Revenue Estimates and Reality

By Richard P. Howe Jr

A number of stories describing lower-than-anticipated Massachusetts revenue collections have appeared in the media recently. On September 7, 2016, the Boston Globe (“State revenue growth is slower than expected”) reported that state revenue had only grown 0.5 percent from August 2015 to August 2016 and that these weak numbers are expected to prompt Governor Charlie Baker to make emergency budget cuts by mid-October. While the main mission of the registry of deeds is to be the official custodian of land ownership records, the office also collects a substantial amount of revenue for the Commonwealth of Massachusetts. Because the revenue is derived from one of the largest segments of our economy (real estate), registry revenue trends serve as an indicator of the direction of overall state tax collections and of the broader economy.

The two primary sources of revenue collected at the registry of deeds are recording fees and the deeds excise tax. Recording fees, which were last increased in 2003, are $75 (including surcharges) for most documents, although deeds are $125 and mortgages are $175. The deeds excise tax is assessed at a rate of $2.28 per $500 of sales price. The tax is paid exclusively by the seller by purchasing a revenue stamp and affixing it to the deed when it is recorded at the registry. In addition to recording fees and the deeds excise tax, the registry also collects surcharges for the state’s Community Preservation Act matching fund (usually $20 per document) and the Registry of Deeds Technology fund ($5 per document).

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At Middlesex North, total revenue collected has varied substantially through the years. As the housing market soared back in 2003 (which was also the year recording fees were increased by the governor and the legislature), the registry collected $26.1 million. From there, collections slid gradually until the housing market collapsed in 2008. That year, the registry collected just $12.2 million in revenue. Revenue collections, and the housing market, have slowly recovered in the past few years, with $13.7 million collected in 2014 and $15.1 million in 2015.

More recently, the total revenue collected in July 2016 ($1,542,448) was 24 percent less than the amount collected in July 2015 ($2,020,081). However, August 2016’s revenue ($1,763,020) was 24 percent higher than that from August 2015 ($1,424,049). In other words, real estate-related revenue collection is in a state of flux.

There are some interesting implications from the August 2016 revenue numbers. There was a big jump in the amount of recording fees collected compared to the previous month ($527,805 in August versus $427,080 in July) which is largely attributable to a 27 percent increase in the number of mortgages that were recorded. The 1304 mortgages recorded in August 2016 were the most in any month in the past two years. Mortgages have a high recording fee ($175), plus they almost always generate the recording of ancillary documents like municipal lien certificates, assignments, and discharges, so there is a multiplier effect on our revenue for every mortgage recorded.

When it comes to mortgages, the extent to which the number of mortgages recorded (1304) exceeds the number of deeds (823) yields the number of mortgage refinancings underway. With mortgage interest rates relatively stable, this big increase in the number of refinancings might indicate that homeowners expect the Fed to raise rates soon, so they are jumping into the refinancing market now. Conversely, if interest rates rise, the volume of refinancings will slow.

The number of deeds recorded in August was also the highest of any month in the past two years. But the deeds excise tax collected ($1,076,488) while higher than July ($881,950), was only the sixth highest in the past 26 months. This suggests that the rise in home prices might be slowing. It’s also possible that buyers have concluded that the priciest homes might be overpriced, so they are turning to more modest houses that they find affordable, even if they need substantial renovations.

Overall, revenue collections at the registry of deeds suggest that the real estate market is proceeding on a slow, slightly upward trajectory, with no signs of a collapse, but no signs of a boom, either.
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