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Maryland General Assembly
2026 Session

FISCAL AND POLICY NOTE
Third Reader - Revised

Senate Bill 597

(Senator Hester, *et al.*)

Education, Energy, and the Environment

Appropriations

Higher Education - Maryland Artificial Intelligence Partnership

This bill (1) establishes the Maryland Artificial Intelligence (AI) Partnership in the University System of Maryland (USM) to develop a strategic plan and coordinate AI initiatives; (2) requires the partnership to establish Maryland Technology Extension Hubs; (3) establishes an AI Incubation Lab in USM in coordination with the Department of Information Technology (DoIT) and subject to a memorandum of understanding (MOU) with the Department of Budget and Management (DBM) to assist State agencies to accelerate the responsible use of AI; (4) requires Morgan State University's (MSU) Center for Equitable AI and Machine Learning Systems to support State agencies on questions relating to productive and ethical use of AI; (5) authorizes the Governor's AI Subcabinet to request research from the center; and (6) establishes the AI Public Service Fellowship in USM. **The bill takes effect July 1, 2026.**

Fiscal Summary

State Effect: General fund expenditures at USM increase by an indeterminate but significant amount beginning in FY 2027 to establish the partnership, hubs, lab, and fellowship, as discussed below. To the extent DBM authorizes agencies to repurpose funds to support the fellowship, State funding priorities are affected and expenditures needed to establish the fellowship may be offset. General fund expenditures also increase by \$123,300 beginning in FY 2027 for staff at DoIT to support the lab. MSU can likely conduct research as may be requested under the bill with existing resources. Higher education revenues and expenditures increase to the extent the Maryland AI Partnership applies for and receives external funding (and such funding may at least partially offset general fund expenditures needed to support the partnership and hubs).

Local Effect: Local workforce development boards and locally funded community colleges may collaborate with the Maryland AI Partnership or participate in

Maryland Technology Extension Hub activities; however, participation is not required, and any direct effect on local revenues or expenditures cannot be reliably estimated.

Small Business Effect: Minimal.

Analysis

Bill Summary:

Maryland Artificial Intelligence Partnership

The Maryland AI Partnership in USM must (1) connect, accelerate, and scale AI initiatives; (2) leverage resources to increase the State's AI-trained workforce and to integrate the use of AI in State government; (3) identify and pursue funding opportunities across all resources, including federal, State, industry, and philanthropic entities; and (4) establish Maryland Technology Extension Hubs in accordance with the bill.

The bill specifies that there is a director in the partnership and requires the partnership to consult with State agencies, institutions of higher education in Maryland, the Maryland Small Business Development Center, and local workforce development boards.

The partnership must develop, by December 1, 2026, a strategic plan that includes (1) metrics for the goals of increasing the core areas of AI literacy, workforce development, business development, and research and innovation; (2) a business plan and timeline for the development of hubs, including necessary funding and partnerships, and how to provide AI skills training to individuals at little or no cost; (3) a business plan and timeline for the development of the AI Incubation Lab; (4) an analysis of scholarship and fellowship needs and opportunities to expand access and workforce experience opportunities in AI; and (5) a business plan and model for the partnership to ensure sustained impact. Annually beginning December 1, 2027, the partnership must submit a progress report to the Governor and General Assembly.

Maryland Technology Extension Hubs

The Maryland AI Partnership must establish Maryland Technology Extension Hubs in strategic locations to (1) act as a single point of contact to connect small businesses with critical AI resources; (2) partner with organizations, including a community college, local employers, small business associations, and community organizers; and (3) facilitate remote, cloud-based access to critical infrastructure, including leveraging the significant computing power of colleges and universities. To the extent consistent and practicable with

its strategic priorities and resources, the Maryland Department of Labor may collaborate with the partnership on establishing the hubs.

By December 15, 2027, the bill requires that there be, established on a pilot basis, at least one hub in each of three regions of the State.

Artificial Intelligence Incubation Lab

Subject to an MOU between USM and DBM, the bill establishes the AI Incubation Lab in USM to assist State agencies to accelerate the responsible use of AI – specifically by helping State agencies to discover, develop, and apply prototypes and manage risk of AI solutions.

To the extent practicable, DoIT must provide policy guidance and support for integrating the work of the lab into State agencies. The lab may consult with the Governor’s AI Subcabinet.

Research Coordination

The Center for Equitable AI and Machine Learning Systems at MSU is required to serve as a statewide resource and coordinating hub to support State agencies on the productive, secure, and ethical use of AI in the State.

Annually by December 1, the bill authorizes the Governor’s AI Subcabinet to request that the center complete research. If such a request is made, the center must coordinate and lead the research, collaborate with other entities as needed, summarize the research conducted, and summarize any conclusions or recommendations resulting from the research. By December 1 of the year following any research request, the center must submit a report, as specified, to the Governor’s AI Subcabinet and the Joint Committee on Cybersecurity, Information Technology, and Biotechnology.

Artificial Intelligence Public Service Fellowship

The bill establishes the AI Public Service Fellowship in USM and specifies that the fellowship is in alignment with the Maryland State AI Strategic Plan. The purpose of the fellowship is to match students enrolled in public institutions of higher education with State agencies to address AI projects. The fellowship may include a mechanism by which a State agency, with the approval of DBM, may repurpose funds to support the fellowship. USM must consult with DBM and the Governor’s AI Subcabinet to implement the fellowship.

Current Law: For additional information on the status of AI in the nation and State, including governance of AI at the State level, please see the **Appendix – Artificial Intelligence**.

State Expenditures: General fund expenditures increase significantly beginning in fiscal 2027; a portion of these costs is readily quantified at \$123,297 beginning in fiscal 2027 for assumed staffing needs at DoIT. Additional significant expenditures, likely totaling at least \$500,000 for the partnership and hubs alone (with additional indeterminate expenditures for the lab and fellowship) are assumed for USM beginning in fiscal 2027. General fund support is likely needed to cover a meaningful portion of such costs, although USM costs may be partially defrayed by funding from other revenue streams in the out-years.

While the bill expressly authorizes the Maryland AI Partnership to “pursue funding sources across all resources, including federal, State, industry, and philanthropic entities,” this analysis assumes that general fund support is needed to complete the early activities specified in the bill, including creating a strategic plan by December 2026 and establishing three hubs across the State by December 2027. Such costs are potentially significant. The University of Maryland, College Park Campus (UMCP) advises that new centers and incubators take several years to raise new funding and that such funding may not fully cover all costs, particularly in the early stages. Additionally, UMCP advises that the current federal funding environment has led to increased competition for federal sponsored funding, industry research and development, and philanthropic support.

Maryland Artificial Intelligence Partnership and Maryland Technology Extension Hubs

Under one set of assumptions, the University of Maryland Baltimore County (UMBC) estimates at least an additional \$500,000 in annual expenditures throughout USM beginning in fiscal 2027 to establish the Maryland AI Partnership and to support the establishment of Maryland Technology Extension Hubs in each of three regions of the State by December 15, 2027. These expenditures reflect the cost of hiring, within UMBC, one full-time employee to act as program coordinator (or program director, as specified in the bill), three full-time graduate assistants to complete the needed strategic plan and the work associated with establishing regional hubs in the State (with one such hub at UMBC), and part-time student interns to support the work of the partnership. The estimate also includes \$55,000 in annual contractual service costs for cloud-based systems to enable remote access to AI tools at hubs. Also, UMBC contemplates at least \$100,000 in costs for partner USM institutions in other regions to conduct the work of establishing two more hubs elsewhere in the State.

UMBC’s estimates of cost are illustrative of the scale of impact likely required to establish the partnership and hubs but are not necessarily a comprehensive accounting of impact. To

the extent other USM institutions may contribute to the Maryland AI Partnership as conceived by the bill (either as a central driver or peripheral sponsor of hubs), total costs may grow proportionally.

MD Labor can, to the extent consistent and practicable with its strategic priorities and resources, consult on the establishment of hubs with existing resources.

Artificial Intelligence Incubation Lab

Higher education expenditures at USM also increase, by an indeterminate but potentially significant amount, to establish the AI Incubation Lab. Assuming the lab is engaged in significant novel research and development efforts, significant staffing and equipment costs may be necessary – on a similar scale to those needed to establish the Maryland AI Partnership in USM. However, should the AI Incubation Lab merely connect existing research projects and resources with State agencies, USM may be able to leverage existing resources to establish the lab. For example, Towson University (TU) advises that its existing AI Institute may already fulfill some of the functions required of the AI Incubation Lab contemplated by the bill. The AI Clinic, housed within TU’s AI Institute, already helps local small business community organizations and schools adopt AI technologies safely and effectively.

Under either scenario, DoIT advises that providing policy guidance and support for integrating the lab’s work into State agencies necessitates hiring one new AI project manager. Thus, in addition to the significant indeterminate general fund and higher education expenditures at USM needed to establish the lab described above, general fund staffing expenditures increase by \$123,297 at DoIT in fiscal 2027. This accounts for a 90-day start-up delay from the bill’s July 1, 2026 effective date for staff at DoIT associated with supporting the AI Incubation Lab. This estimate includes a salary, fringe benefits, one-time start-up costs, and ongoing operating expenses.

Position	1.0
Salary and Fringe Benefits	\$114,156
Operating Expenses	<u>9,141</u>
FY 2027 DoIT Staffing Expenditures	\$123,297

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

This analysis assumes DBM can negotiate and enter into an MOU with USM using existing resources.

Artificial Intelligence Public Service Fellowship

Higher education expenditures at USM and general and/or special fund expenditures at partner State agencies likely increase to establish the Artificial Intelligence Public Service Fellowship. The extent of expenditure increase largely depends on the nature of student involvement in State AI projects. Exact costs will vary considerably depending on details like whether fellows receive compensation for their work on State projects, resources needed to adequately facilitate State AI projects undertaken by fellows, and administrative considerations, especially should the fellowship span multiple USM institutions and State agencies.

To the extent DBM authorizes State agencies to repurpose funds to support the fellowship, such costs are defrayed; however, the amount of State funds available to be repurposed for an AI fellowship is unknown. To the extent that the fellowship is able to utilize the resources of the Maryland AI Partnership as outlined in its AI strategic plan, costs are further offset. However, the exact parameters of any scholarship or fellowship recommendations in the AI plan to be developed by the partnership are unknown. This analysis assumes fellows are not budgeted as new State positions.

Research Coordination at Morgan State University

MSU advises that it can likely manage the bill's additional responsibilities with existing resources. To the extent research requests are extensive, time consuming, or require significant coordination and partnership beyond the existing resources of the center, higher education expenditures at MSU may increase to support research and complete required reports. However, this analysis assumes that the Governor's AI Subcabinet considers the capacities of MSU's Center for Equitable AI and Machine Learning Systems and the one-year reporting timeframe when making research requests such that the requests are feasible with existing resources. This analysis further assumes that the Governor's AI Subcabinet can formulate research requests with existing resources.

Additional Information

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

Designated Cross File: None.

Information Source(s): Baltimore City Community College; Department of Commerce; Department of Information Technology; Maryland Department of Labor; Maryland Higher

Education Commission; Morgan State University; University System of Maryland;
Department of Legislative Services

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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.