Legislative Post Audit Performance Audit Report Highlights

Highlights

State Employee Residence: Assessing Potential Increases in Revenues by Requiring State Employees to Reside in Kansas

Report Highlights

February 2012 ● R-12-003

Audit Concern

Legislators were interested in knowing how much additional revenue a residency requirement would generate and what the drawbacks might be.

Other Relevant Facts for Question1

Some states have adopted residency requirements or hiring preferences for state employees. Of the states we reviewed, most make exceptions to this requirement, such as exempting university employees.

In general, courts have found that residency requirements are lawful, as long as there is a rational basis for the residency requirement. Courts will also scrutinize any time periods required to establish residency.

Estimated Potential Revenues as a Result of This Audit:

Annual Revenues: $2 million

Audit Question 1: How much revenue could be generated by requiring state and school district employees to live in Kansas, and what effect would those requirements have on the workforce?

AUDIT ANSWERS and KEY FINDINGS:

- We estimate that about 3,600 state and school district employees live outside of Kansas.
  - Overall, out-of-state employees represent an estimated 3% of state and school district employees.
  - Most out-of-state employees live in Missouri or Oklahoma.

- Imposing a residency requirement could generate approximately $2 million a year in state and local tax revenues, assuming some out-of-state employees moved to Kansas.
  - A residency requirement will generate meaningful increases in tax revenues only if out-of-state employees move to Kansas.
  - If 25% of the out-of-state employees move to Kansas to comply with a residency requirement, we estimate they would pay approximately $1.4 million a year in new taxes, $900,000 of which would go to the state.
  - A residency requirement could also stimulate additional economic activity, creating additional jobs and generating up to $650,000 in additional tax revenues (assuming 25% of the out-of-state employees move to Kansas).
  - Advocates of residency requirements also tout intangible benefits such as employees building ties to the community in which they work.

- In order to generate meaningful tax revenues, a residency requirement would need to be implemented aggressively which would significantly affect out-of-state employees.
  - Implementing a residency requirement that goes into effect in the near term would generate potential revenues more quickly but would significantly affect employees. Out-of-state employees would have to move, or seek new employment.
  - Delaying implementation of a residency requirement would generate revenue less quickly, but have a smaller effect on employees.
  - Grandfathering in current out-of-state employees would remove the impact on them, but would essentially eliminate the new tax revenues.

- Adopting a residency requirement may create potential problems.
    - A residency requirement would limit the labor pool for some state agencies and school districts, and could hamper their ability to hire the best employees.
    - The state may incur additional administrative policing and enforcement costs in implementing a residency requirement.
    - Neighboring states may retaliate by adopting their own residency requirements, which could undercut the additional tax revenues.

WE RECOMMENDED

This audit had no recommendations.

Agency Responses: The Kansas Department of Education and Board of Regents did not contest the audit findings. The Department of Administration did not provide a written response.

HOW DO I GET AN AUDIT APPROVED?

By law, individual legislators, legislative committees, or the Governor may request an audit, but any audit work conducted by the Division must be approved by the Legislative Post Audit Committee, a 10-member committee that oversees the Division's work. Any legislator who would like to request an audit should contact the Division directly at (785) 296-3792.