

Department of Legislative Services
 Maryland General Assembly
 2025 Session

FISCAL AND POLICY NOTE
 Third Reader - Revised

House Bill 992
 Economic Matters

(Delegate Korman)

Finance

Business Regulation - Maryland Franchise Registration and Disclosure Law -
 Alterations (Franchise Reform Act)

This bill alters the time periods within which specified legal actions may be taken by the Securities Commissioner in the Office of the Attorney General (OAG) or by a franchisee under the Maryland Franchise Registration and Disclosure Law. Among other provisions, the bill also (1) specifies rights of association for franchisees and (2) requires the Securities Commissioner to establish a pilot program to expedite the review of franchise registration renewal applications, as specified, and by September 30, 2030, submit a report with certain information to the Senate Finance Committee and the House Economic Matters Committee. **The bill’s provisions related to the pilot program terminate September 30, 2031.**

Fiscal Summary

State Effect: Special fund expenditures for OAG increase by approximately \$206,000 in FY 2026 for staff; future years reflect annualization and inflation. Revenues are not affected.

(in dollars)	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030
Revenues	\$0	\$0	\$0	\$0	\$0
SF Expenditure	205,900	247,900	258,800	270,300	281,900
Net Effect	(\$205,900)	(\$247,900)	(\$258,800)	(\$270,300)	(\$281,900)

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

Local Effect: This bill does not materially affect local government operations or finances.

Small Business Effect: Potential meaningful.

Analysis

Bill Summary/Current Law:

Maryland Franchise Registration and Disclosure Law – Generally

The Maryland Franchise Registration and Disclosure Law (Title 14, Subtitle 2 of the Business Regulation Article) governs an offer to sell or sale of a franchise if (1) the franchisee must pay a franchise fee of more than \$100 and (2) the offeree or franchisee is a resident of the State; the franchised business will be or is operated in the State; the offer to sell is made in the State; or the offer to buy is accepted in the State. A franchise means an expressed or implied, oral or written agreement in which (1) a purchaser is granted the right to engage in the business of offering, selling, or distributing goods or services under a marketing plan or system prescribed in substantial part by the franchisor; (2) the operation of the business under the marketing plan or system is associated substantially with the trademark, service mark, trade name, logotype, advertising, or other commercial symbol that designates the franchisor or its affiliate; and (3) the purchaser must pay, directly or indirectly, a franchise fee. The Maryland Franchise Law is enforced by the OAG Securities Commissioner.

Enforcement Remedies

Under current law, whenever the commissioner finds that a person has violated or is about to violate the applicable statute or a regulation adopted or order passed under it, the commissioner may (1) order the person to cease and desist from the further offer to sell or sale of the franchise or (2) sue in circuit court to enjoin the violation or enforce the statute or the regulation or order. Statute includes additional specifications regarding the court procedures. Under current law, the commissioner may not exercise these powers more than *three* years after the violation occurs. The bill extends this time period to *five* years.

Civil Liability

A person who sells or grants a franchise is civilly liable to the person who buys or is granted a franchise if the person who sells or grants a franchise offers to sell or sells a franchise, as further specified. The person who buys or is granted a franchise may sue to recover damages sustained by the grant of the franchise. Under current law, an action must be brought within *three* years after the grant of the franchise. The bill extends the applicable time period to the earlier of (1) *five* years after the grant of the franchise *or* (2) the later of *three* years after the grant of the franchise or *two* years after the date the franchise opened to the public.

Franchisee's Right of Free Association

The bill specifies that a franchisor may not, directly or indirectly, through any officer, agent or employee (1) restrict or inhibit the right of a franchisee to join a trade association consisting of other franchisees of the same franchise or (2) prohibit the right of free association among franchisees for any lawful purpose. A violator may be sued in circuit court for temporary or permanent injunctive relief; damages, if any; and costs of the suit, including reasonable attorney's fees. The injunctive relief may be sought from the circuit court in the county where the individual who is alleged to be in violation resides or where the franchise affected by the violation conducts business. The plaintiff may not be required to allege or prove actual damages suffered to obtain injunctive relief. An action must be brought within the earlier of (1) two years after the alleged violation occurred or (2) one year after the discovery by the plaintiff of the facts of the alleged violation.

Pilot Program to Expedite the Review of Franchise Registration Renewal

Franchise Renewal Registration: Generally, under current law, a registration expires on the first anniversary of its effective date, unless registration of an offer of a franchise is renewed for a one-year term. The Securities Commissioner by regulation or order may set a different term of registration. Before the registration expires, the registrant periodically may renew it for an additional one-year term, if the registrant (1) at least 15 business days before the expiration of registration files with the Securities Commissioner a renewal application and a prospectus; (2) otherwise is entitled to be registered; and (3) pays a renewal fee of \$250. The Securities Commissioner by order may allow a registrant to submit a renewal application after the fifteenth business day before expiration of the registration. Unless a stop order or other order is in effect, renewal of the registration of the offer of a franchise automatically takes effect at noon on the day when the previous registration is due to expire, or an earlier time set by the Securities Commissioner.

Pilot Program: The bill requires the Securities Commissioner to establish a pilot program to expedite the review of the franchise registration renewal application filed in accordance with statute if a registrant, no later than 30 calendar days after the end of the registrant's fiscal year, files with the Securities Commissioner (1) a renewal application on the form the Securities Commissioner requires; (2) a prospectus; (3) an unaudited financial statement; and (4) documentation of any material changes in the financial condition of the registrant from the date of the most recent audited financial statement.

State Expenditures: OAG anticipates that the bill's provisions specifying the rights of association of a franchisee, establishing the pilot program, and extending the period of time during which the Securities Commissioner may exercise its enforcement powers require additional staff. Specifically, OAG advises that one assistant Attorney General and one investigator are needed. Accordingly, special fund expenditures increase by

\$205,907 in fiscal 2026, which accounts for the bill’s October 1, 2025 effective date. This estimate includes salaries, fringe benefits, one-time start-up costs, and ongoing operating expenses.

Positions	2.0
Salaries and Fringe Benefits	\$191,169
Operating Expenses	<u>14,738</u>
Total FY 2026 State Expenditures	\$205,907

Future year expenditures reflect full salaries with annual increases and employee turnover as well as annual increases in ongoing operating expenses. OAG indicates that 893 franchise registration renewals were processed in fiscal 2024.

Small Business Effect: Franchisees that are small businesses may meaningfully benefit from the bill’s requirements related to (1) a longer period of time to bring a civil action for damages against a franchisor and (2) the pilot program expediting the review of the franchise registration renewal application.

Additional Information

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

Designated Cross File: None.

Information Source(s): Office of the Attorney General (Securities Division); Judiciary (Administrative Office of the Courts); Department of Legislative Services

Fiscal Note History: First Reader - February 19, 2025
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Analysis by: Joanne E. Tetlow

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