PERFORMANCE AUDIT REPORT

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

A Report to the Legislative Post Audit Committee
By the Legislative Division of Post Audit
State of Kansas
February 2012

R-12-003

Legislative Post Audit Committee

Legislative Division of Post Audit

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To: Members, Legislative Post Audit Committee

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This report contains the findings, conclusions, and recommendations from our completed performance audit, *State Employee Residence: Assessing Potential Increases in Revenues by Requiring State Employees to Reside in Kansas*. We would be happy to discuss the findings or any other items presented in this report with any legislative committees, individual legislators, or other State officials.

Sincerely,

Scott Frank
Legislative Post Auditor

This audit was conducted by Alex Gard and Amy Thompson. Chris Clarke was the audit manager. If you need any additional information about the audit's findings, please contact Alex Gard at the Division's offices.

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As of July 2011, about 4% of state employees lived outside the state of Kansas (most of which lived in Missouri). These employees earn salaries in Kansas, but pay property and sales taxes in another state. Although many Kansas cities and counties have in-state residency requirements, the state currently does not.

In May 2011, New Jersey became the first state to pass a law that requires all local and state employees to reside in New Jersey. As of January 2011, about 8% of New Jersey's local and state public employees lived outside of the state. The law applies only to new hires after September 1, 2011; existing employees are exempted from the residency requirement.

Kansas legislators have expressed an interest in knowing how much additional revenue could be generated by implementing a residency requirement for both state employees and school district employees, and what the potential drawbacks might be.

This performance audit addresses the following question:

> **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 state's workforce?**

A copy of the scope statement for this audit approved by the Legislative Post Audit Committee is included in ***Appendix A.***

To answer this question, we analyzed state personnel records to estimate the number of state employees and Regents' university employees living outside of Kansas. Further, we analyzed Department of Education data to identify the number of licensed school district employees living outside of Kansas.

Using readily available tax data, we estimated the amount of property, sales, and other taxes these groups of employees would have paid had they lived in Kansas. In addition, we interviewed New Jersey officials about the benefits and drawbacks of their newly passed law. We also interviewed Kansas Office of Human Resources staff and other stakeholders about the potential effects of imposing this type of requirement on the state's workforce.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives.

We performed data reliability work on the state's personnel data obtained from the Office of Human Resources and on licensed teacher data obtained from the Department of Education. Among other things, we performed analytic test work for accuracy and completeness for each of these datasets and determined the data to be sufficiently reliable. We believe the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Our findings begin on page 5, following a brief overview of residency requirements in other states.

Overview of Residency Requirements in Other States

Some States Have Adopted Residency Requirements for State Employees

Although Kansas doesn't have a residency requirement for state employees, other states do. The most recent example is New Jersey. In 2011, New Jersey passed a law requiring its state and local employees to maintain a primary residence in the state.

We worked with National Conference of State Legislatures to identify other examples of states that have adopted residency requirements. The results are shown in ***Figure OV-1*** on page 4. Our research was not exhaustive, so there likely may be other states that have some version of a residency requirement.

As ***Figure OV-1*** shows, New Jersey is one of four states we identified that have adopted a residency requirement. Connecticut has the authority to establish requirements for certain classes of employees. In addition, we identified three other states that have adopted hiring preferences for state residents.

The figure also shows most of the states we identified also make various exceptions to the residency requirements and preferences. For example, Colorado and South Carolina have exempted some university employees. Pennsylvania has allowed for the requirements to be waived if certain circumstances are met.

In General, Courts Have Found That Residency Requirements Are Lawful As Long As Certain Criteria Are Met

In *McCarthy v. Philadelphia Civil Service Comm.* (1976), the U.S. Supreme Court stated that residency requirements were lawful conditions of employment because there was no fundamental right to government employment, and the requirements did not impede an individual's right to travel. In general, courts have looked at two parts of a residency requirement to determine its validity:

- **There must be a "rational basis" for the residency requirement.** Courts will uphold a law if the governmental entity imposing the requirement has a "rational basis" for the requirement. Examples of a rational basis courts have upheld include contributing to the tax base, residents mixing with the community, and having concerns about response times for emergency workers.

- **Courts will scrutinize any time periods required to establish residency.** As shown in ***Figure OV-1*** on page 4, some states like Hawaii require elected officials to have been a resident for three years prior to taking office. These types of requirements appear to be acceptable, as long as they have a legitimate government purpose. However, at least one court struck down a time-related component that caused different groups of employees to be treated differently and the sole purpose of the time requirement was to get employees to relocate.

Figure OV-1
Employee Residency Requirements of Selected States

State	Groups Covered	Summary of Requirements	Exceptions
States With Residency Requirements			
Hawaii	All State Employees, Elected and Appointed Officials	• Elected officials must live in the state for at least 3 years prior to taking office. • Appointed officials must live in the state for at least 1 year prior to their appointment. • State employees must relocate to the state within 30 days of their start date.	• University of Hawaii employees are exempt. • Individuals with specialized skills or knowledge can be exempted.
New Jersey	All State Employees, Local Governments, and Other Authorities of the State	• All elected officials, appointed officials and state employees, including university and school district employees must have their principal residence in New Jersey.	• Some higher education employees are exempt. • Employees who are required to work in another state are exempt. • Individuals may request exemptions based on hardship or need.
Pennsylvania	Classified State Employees	• All applicants for classified positions or for promotions within the classified system must be residents of the state.	• Some former residents who relocated to another state and who plan on moving back to the state within six months of employment are exempt. • Requirement can be waived if there is a lack of sufficiently qualified applicants.
Colorado	All Executive Agency Employees	• All executive agency employees must reside in the state.	• Certain positions are exempt from the requirements including university faculty. • Waivers are available for positions the state personnel board finds cannot be readily filled by state residents.
Connecticut (a)	All State Employees	• Residency requirements may be established for certain classes of positions.	• Classified employees are exempt.
States With Residency Hiring Preferences			
Florida	All State Employees	• Florida residents may be given preference when making hiring decisions.	• None
South Carolina	All State Employees	• State agencies must give preference to residents of the state if applicants are equally qualified.	• Higher Learning Institutions are exempt.
New Mexico	Classified State Employees	• New Mexico residents may be given preference when making hiring decisions.	• None

(a) Has the authority to enact hiring requirements
Source: LPA analysis of selected state statutes and constitutions.

Question: 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 State's Workforce?

Answer in Brief: *We estimate that 3,600 state and school district employees live outside Kansas. Imposing a residency requirement could generate approximately $2 million a year in state and local tax revenues, assuming 25% of all out-of-state employees move to Kansas. However, in order to generate meaningful revenues, a residency requirement would need to be implemented aggressively, which would significantly affect out-of-state employees. In addition, adopting a residency requirement would limit the labor pool for state agencies and could be expensive to administer. These findings are discussed in the sections that follow.*

We Estimate That 3,600 State and School District Employees Live Outside Kansas

To answer the question, we used personnel data from the Department of Education and the Department of Administration's Office of Human Resources to estimate the number of state employees (including Board of Regents' university employees) and school district employees living outside Kansas. In the case of school districts, we used the licensed teacher data to estimate the number of non-licensed staff. Our analysis is at a high-level and based on the records in the state data. We did not analyze individual persons or positions. It's also important to remember these numbers are estimates rather than actual counts. This is because sometimes records are not updated in a timely fashion.

Overall, out-of-state employees represent a small share of state and school district employees. As shown in ***Figure 1-1*** on page 6, only an estimated 3% of total state and school district employees live outside Kansas. School districts had the most total employees living out of state—an estimated 1,700 or 2% of all district employees. This makes sense because unlike state agencies, there are school districts all around the state's border. The Regents' universities had the next highest number of employees living out of state (an estimated 1,500), which is 8% of all Regents' staff. This is partly because more than half of Regents' out-of-state employees are employed by the University of Kansas Medical Center, which is located essentially on the state border. Another potential factor is distance learning at some of the universities, where the instructor doesn't have to be in the classroom.

Most out-of-state employees live in Missouri or Oklahoma. Results of our work show that an estimated 2,600 out-of-state employees live in Missouri. This makes sense due to the population and number of agencies with a presence in the Kansas City metropolitan area. Oklahoma had the next largest number of Kansas employees as residents—about 250.

Figure 1-1 Estimated Number of State and School District Employees and Their Places of Residence as of July 1, 2011			
Employee Type	Employees		
	Total	Out-of-State	
		#	%
State Agencies	24,800	400	2%
Regents' Universities (a)	19,200	1,500	8%
School Districts	76,400	1,700	2%
Total	**120,400**	**3,600**	**3%**

(a) Excludes student workers.
Source: LPA analysis of state personnel and school district data.

A small number of agencies and universities have sizable concentrations of employees who live out of state. We estimate the University of Kansas Medical Center, Rainbow Mental Health Facility, and Pittsburg State University have between 14% and 31% of their employees living out of state. By comparison, only an estimated 3% of Department of Social and Rehabilitation Services' employees live out of state.

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

In conducting this audit, we first had to determine how a residency requirement would affect tax revenues. We also had to apply some assumptions to generate an estimate. These are explained more fully below.

A residency requirement will generate meaningful increases in tax revenues only if out-of-state employees move to Kansas. Residency requirements could increase tax revenues in two ways. First, if some out-of-state employees move to Kansas, they would pay more Kansas taxes than before they moved. Second, those employees would spend more money in Kansas. This new spending would create additional jobs, which also contribute to taxes.

Both the direct tax benefits and indirect economic benefits are tied to out-of-state employees moving to the state. If instead, the out-of-state employees quit and their jobs are filled by Kansas residents, the overall tax increase is limited at best. This is because Kansas residents are already paying some income, sales and property taxes. Any increase in overall taxes is limited to the differences in income between the Kansas residents' old and new jobs.

If 25% of the out-of-state employees moved to Kansas to comply with a residency requirement, we estimate they would pay approximately $1.4 million a year in new taxes ($900,000 to the state). We assumed that only 25% of the employees would be willing to relocate. We don't know how many employees would move to keep their job. Relocating could involve buying or selling a home, changing a child's school, and having a spouse change employment. We discussed using 25% with an economist as a reasonable estimate to give a sense of the magnitude a residency requirement might have. The reader should note this is just an estimate, and different assumptions will yield different results.

The increased tax revenues are generated through potential increases in sales, property, cigarette and liquor taxes, and are shown in ***Figure 1-2*** on page 8. As the figure shows:

- **Increased sales taxes would make up the majority of the new revenues ($1.1 million).** In all likelihood, out-of-state employees already make some purchases in Kansas and pay some sales tax on those purchases. However, if the employees and their families move to Kansas, they will probably spend more money in Kansas. To account for the increased spending in Kansas, we assumed that the sales taxes paid by each employee would increase by 75%. This assumption takes into account the likelihood that these employees would still make some purchases from vendors outside of the state.

- **Property taxes make up approximately $235,000 of the increase.** Some employees would move into new homes, while others would move into existing homes or apartments. If relocating employees purchased existing homes or rented housing, no new tax revenues would be generated because they were already paid by the prior owner or tenant. An increase in property taxes would only come from new home purchases. We talked with real estate professionals who said that in 2010, about 7% of all homes sold in Kansas were new construction. We assumed the same percent of relocating employees would purchase new homes.

- **Overall, more than 60% of the increase in revenues would go to the state.** This amounts to about $900,000 in estimated additional revenues from all tax types we analyzed. Local and other recipients would receive the remaining $540,000 in additional revenues. The state share is primarily driven by sales tax (77% state), while the local share is driven by both sales and property tax.

Estimating the tax impact of a residency requirement includes a number of moving parts. Many of these factors have an unknown value at this point. As such, in our analysis we made several assumptions, which are described fully in ***Appendix B*** and summarized below:

- **We didn't specifically exempt any groups.** However, we noted that other states often have significant exemptions. If entire groups or classifications of employees are exempted from a residency requirement, it likely would significantly diminish the potential for new tax revenues.

- **We used average per-capita tax rates and for some employees had to use average salary figures.** To estimate new taxes employees who move to Kansas would generate, we used readily available information from the Department of Revenue on average per capita tax rates. For a secondary analysis, we worked with an economist at the University of Kansas' Center for Applied Economics and used actual salaries whenever possible, but had to estimate salaries for some school district staff.

- **We noted that not all generated taxes would be new to the state**. Income tax is already collected from out-of-state employees. New property taxes would only come from newly constructed homes. It is likely that some sales and other consumption taxes are already collected from out-of-state employees because many are probably already making some purchases in Kansas.

Figure 1-2
Estimated Tax Revenues That Would Be Generated If 25% of State and School District Employees Who Live Out of State Move to Kansas

Tax Category	State	Local / Other	Total
State Agencies (400 total out-of-state employees; 100 who would move)			
Sales	$81,000	$30,000	**$111,000**
Property (Vehicle, Real, & Personal)	$0	$23,000	**$23,000**
Other (Cigarette and Liquor)	$9,000	$1,000	**$10,000**
Subtotal	**$90,000**	**$54,000**	**$144,000**
Regents Universities (1,500 total out-of-state employees; 375 who would move)			
Sales	$339,000	$124,000	**$463,000**
Property (Vehicle, Real, & Personal)	$1,000	$97,000	**$98,000**
Other (Cigarette and Liquor)	$36,000	$6,000	**$42,000**
Subtotal	**$376,000**	**$227,000**	**$603,000**
School Districts (1,700 total out-of-state employees; 425 who would move)			
Sales	$391,000	$143,000	**$534,000**
Property (Vehicle, Real, & Personal)	$1,000	$112,000	**$113,000**
Other (Cigarette and Liquor)	$41,000	$7,000	**$48,000**
Subtotal	**$433,000**	**$262,000**	**$695,000**
Total	**$899,000**	**$543,000**	**$1,442,000**

Source: LPA analysis of state personnel data and school district data.

We think these assumptions are reasonable to get a good indication of how much tax revenue a residency policy might generate. However, different assumptions would give you a different answer.

A residency requirement could also stimulate some additional economic activity, creating additional jobs and generating up to $650,000 in additional tax revenues. The underlying theory is that when people move to a new location, they purchase goods and services in that new location. For example, they need food, clothing, health care, entertainment, and a variety of other goods and services. If this creates enough new demand, it will also create new jobs to fill that demand.

These indirect effects are difficult to predict. We worked with an economist at the University of Kansas' Center for Applied Economics to determine how many residual jobs could be created using our estimates. We gave him our estimates of the number of out-of-state employees, their estimated salaries, and our tax calculations and he ran the data through an economic model.

Based on his results, a residency requirement could generate up to 200 additional jobs and up to $650,000 in additional tax revenues, using our assumptions about 25% of the employees moving here. The economist's economic model projected increases in several industry areas, including food services, retail sales, and health care.

The readers should keep in mind that these are only rough estimates of the secondary economic impact of a residency requirement. The numbers should not be taken as fact. Nevertheless, they provide an idea of the magnitude of how much residual impact the residency requirement might have on the secondary labor market and on tax revenues. This all presumes 25% of the out-of-state employees would move to Kansas to keep their job. If fewer move, the impact is less, and vice versa.

In addition to increasing tax revenues, proponents of residency requirements cite a number of intangible benefits. We contacted officials in New Jersey and other states which have residency requirements to determine what the benefits and drawbacks of having such a requirement might be. Advocates in New Jersey told us that when employees live in the state in which they work, they build ties to the community and the state. That's because resident employees spend more time in the community and out-of-state employees often commute. Advocates also said keeping state jobs in the hands of state residents was a positive outcome.

In Order To Generate Meaningful Tax Revenues, a Residency Requirement Would Need To Be Implemented Aggressively, Which Would Significantly Affect Out-of-State Employees

The level of tax revenues that a residency requirement would generate and the overall impact it would have on existing employees would necessarily depend on the terms of the requirement. As noted earlier, new tax revenues only come from employees that do chose to move to Kansas.

Implementing a residency requirement that goes into effect in the near term would generate potential revenue more quickly but would significantly affect employees. As noted earlier, the potential consequences of such a policy could include uprooting families, forcing employees to sell and buy homes, having children change schools, and having spouses find new jobs. Given these consequences, it's likely that many employees would not move, and would have to seek new employment. In either case, the impact on current employees living out of state would be significant. See the profile box on page 10 for information about the implications for civil service and contractual employees.

Delaying implementation of a residency requirement would generate revenue less quickly, but have a smaller effect on employees. For example, if the effective date of a residency requirement were delayed for three to five years, the potential consequences for employees and their families that are listed above would still apply. However, these would be tempered somewhat by the additional time prior to the requirement going into effect. Employees and their families would have more time to adjust to the requirement, including searching for jobs. In this scenario, revenue gains for the state would be delayed.

Grandfathering in current out-of-state employees would remove the impact on them, but would essentially eliminate the new tax revenues. As we noted earlier, to generate meaningful new tax revenues, new taxpayers would have to move to the state. If current out-of-state employees were allowed to continue to work until they left of their own choosing, and were then replaced by a Kansan, the fiscal effect is greatly diminished.

There are two reasons for this. First, any increase in property, sales and other taxes generally would be minimal when compared with an employee relocating from out of state. This is because the Kansan presumably was already paying sales and property tax. Second, as noted earlier, the extent to which income taxes would be affected depends on the differences in income between the Kansan's old and new jobs.

Even if employees are grandfathered in, the other intangible benefits of having state jobs be in the hands of state residents would still apply. However, it may take at least a decade before all state jobs would be held by Kansas residents. That's because the average state employee workforce turnover rate is about 11% per year.

Implications for Civil Service and Contractual Employees

Current civil service and contractual employees operate under unique employment terms and conditions that likely can't be unilaterally altered. A residency requirement could be seen as a change in the terms of employment, and face legal challenges. If the residency requirement goes into effect in the near term and affects current employees, it is more likely to draw legal challenges than if the requirement applies only to future employees or the effective date is set far in the future.

We estimate there are about 500 civil service employees currently living out of state. This is 14% of our estimated 3,600 total out-of-state employees. We don't think these employees significantly affect our calculations. That's because we assumed only 25% of our total would actually move. (We weren't able to determine the number of contractual or union employees that may live out of state, so their impact is unknown.) As stated in the report, the impact of either exempting large groups of employees, or grandfathering in current employees could diminish the potential for new tax revenues.

Adopting a Residency Requirement Would Limit the Labor Pool for State Agencies and Could Be Expensive To Administer

Although residency requirements may generate revenue and provide other intangible benefits, they could also create a number of potential problems. We talked to officials in other states as well as various officials and stakeholders in Kansas about a residency requirement. They cited several potential disadvantages to having a residency requirement.

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. Without a residency requirement, the state's potential workforce is less geographically limited. A residency requirement reduces the number of potential applicants by limiting the pool to those who live in Kansas or are willing to move. It eliminates those who would be willing to commute from out of state.

As mentioned above, some state entities like Rainbow Mental Health Center, the University of Kansas Medical Center and Pittsburg State University rely heavily on people who live in Missouri to fill their workforces. Some school districts which are in close proximity to the state's borders rely on teachers who live in other states. In addition, officials from multiple universities told us that they have online or distance learning courses that are taught by faculty that do not live in Kansas. A strict residency requirement could make it more difficult for these agencies and school districts to find good candidates.

Many states have used exemptions to keep this from becoming a problem, and some states have waiver programs which allow individuals to be exempted on a case-by-case basis. Although this helps to reduce the immediate problem, if too many exemptions are written into the rule, it would undercut the potential new tax revenues. In addition, someone would have to oversee the exemptions, adding costs to the process.

The state may incur additional administrative costs in implementing a residency requirement. If a residency requirement is passed, the state will need to have staff police that requirement to ensure compliance and assess penalties on those who do not comply. The state will also need staff to implement and administer any waiver process.

We didn't attempt to quantify these administrative costs. The total number of the additional employees (and overall additional costs) will vary depending on the desired level of enforcement and the number of exceptions. For example, if the state hired two people to police and audit the new residency requirement, it likely would cost $120,000 a year in new salaries. If stricter enforcement is desired, then more personnel (and more costs) will be required.

Neighboring states may retaliate by adopting their own residency requirements, which could undercut the additional tax revenues. Residency requirements can go both ways. If Kansas adopts a residency requirement, other neighboring states may follow suit and pass similar restrictions. This could lead to the loss of jobs for Kansans who work in other states, or could require Kansans move to keep their job. In either case, the State could lose some potential tax revenues.

Conclusion

Residency requirements have the potential to increase tax revenues, but would also have consequences for employees, agencies, and school districts. Our results suggest that if 25% of the estimated 3,600 out-of-state employees moved to Kansas to keep their job (in the near term), the state and local governments could realize about $2 million in increased tax revenues and other benefits. On the other hand, if none of the employees moves, or if current employees are grandfathered in, there would not be any meaningful new revenues. However, regardless of how many employees decide to move, all out-of-state employees would be affected. Further, agencies and school districts would be affected by a diminished pool from which to hire qualified candidates, and the state would need to dedicate some resources to administering and enforcing a residency requirement. As a result, policymakers will need to weigh the potential for increased tax revenues against the impact on employees, agencies, and school districts when considering such a requirement.

APPENDIX A

Scope Statement

This appendix contains the scope statement as originally approved by the Legislative Post Audit Committee on September 27, 2011.

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

As of January 2009, about 5% of State employees lived outside the State of Kansas (most of whom lived in Missouri). These employees earn salaries in Kansas, but pay property and sales taxes in another state. Although many Kansas cities and counties have in-State residency requirements, the State currently does not.

In May 2011, New Jersey became the first state to pass a law that requires all local and state employees to reside in New Jersey. As of January 2011, about 8% of New Jersey's local and state public employees lived outside of the state. The law applies only to new hires after September 1, 2011; existing employees are exempted from the residency requirement.

Legislators have expressed an interest in knowing how much additional revenue could be generated by implementing a residency requirement for both State employees and school district employees, and what the potential drawbacks might be.

An efficiency audit of employee residence requirements would address the following 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 State's workforce?** To answer this question, we would analyze State personnel records to determine the number of State employees and Regents' university employees living outside of Kansas. Further, we would analyze Department of Education data to identify the number of certified/licensed school district employees living outside of Kansas. Using readily available tax data, we would estimate the amount of property and sales taxes these groups of employees would have paid to other states. In addition, we would interview New Jersey officials about benefits and drawbacks of their newly passed law. We would also interview Division of Personnel Services staff about the potential effects of imposing this type of requirement on the State's workforce. We would perform additional work in this area as needed.

Estimated resources: 1 staff for 10-12 weeks (plus review)

Preliminary estimate of maximum potential revenue enhancement (a): $7 million per year (including both enhancements to local and State revenue)

(a) This is a preliminary estimate intended to help the Committee select audit topics. The estimate draws on a limited analysis of readily available information. The potential revenue enhancement identified as part of a completed efficiency audit may differ from this estimate.

APPENDIX B

Detailed Methodology and List of Assumptions Made

We had to make several assumptions to estimate the total amount of revenues which would be gained by employees residing out of state moving to Kansas. This appendix details the assumptions we made for our analysis.

First, and most importantly, the only way a residency requirement would result in new tax revenues for Kansas is if out-of-state employees would move to Kansas. Only employees that are currently living out of state and move here would generate an increase in Kansas tax revenues. If the out-of-state employee quit and a Kansan took their job, Kansas would realize no new taxes (other than the difference, if any, in income tax between the Kansan's former job and this job).

We can't predict how many out-of-state employees would move to Kansas if a residency requirement was imposed. Further, a number of other variables come into play such as exemptions. We didn't specifically exempt any groups, but we noted that other states often have significant exemptions. For illustrative purposes, we used 25% to give a sense of the magnitude a residency requirement might have. The reader should note this is just an estimate, and different assumptions will yield different results.

Employees included in our analysis:

- **State Employees**: We used SHaRP payroll data to identify state employees with an out-of-state address. From those, we picked a random sample of employees, and called the agencies' personnel staff to confirm the address. We adjusted our overall estimate to factor in those records in which the address wasn't updated.
- **Regents (Universities) Employees –** We used SHaRP payroll data to identify Regents' employees with an out-of-state address. Regents' staff verified the address of all the employees we identified.
- **School District Employees–** We used licensed data on licensed school district employees from the Department of Education. We contacted a sample of districts to verify the addresses of the out-of-state licensed staff we identified, and estimate the number of non-licensed staff those districts had. As with the state agency data, we adjusted our results based on the percentage of addresses that turned out to be in Kansas rather than another state.

In the course of our work identifying out-of-state employees, we encountered results which appeared to show school district employees working in interior counties (a county separated from the state border by two or more counties), yet living out of state. We chose the three school districts with the most occurrences and called to confirm whether this was true or not. We found that all the employees had moved to Kansas, and the address field wasn't updated yet. Because it's unlikely that an employee is driving more than 2-3 counties for a job, we removed all school district and state agency jobs in interior counties from our estimates. However, because most state agencies are located in Topeka, we kept Shawnee County in our estimates of state employees. We did not make any adjustments for Regents' employees.

<u>Assumptions about out-of-state employees:</u>

We made several assumptions in our calculations:

- We assumed that 54% of the estimated employees have a spouse. This is based on marital rates reported in Census data.
- We did not factor in any children because we didn't have a good way to do so.
- We **included** both full- and part-time employees in our analyses.
- We **excluded** student workers at Regents' Universities.

<u>Assumptions about new tax revenues:</u>

Property Tax

We assumed only 7% of relocating employees would purchase a brand new home and therefore generate new property taxes. Only new construction will result in new property taxes for people who move here. If the out-of-state employee moves to Kansas and buys an existing home, Kansas won't gain any new property tax. That's because Kansas was already getting property tax from the former owner.

To estimate the number of new construction homes, we contacted real estate professionals and determined about 7% of all listings are new construction. We used that percentage, and assumed the employee and spouse would live in the same home. We assumed the rest (93%) would either purchase an existing home or occupy a rental property on which the owners were already paying property taxes.

Other Taxes

We assumed both the employee and spouse would pay vehicle tax, sales tax, cigarette and liquor taxes. We used the current average Kansas per capita tax amount and applied it to both the employee and spouse. For vehicle (property) tax, cigarette tax and liquor taxes, we assumed Kansas would gain 100% of the per capita average for each person. For sales tax, because the employee works in Kansas and spends some time here, we assumed Kansas already collects some sales tax. We also assumed, even if the employee moves here, they still may shop out of state. Therefore, we assumed Kansas would gain 75% of the per capita average sales tax for each person that would move here.

APPENDIX C

Agency Responses

On January 25, 2012, we provided a copy of the draft audit report to the Kansas Board of Regents, the Department of Administration, and the Department of Education. The responses from the Board and the Department of Education are included in this appendix. The Department of Administration chose not to respond.

Kansas state department of Education
leadership and support for student learning

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January 27, 2012

Mr. Scott Frank
Legislative Post Auditor
Legislative Division of Post Audit
800 S. W. Jackson Street, Suite 1200
Topeka, Kansas 66612-2212

Dear Mr. Frank:

Thank you for the opportunity to comment on the recommendations contained in your performance audit, *State Employee Residence: Assessing Potential Increases in Revenues by Requiring State Employees to Reside in Kansas.* Your auditors appear to have conducted a thorough analysis of information provided by the State Department of Education and local school districts concerning school district employees living outside of Kansas.

Please feel free to contact this office if we can assist you further.

Sincerely,

Dale M. Dennis

Dale M. Dennis, Deputy
Commissioner of Education

DMD:tjm

h:leg:LDPA—USD Employees Living Outside Kansas—1-27-12

KANSAS BOARD OF REGENTS

January 30, 2012

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LEGISLATIVE DIVISION
OF POST AUDIT

Scott Frank, Legislative Post Auditor
Legislative Division of Post Audit
800 SW Jackson Street, Suite 1200
Topeka, KS 66612-2212

Dear Mr. Frank,

Please accept this letter as the Board of Regents' response to the February, 2012 Performance Audit Report entitled **State Employee Residence: Assessing Potential Increases in Revenues by Requiring State Employees to Reside in Kansas**. We appreciate the opportunity to review this report and to provide feedback.

If the Legislature is interested in pursuing a policy of requiring State employees to reside in Kansas, the Board stands ready to work with the Legislature and the Governor to craft the policy so as to minimize the adverse impact it might have on the ability to recruit and retain talented and often difficult to find employees who are critical to driving discovery and innovation for this State and preparing the future workforce of Kansas.

Sincerely,

Andy Tompkins
President and CEO

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