
Anticipated decrease in billing for credit card merchant services due to less utilization	-179
Adding Automated Clearing House payment capabilities for electronically depositing funds	-200
Decrease in MDH-related costs from transition of MMCC to MCA, including share of Attorney General personnel costs in MDH and MDH indirect costs....	-544
Other changes	-112
Total	\$5,741

ATCC: Alcohol, Tobacco, and Cannabis Commission
MCA: Maryland Cannabis Administration
MDH: Maryland Department of Health
MMCC: Maryland Medical Cannabis Commission

Note: Numbers may not sum to total due to rounding. The fiscal 2024 impacts of statewide salary adjustments appear in the Statewide Account in the Department of Budget and Management (DBM), and adjustments are not reflected in this agency's budget. The fiscal 2025 impacts of the fiscal 2024 statewide salary adjustments appear in this agency's budget. The fiscal 2025 statewide salary adjustments are centrally budgeted in DBM and are not included in this agency's budget.

Personnel Data

	<u>FY 23 Actual</u>	<u>FY 24 Working</u>	<u>FY 25 Allowance</u>	<u>FY 24-25 Change</u>
Regular Positions	0.00	110.00	110.00	0.00
Contractual FTEs	<u>0.00</u>	<u>0.00</u>	<u>6.00</u>	<u>6.00</u>
Total Personnel	0.00	110.00	116.00	6.00

Vacancy Data: Regular Positions

Turnover and Necessary Vacancies, Excluding New Positions	5.69	5.17%
Positions and Percentage Vacant as of 12/31/23	n/a	n/a
Vacancies Below Turnover	5.69	

- The fiscal 2025 allowance does not include any increases in regular positions but includes an increase of 6 contractual full-time equivalent (FTE) positions. The 6 new FTE positions include 4 positions to investigate licenses and 2 positions that serve as support staff.
- Data reported by the Department of Budget and Management indicated that MCA had no vacant positions as of December 31, 2024. However, MCA reports that, as of February 12, 2024, it has 11 vacant regular positions. However, the agency anticipates that the majority of these will be filled in fiscal 2024.

Key Observations

1. Establishment and Organization of the Maryland Cannabis Administration

MCA was established in Chapters 254 and 255 to license and regulate the medical and adult-use cannabis industry. This involves licensing cannabis businesses, administering the business license application process, and enforcing the cannabis industry’s laws and regulations, including adopting regulations by July 1, 2024. MCA also maintains the medical cannabis registry and programs; conducts education, outreach, and training on license applications; and provides technical assistance to social equity applicants. In terms of enforcement, MCA conducts inspections to ensure compliance of licensees and registrants, makes determinations regarding violations, and imposes authorized penalties.

MCA has organized into three major programs: General Administration; Regulation, Enforcement, and Compliance; and OSE. The General Administration program is responsible for the issuance of licenses, development of regulations, use and evaluation of data and analytics, diversity programming, and operational functions. The Regulation, Enforcement, and Compliance program conducts functions relating to product safety, compliance with laws and regulations, and enforcement efforts conducted in partnership with other State government units. OSE is an independent office within MCA that promotes social equity initiatives surrounding the State’s cannabis program and includes the Social Equity Partnership Grant Program and the Community Reinvestment and Repair Fund (CRRF).

Office of Social Equity

OSE is established as an independent unit that functions within MCA to promote economic opportunity and social equity in the State’s adult-use cannabis industry. OSE was implemented to positively impact communities that have been disproportionately affected by cannabis criminalization and the War on Drugs by encouraging participation from impacted communities. An area is determined to be disproportionately affected if it has over 150% of the State’s 10-year average for cannabis possession charges. OSE consults with MCA, the Department of Commerce, and the Comptroller of Maryland on cannabis funds and regulations and provides resources and support to historically disadvantaged individuals and businesses through programs, outreach, and advocacy. OSE assists social equity applicants and licensees in addition to providing recommendations on diversity and equity in the cannabis industry. OSE is also responsible for administering two programs:

- the CRRF, which is funded by cannabis sales tax revenue and provides funding to local jurisdictions to support community-based initiatives that benefit low-income communities and communities disproportionately affected by cannabis criminalization; and

- the Social Equity Partnership Grant Program, which promotes qualifying partnerships between operational cannabis licensees and social equity licensees that support or advise social equity licensees in training, mentorship, or shared commercial space or equipment.

2. Licensing Process and Estimated Growth in Licenses Issued

One of MCA’s primary functions is to ensure access to medical and adult-use cannabis through the issuance of licenses and fairly priced cannabis within the State. Chapters 254 and 255 established the major provisions of the business licensing process, including fees, number of licensing rounds and awards, timing of application processes and awards, and applicant eligibility requirements and criteria. MCA issues three categories of licenses: growers; processors; and dispensaries. MCA is authorized to issue a maximum number of licenses but is not required to issue licenses to all applicants.

Medical Cannabis License Conversions

The first licenses were granted to medical cannabis businesses that converted their licenses. Upon the legalization of adult-use cannabis, MCA was tasked with converting existing medical cannabis licenses to cannabis business licenses by July 1, 2023, after the payment or entry into an installment agreement to pay a one-time conversion fee. If a medical licensee did not convert, they were required to cease operations by July 1, 2023.

License Application and Lottery Process

To issue licenses, applicants must follow MCA’s license application and lottery process. To apply for a license, individuals must provide the following requirements:

- a detailed operational plan for safe, secure, and effective cannabis cultivation, manufacture, or dispense;
- a business plan demonstrating business ability and experience; and
- a detailed diversity plan.

An individual may only be included in one application per license type per licensing round and a maximum of two applications across all license categories in any licensing round. Applications for licenses are reviewed on a pass-fail basis, and any applicant that meets the minimum qualifications for licensure are placed in a randomized lottery.

A separate lottery is conducted by county for dispensaries and by region for growers and processors. For both types of licenses, applicants are limited to one application, and MCA will conduct a lottery for each county in which the number of eligible applicants exceeds the number of licenses. For dispensaries, the maximum number of licenses is based on population and market demand within each county, and each county will have at least one additional dispensary license for the first licensing round. Applicants selected in the lottery will receive a conditional license

that is valid for 18 months, during which they must complete a supplemental application including verifying all information, conducting background investigations, identifying and demonstrating legal control of a physical location, and passing all inspections.

First Round of Licensure Awards

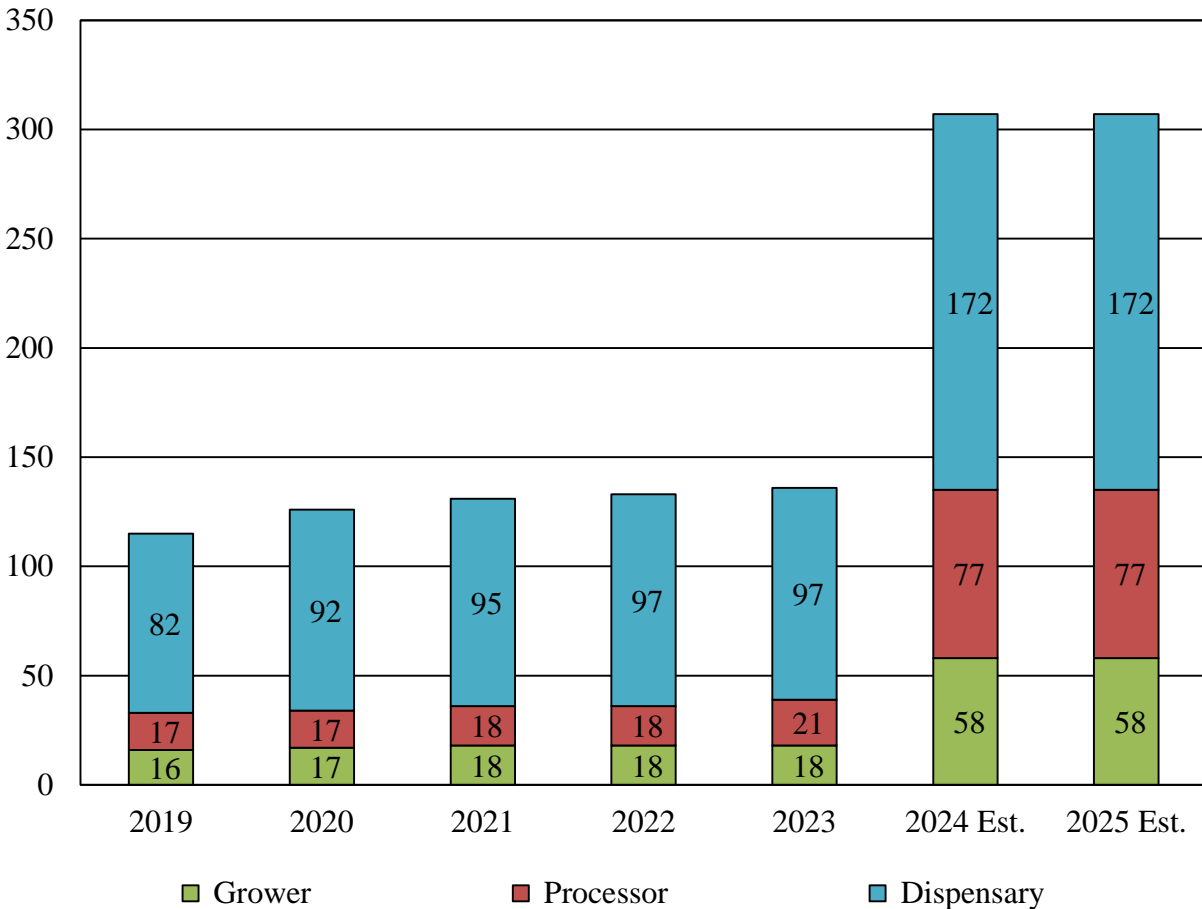
The first licensing round for all business categories was only open for social equity applicants and closed on December 12, 2023. To qualify, at least 65% ownership and control must be held by one or more individuals who meet certain requirements determined by OSE, including having lived and attended a public school in a disproportionately impacted area for at least five years and attended for at least two years a four-year institution of higher education in Maryland where at least 40% of students are eligible for a Pell Grant. Applicants selected through the lottery system will be granted licenses in early calendar 2024.

On February 9, 2024, MCA notified all 1,708 applicants as to whether their application met the minimum requirements for licensing and would be eligible for the license lottery. Over 85% of submitted applications met the minimum qualifications and will be entered in the lottery. MCA is conducting a records review process for failing applicants that will be ongoing from February 15 to February 29, as authorized under MCA regulations. MCA is issuing up to 179 licenses in the first round of licensure, as authorized under Chapters 254 and 255. The lottery process will be held following the completion of the records review. After 179 applicants are selected through the lottery process, MCA will conduct a review of the selected applicants and begin to issue conditional awards on a rolling basis. MCA anticipates that the process of reviewing and issuing conditional awards will likely take 45 to 60 days. This review will consist of a financial review and criminal history records check, among other things. If additional applicants need to be selected due to a certain number of applicants being unable to be moved to a conditional license status following the review, MCA may conduct additional drawings from the initial lottery pool to make those selections.

Estimated Increase in Licenses Issued

Exhibit 3 shows the expected increase in each type of license prior to and after adult-use legalization. As of January 8, 2024, there are a total of 169 licenses, with 96 dispensary licenses, 23 processor licenses, 18 grower licenses, and 32 ancillary businesses. Out of the 32 ancillary businesses, 5 are independent testing labs. The first application round is estimated to more than double the number of cannabis businesses in the State, with an allotted total of 179 licenses, including 83 dispensary, 56 processor, and 40 grower licenses. As previously described, MCA is currently in the process of awarding these licenses. Since MCA was established in calendar 2023, the figures for calendar 2019 through 2023 are mainly demonstrative of the licenses issued under MMCC.

Exhibit 3
Growth in Licenses Issued by Maryland Cannabis Administration
Calendar 2019-2025 Est.



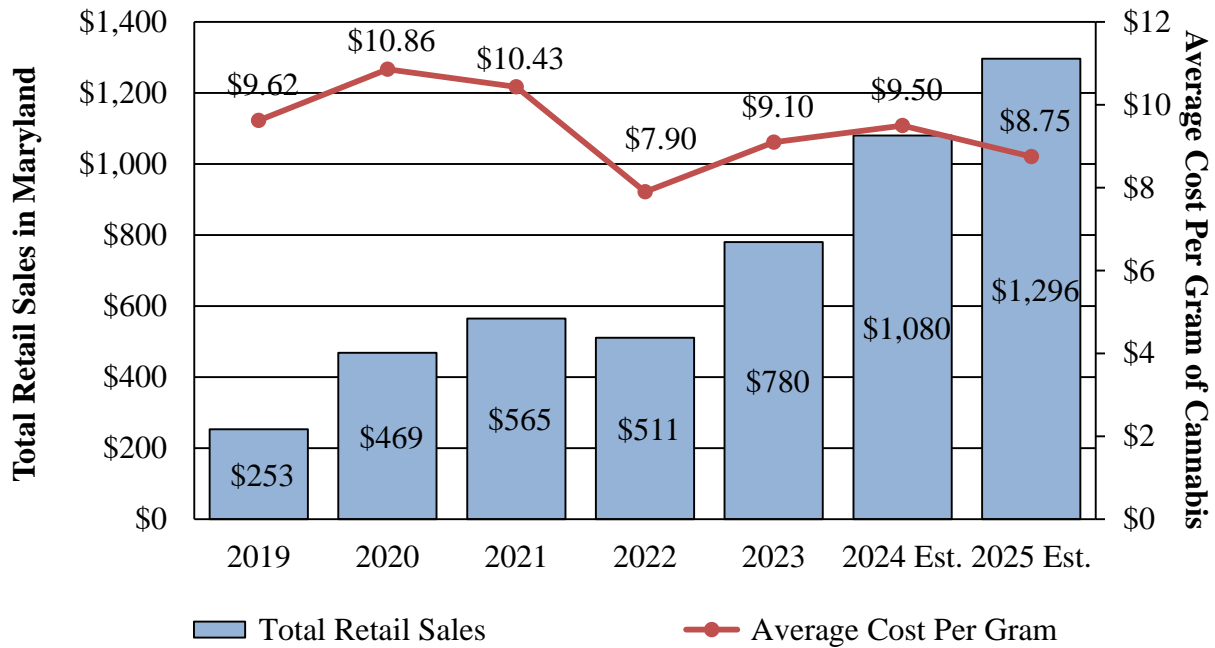
Source: Department of Budget and Management; Maryland Cannabis Administration

MCA is required to begin issuing a second round of licenses beginning after May 1, 2024. In considering if the second round of licenses will be limited to social equity applicants, MCA will consider the findings of a disparity study to consider whether remedial measures are necessary. The disparity study is conducted by the Maryland Department of Transportation (MDOT) and will be combined into the statewide study that is currently being conducted. MCA’s role in the disparity study is to assist with data collection. Once the disparity study is finalized, MDOT; the Office of the Attorney General; and the Governor’s Office of Small, Minority & Women Business Affairs will evaluate the study and the results of the first licensing round to determine whether remedial measures are necessary for the second round of licensure awards. If remedial measures are determined to be needed, MCA will need to include race- and gender-conscious licensing.

3. Increase in Cannabis Sales and Decrease in Cost Per Gram of Cannabis

MCA also aims to provide affordable cannabis to individuals. Adult-use cannabis is subject to a 9% sales and use tax rate. **Exhibit 4** provides information on the total retail sales and average cost of cannabis trends. Total retail sales in Maryland have increased since adult-use legalization and are expected to reach \$1.3 billion in calendar 2025. The average cost per gram of cannabis shows a fluctuating trend throughout the years and is expected to increase from \$7.90 in calendar 2022 to \$9.50 in calendar 2024, then decrease to \$8.75 in calendar 2025. According to MCA data, as of January 8, 2024, the average cost per gram is \$9.21.

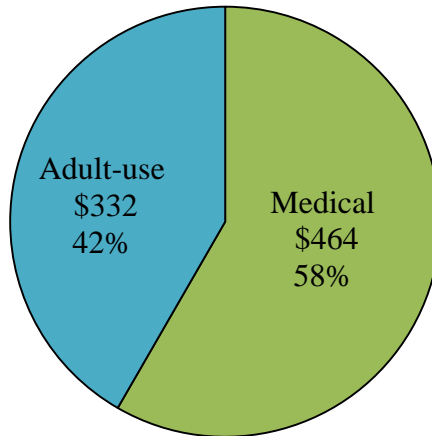
Exhibit 4
Total Retail Sales and Average Cost Per Gram of Cannabis
Calendar 2019-2025 Est.
(Sales \$ in Millions)



Source: Department of Budget and Management

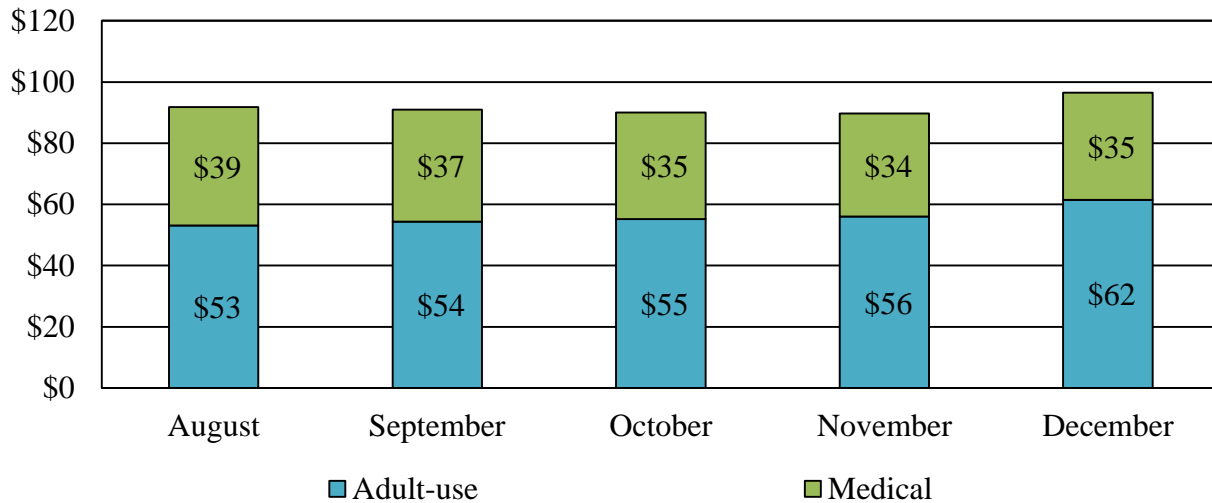
Exhibit 5 shows the cumulative year-to-date total of medical and adult-use cannabis, while **Exhibit 6** shows the monthly market sales of medical and adult-use cannabis from August 2023 to December 2023. In calendar 2023, medical cannabis sales totaled \$464 million, while adult-use cannabis sales totaled \$332 million. Medical cannabis sales remained stable, ranging between \$34 million and \$39 million each month during this time. Since the start of sales of adult-use cannabis in July 2023, monthly sales increased steadily from \$53 million in August 2023 to \$62 million in December 2023. The combined calendar 2023 sales of medical and adult-use cannabis totaled \$796 million.

Exhibit 5
Cumulative Market Sales in Medical and Adult-use Cannabis
Calendar 2023
(\$ in Millions)



Source: Maryland Cannabis Administration

Exhibit 6
Monthly Market Sales in Medical and Adult-use Cannabis
August to December 2023
(\$ in Millions)



Source: Maryland Cannabis Administration, Department of Legislative Services

Operating Budget Recommended Actions

1. Concur with Governor's allowance.

**Appendix 1
Object/Fund Difference Report
Maryland Cannabis Administration**

<u>Object/Fund</u>	<u>FY 23 Actual</u>	<u>FY 24 Working Appropriation</u>	<u>FY 25 Allowance</u>	<u>FY 24 - FY 25 Amount Change</u>	<u>Percent Change</u>
Positions					
01 Regular	0.00	110.00	110.00	0.00	0%
02 Contractual	0.00	0.00	6.00	6.00	N/A
Total Positions	0.00	110.00	116.00	6.00	5.5%
Objects					
01 Salaries and Wages	\$ 0	\$ 11,103,995	\$ 11,238,503	\$ 134,508	1.2%
02 Technical and Special Fees	0	0	566,655	566,655	N/A
03 Communication	0	145,452	160,120	14,668	10.1%
04 Travel	0	271,158	207,698	-63,460	-23.4%
07 Motor Vehicles	0	434,599	53,760	-380,839	-87.6%
08 Contractual Services	0	9,520,426	10,542,373	1,021,947	10.7%
09 Supplies and Materials	0	52,287	167,109	114,822	219.6%
10 Equipment – Replacement	0	11,752	11,752	0	0%
11 Equipment – Additional	0	356,249	316,217	-40,032	-11.2%
12 Grants, Subsidies, and Contributions	0	3,250,000	7,911,145	4,661,145	143.4%
13 Fixed Charges	0	448,691	955,027	506,336	112.8%
Total Objects	\$ 0	\$ 25,594,609	\$ 32,130,359	\$ 6,535,750	25.5%
Funds					
01 General Fund	\$ 0	\$ 2,000,000	\$ 5,000,000	\$ 3,000,000	150.0%
03 Special Fund	0	23,594,609	27,130,359	3,535,750	15.0%
Total Funds	\$ 0	\$ 25,594,609	\$ 32,130,359	\$ 6,535,750	25.5%

Note: The fiscal 2024 appropriation does not include deficiencies. The fiscal 2025 allowance does not include salary adjustments budgeted within the Department of Budget and Management.