The Cost of Living in Alaska

By Dan Robinson and Neal Fried

Alaska still one of the most expensive states

The high cost of living in Alaska is part of the state's folklore, but the stories are based on economic reality. In the state's early days, transportation costs and a limited ability to produce goods locally led to exorbitant prices for everything from housing to basic grocery items. As the state's population grew and infrastructure developed, costs moderated substantially but remained significantly higher than the national average.

In the last decade, the gap between costs in Alaska and those in the lower 48 have narrowed even more, but one of the surveys discussed in this annual cost of living article still places three Alaska cities among the nation's 20 most expensive, and the state's distance from larger markets and population centers makes it likely that costs will always be marginally higher in the 49th state.

Two kinds of cost-of-living measures

Cost-of-living measures come in two basic types. One indicates the change in the cost of living in a specific location over time. The Consumer Price Index (CPI), often referred to as the inflation rate, is the principal measure of this type. The CPI is used by landlords, workers, unions, and employers to adjust rents and salaries, among other things. The Alaska Permanent Fund Corporation uses the CPI to determine how much money must be added to the principal of the Permanent Fund to keep up with inflation.

The other type of cost-of-living measure examines cost differences among places at a specific point in time. Measures of this type can answer questions about whether it's more expensive to live in Fairbanks or Ketchikan, for example. Certain items are selected for comparison and then a survey is conducted to determine how much the items cost in different locations.

Some surveys of this type look at how much it would cost in different locations to maintain a certain standard of living. In other words, if a person can afford to live in a three bedroom home, eat out twice a week, and drive a late-model car in Boise, Idaho on an income of $40,000 a year, how much more or less would it cost to maintain the same living standards in Boston, Massachusetts? Comparisons such as these play a big role in relocation decisions. Several measures of this type will be discussed in this article.

Use measures with caution

All cost-of-living measures have shortcomings and limitations which users should recognize. Most measure price changes over time or price differences between cities by first selecting a sample of goods and services designed to represent the needs and wants of the average household or households within a specific income range. This "market basket" of goods and services generally includes housing, food, transportation, medical care, and entertainment,

among other things. Some measures compile very detailed market baskets while others compare only basic goods and services.

Because no two consumers spend their money exactly alike, however, no index can fully capture what price differences over time will mean to a household or how a household will respond to price differences between cities. For example, the average household in Homer may spend its income quite differently than the average household in Bethel, depending on the prices of various goods and services in the two cities and the availability of substitutes. Further, the spending habits of households are constantly in flux due to changing tastes, technology, marketing, and the availability of goods, but cost-of-living measures generally must assume that consumers do not adjust buying habits.

How fast are prices rising?

The Anchorage Consumer Price Index (CPI) is the most frequently used cost-of-living index in Alaska. Anchorage is one of about 80 urban communities in the country where a CPI is calculated as the long-term record of price changes. Because a CPI is not calculated for any other Alaska city, the Anchorage CPI is often used as the best substitute for a statewide inflation measure.

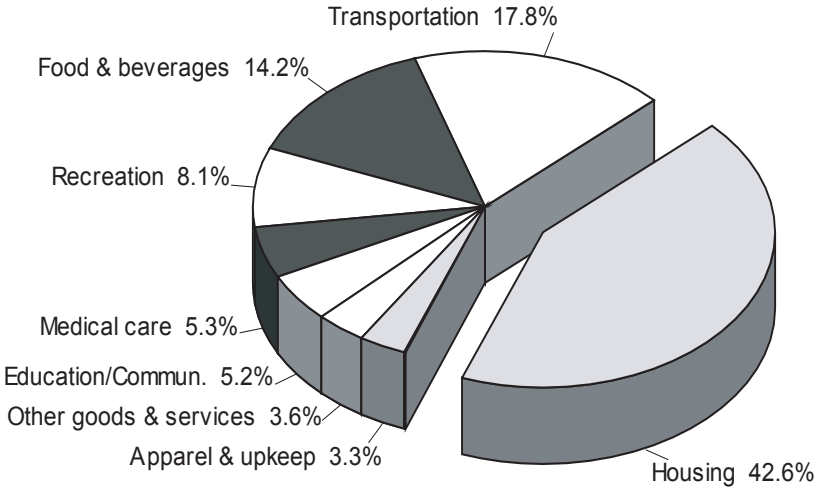
The U.S. Department of Labor's Bureau of Labor Statistics (BLS) conducts elaborate surveys of Anchorage consumers' spending habits to determine both the appropriate market basket of goods to be measured and the weight each item will have in the overall index. (See Exhibit 1.)

Exhibit 1 shows, for example, that the average Anchorage consumer spends nearly 43 percent of his or her consumption dollar on housing and 18 percent on transportation. In most categories the Anchorage weights are only slightly different from those used for the national CPI. The most notable exception is recreation, where Anchorage consumers spend 8.1 percent of their consumption dollars and national consumers spend only 5.9 percent.

BLS measures price changes by collecting prices for goods and services on a regular basis in Anchorage and other cities for which a CPI is produced. The Anchorage CPI is produced on a semi-annual basis (January-to-June and July-to-December time periods). The two semi-annual numbers are then combined to create an annual average, which is the number most often used in wage and rent contracts. (See Exhibit 2.)

All references to the CPI in this article are to the CPI-U (Consumer Price Index for all Urban Consumers). BLS also produces an index called the CPI-W (Consumer Price Index for Urban Wage Earners and Clerical Workers), which instead of containing data on all urban consumers as the CPI-U does, only contains data on urban consumers who are either wage earners or clerical workers. At the national level, the CPI-U represents about 80 percent of the population while the CPI-W represents only 40 percent. Although the CPI-W is useful in certain situations, the CPI-U is the most prominent and frequently used measure.

Component Weighting **1**
In Anchorage CPI 2003



Source: U.S. Department of Labor, Bureau of Labor Statistics

2 Consumer Price Index-Urban
U.S. City and Anchorage averages

Year	U.S. Average	Percent Change from Prev. Yr.	Anchorage Average	Percent Change from Prev. Yr.
1960	29.6		34.0	
1961	29.9	1.0	34.5	1.5
1962	30.2	1.0	34.7	0.6
1963	30.6	1.3	34.8	0.3
1964	31.0	1.3	35.0	0.6
1965	31.5	1.6	35.3	0.9
1966	32.4	2.9	36.3	2.8
1967	33.4	3.1	37.2	2.5
1968	34.8	4.2	38.1	2.4
1969	36.7	5.5	39.6	3.9
1970	38.8	5.7	41.1	3.8
1971	40.5	4.4	42.3	2.9
1972	41.8	3.2	43.4	2.6
1973	44.4	6.2	45.3	4.4
1974	49.3	11.0	50.2	10.8
1975	53.8	9.1	57.1	13.7
1976	56.9	5.8	61.5	7.7
1977	60.6	6.5	65.6	6.7
1978	65.2	7.6	70.2	7.0
1979	72.6	11.4	77.6	10.5
1980	82.4	13.5	85.5	10.2
1981	90.9	10.3	92.4	8.1
1982	96.5	6.2	97.4	5.4
1983	99.6	3.2	99.2	1.8
1984	103.9	4.3	103.3	4.1
1985	107.6	3.6	105.8	2.4
1986	109.6	1.9	107.8	1.9
1987	113.6	3.7	108.2	0.4
1988	118.3	4.1	108.6	0.4
1989	124.0	4.8	111.7	2.9
1990	130.7	5.4	118.6	6.2
1991	136.2	4.2	124.0	4.6
1992	140.3	3.0	128.2	3.4
1993	144.5	3.0	132.2	3.1
1994	148.2	2.6	135.0	2.1
1995	152.4	2.8	138.9	2.9
1996	156.9	3.0	142.7	2.7
1997	160.5	2.3	144.8	1.5
1998	163.0	1.6	146.9	1.5
1999	166.6	2.2	148.4	1.0
2000	172.2	3.4	150.9	1.7
2001	177.1	2.8	155.2	2.8
2002	179.9	1.6	158.2	1.9
2003	184.0	2.3	162.5	2.7
2004	188.9	2.7	166.7	2.6

Note: U.S. City Average- All Items & Anchorage, Alaska- All Items Annual Averages, 1960-2004

Source: U.S. Department of Labor, Bureau of Labor Statistics

The CPI cannot be used to compare costs between different locations. For example, in 2003 the annual average index for Anchorage was 162.5 and the annual average index for the United States was 184.0. The higher U.S. number does not mean that prices are higher nationally than in Alaska. In fact, the contrary is true for most goods and services. The higher U.S. number means only that prices have increased more at the national level since the survey's base years (1982-84) than they have in Alaska.

Housing is the heavyweight

Exhibit 1 shows the different weights assigned in calculating the CPI. Housing represents the single largest weight since that is where average consumers spend the largest share of their consumption dollars. As a result, housing has the most influence on the overall index. It also gives the CPI a local flavor, creating index changes that often diverge from those seen in the national CPI, because it is usually local market forces that affect housing prices.

For example, during the late 1980s when the Anchorage real-estate market crashed, the overall CPI index recorded nearly zero inflation because the value of housing took such a beating. During the same period the national housing market was robust, so the national index moved considerably ahead of Anchorage. During the past decade the Anchorage and national housing markets showed smaller differences, with the national rates tending to rise a bit faster, causing inflation in the rest of the nation to be higher than in Anchorage. Other CPI components are much less affected by local conditions. Price changes for gasoline, food, clothing, automobiles, and other goods and services are dictated more by national and international conditions than local ones.

Because of the weight the housing measure carries in the overall CPI, it is important to know some of its shortcomings. The CPI measures housing prices using something called "rental

equivalency," which uses the current rental value of houses to compare prices rather than actual home prices or appraised values. This method can overstate or understate inflation because actual house values and rental costs are not always closely connected.

In fact, in both Anchorage and the nation as a whole, house prices have risen dramatically in the last several years. Rental prices have not seen a similar increase, leading many to believe that recent CPI numbers understate inflation for the majority of Americans who own rather than rent. BLS takes the position that much of the purchasing of houses in recent years is for investment purposes rather than for use as a primary dwelling. Since investment spending is excluded from consumer price calculations, housing prices are a less reliable measure of dollars spent on actual housing costs than are rental equivalencies, according to BLS. To isolate price changes other than housing, BLS produces an index called CPI All Items Less Shelter. (See Exhibit 4.) This index reveals less noticeable differences between Anchorage and the nation than does the CPI-U.

Inflation rate at 2.6 percent in 2004

It has been eleven years since Anchorage inflation exceeded three percent. (See Exhibit 3.) In 2004 the Anchorage CPI rose 2.6 percent, which was slightly lower than the nation's inflation rate of 2.7 percent, but higher than the ten-year average Anchorage inflation rate of 2.1 percent.

Prices in 2004 increased in all major categories. Housing costs, the category with the largest weight, rose by a moderate 1.6 percent, which will be a surprising figure to anyone who purchased a house in 2004 (see above explanation of the CPI's rental equivalency method of determining housing costs). A sub-category of housing, fuel and utility costs, rose 9.2 percent over the year, while costs for household furnishings fell by 2.7 percent.

The largest increase among the major categories was a 4.4 percent increase in food and beverage costs. Transportation rose by 2.8 percent and apparel costs grew by less than one percent. Although data on medical costs have not been published separately over the last three years because of an inadequate number of sample reporters, medical costs are still incorporated in the overall index. There is little doubt that medical costs continued to rise faster than most, if not all, other components. Nationally, medical costs increased by 4.4 percent in 2004.

What does $100 in 1980 dollars equal today?

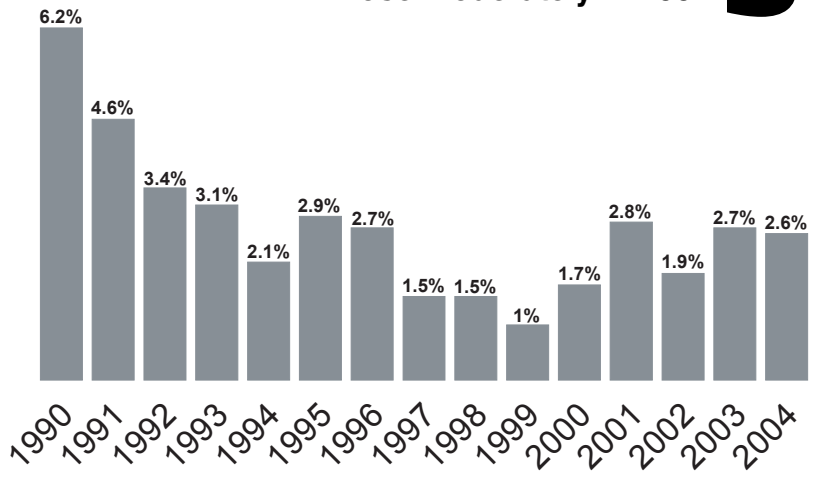
The Anchorage CPI can help determine how much money it would take today to equal a dollar amount from some earlier year. Use this equation to determine how many 2004 dollars it would take to equal a certain number of 1980 dollars (or simply replace the index numbers with other years to do a similar comparison):

2004 Anchorage CPI (see Exhibit 2) / Divided by 1980 Anchorage CPI: $\frac{166.7}{85.5} = 1.95$

Multiply 1.95 by any number of 1980 dollars and you will have the 2004 equivalent. So, $195 in 2004 would have the same purchasing power as $100 did in 1980.

The formula can also be reversed to deflate current dollars to some earlier year (e.g., $100 in 2004 would equal $51 in 1980). Inflation calculators that require only the years and a dollar amount are also available on many websites, including ours: http://almis.labor.state.ak.us/

Anchorage Consumer Prices 3
Rose moderately in 2004



Source: U.S. Department of Labor, Bureau of Labor Statistics

4 Selected Components of CPI

Anchorage and U.S. city annual averages 1983–2004

	ALL ITEMS LESS SHELTER				HOUSING				TRANSPORTATION			
Year	U.S. Average	Pct. Chg. from Prev. Yr.	Anch. Average	Pct. Chg. from Prev. Yr.	U.S. Average	Pct. Chg. from Prev. Yr.	Anch Average	Pct. Chg. from Prev. Yr.	U.S. Average	Pct. Chg. from Prev. Yr.	Anch. Average	Pct. Chg. from Prev. Yr.
1983	99.8	3.7	99.9	3.7	99.5	2.7	99.0	0.8	99.3	2.4	98.5	1.8
1984	103.9	4.1	103.8	3.9	103.6	4.1	102.7	3.7	103.7	4.4	104.6	6.2
1985	107.0	3.0	107.5	3.6	107.7	4.0	103.0	0.3	106.4	2.6	108.2	3.4
1986	108.0	0.9	111.2	3.4	110.9	3.0	102.6	-0.4	102.3	-3.9	107.8	-0.4
1987	111.6	3.3	115.1	3.5	114.2	3.0	97.5	-5.0	105.4	3.0	111.3	3.2
1988	115.9	3.9	117.8	2.3	118.5	3.8	95.4	-2.2	108.7	3.1	113.0	1.5
1989	121.6	4.9	122.3	3.8	123.0	3.8	96.3	0.9	114.1	5.0	116.7	3.3
1990	128.2	5.4	128.0	4.7	128.5	4.5	103.9	7.9	120.5	5.6	120.7	3.4
1991	133.5	4.1	131.9	3.0	133.6	4.0	111.2	7.0	123.8	2.7	121.7	0.8
1992	137.3	2.8	134.6	2.0	137.5	2.9	116.6	4.9	126.5	2.2	123.3	1.3
1993	141.4	3.0	137.9	2.5	141.2	2.7	121.1	3.9	130.4	3.1	128.8	4.5
1994	144.8	2.4	140.3	1.7	144.8	2.6	122.9	1.5	134.3	3.0	136.9	6.3
1995	148.6	2.6	144.6	3.1	148.5	2.6	124.9	1.6	139.1	3.6	143.8	5.0
1996	152.8	2.8	148.4	2.6	152.8	2.9	127.9	2.4	143.0	2.8	147.2	2.4
1997	155.9	2.0	150.6	1.5	156.8	2.6	129.4	1.2	144.3	0.9	147.0	-0.1
1998	157.2	0.8	152.6	1.3	160.4	2.3	131.0	1.2	141.6	-1.9	144.9	-1.4
1999	160.2	1.9	153.5	0.6	163.9	2.2	132.7	1.3	144.4	2.0	143.7	-0.8
2000	165.7	3.4	156.1	1.7	169.6	3.5	134.2	1.1	153.3	6.2	150.5	4.7
2001	169.7	2.4	160.6	2.9	176.4	4.0	139.0	3.6	154.3	0.7	153.0	1.7
2002	170.8	0.6	162.2	1.0	180.3	2.2	143.5	3.2	152.9	-1.0	151.5	-1.0
2003	174.6	2.2	166.5	2.7	184.8	2.5	146.8	2.3	157.6	3.1	158.3	4.5
2004	179.3	2.7	171.7	3.1	189.5	2.5	149.1	1.6	163.1	3.5	162.7	2.8

	FOOD & BEVERAGES				MEDICAL CARE*				APPAREL & UPKEEP			
Year	U.S. Average	Pct. Chg. from Prev. Yr.	Anch. Average	Pct. Chg. from Prev. Yr.	U.S. Average	Pct. Chg. from Prev. Yr.	Anch. Average	Pct. Chg. from Prev. Yr.	U.S. Average	Pct. Chg. from Prev. Yr.	Anch. Average	Pct. Chg. from Prev. Yr.
1983	99.5	2.3	99.7	2.6	100.6	8.8	99.7	5.2	100.2	2.5	101.6	5.2
1984	103.2	3.7	103.2	3.5	106.8	6.2	105.5	5.8	102.1	1.9	101.7	0.1
1985	105.6	2.3	106.2	2.9	113.5	6.3	110.9	5.1	105.0	2.8	105.8	4.0
1986	109.1	3.3	110.8	4.3	122.0	7.5	127.8	15.2	105.9	0.9	109.0	3.0
1987	113.5	4.0	113.1	2.1	130.1	6.6	137.0	7.2	110.6	4.4	116.6	7.0
1988	118.2	4.1	113.8	0.6	138.6	6.5	145.8	6.4	115.4	4.3	119.1	2.1
1989	124.9	5.7	117.2	3.0	149.3	7.7	154.4	5.9	118.6	2.8	125.0	5.0
1990	132.1	5.8	123.7	5.5	162.8	9.0	161.2	4.4	124.1	4.6	127.7	2.2
1991	136.8	3.6	127.7	3.2	177.0	8.7	173.5	7.6	128.7	3.7	126.6	-0.9
1992	138.7	1.4	130.3	2.0	190.1	7.4	183.0	5.5	131.9	2.5	130.2	2.8
1993	141.6	2.1	131.2	0.7	201.4	5.9	189.6	3.6	133.7	1.4	131.2	0.8
1994	144.9	2.3	131.9	0.5	211.0	4.8	197.8	4.3	133.4	-0.2	128.9	-1.8
1995	148.9	2.8	138.5	5.0	220.5	4.5	211.6	7.0	132.0	-1.1	130.0	0.9
1996	153.7	3.2	143.4	3.5	228.2	3.5	231.1	9.2	131.7	-0.2	128.7	-1.0
1997	157.7	2.6	145.8	1.7	234.6	2.8	248.9	7.7	132.9	0.9	127.0	-1.3
1998	161.1	2.2	147.3	1.0	242.1	3.2	255.7	2.7	133.0	0.1	125.6	-1.1
1999	164.6	2.2	148.4	0.7	250.6	3.5	260.8	2.0	131.3	-1.3	125.8	0.2
2000	168.4	2.3	151.7	2.2	260.8	4.1	272.1	4.3	129.6	-1.3	124.5	-1.0
2001	173.6	3.1	156.4	3.1	272.8	4.6	282.9	4.0	127.3	-1.8	131.1	5.3
2002	176.8	1.8	157.9	1.0	285.6	4.7	------*	------	124.0	-2.6	126.7	-3.4
2003	180.5	2.1	161.8	2.5	297.1	4.0	------	------	120.9	-2.5	123.2	-2.8
2004	186.6	3.4	168.9	4.4	310.1	4.4	------	------	120.4	-0.4	123.9	0.6

*Since 2002 no annual index was produced for medical care.

Source: U.S. Department of Labor, Bureau of Labor Statistics

Food costs differ widely around the state

Four times a year, the University of Alaska Fairbanks Cooperative Extension Service posts results from its surveys of the cost of food at home for a week in 20 Alaska communities and Portland, Oregon. (See Exhibits 5 and 6.) The food basket includes items that will provide the minimum levels of nutrition for an individual or family at the lowest possible cost. The survey also includes information on utility and fuel costs. The strength of this survey is its geographic coverage: no other survey covers as many Alaska communities. Another advantage is that it has been produced consistently for many years.

Being mostly limited to food, which makes up a relatively small portion of total consumption dollars, the survey is unsuitable for use as a comprehensive cost of living measure. Another weakness is the study's necessary assumption that the same items would be purchased in all of the communities surveyed. The study recently began including grocery items delivered to rural communities, a widespread practice in Alaska, but food items obtained through barter or brought back to communities as baggage or private cargo are not captured. The study also makes no allowance for the consumption of subsistence foods instead of store-bought items.

Food costs most in Atka

According to the December 2004 study, a family of four enjoyed the lowest food costs in Anchorage, Fairbanks, and Mat-Su. (See Exhibit 5.) The highest costs tend to be in remote communities which are serviced by air most of the year and by barge during the summer months. Bethel, Atka, Barrow, Dillingham, Galena, Nome, Dutch Harbor, and Naknek-King Salmon belong in this category. All of these communities except Dutch Harbor had food costs that exceeded $200 a week.

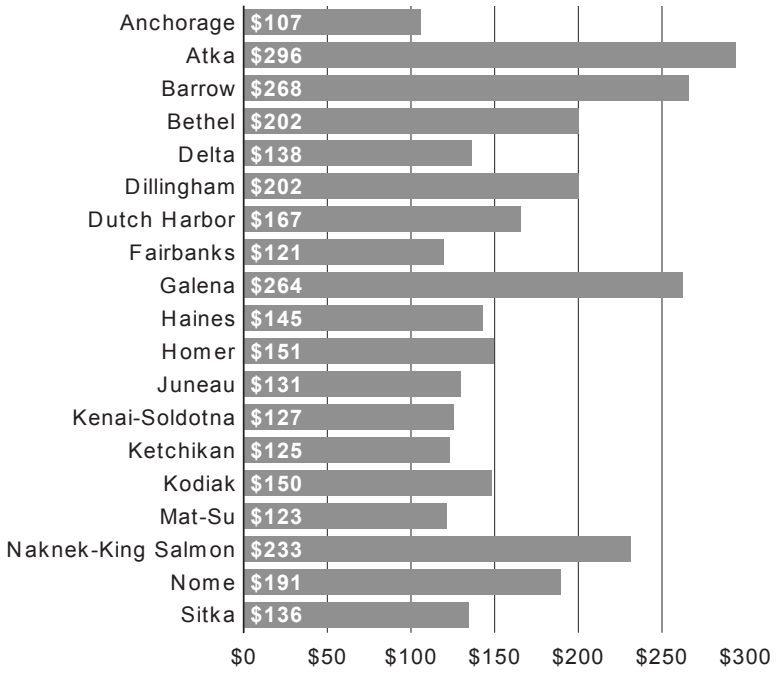
Communities connected to a road system or the Alaska Marine Highway fare a little better, with prices somewhere between those above and urban areas. Kodiak, Sitka, and Ketchikan are examples. Other factors that affect food prices are the size and competitiveness of the market and the proximity to a larger population center.

Juneau tops the list in rental costs

Housing costs are often a good proxy for an area's cost of living because they make up such a large slice of total expenditures. Information on housing rental prices in ten areas around the state is available through a survey conducted for the Alaska Housing Finance Corporation (AHFC) by the Alaska Department of Labor and Workforce Development. The survey collects monthly rental costs for two-bedroom apartments and three-bedroom single-family homes. (See Exhibits 7 and 8.)

The cost of housing varies dramatically from place to place in Alaska. Housing supply, building costs, the condition of the local economy, and demographic change are all factors that help explain housing cost differences.

Weekly Food Cost in Alaska 5
Family of Four, Children 6-11, December 2004



Source: University of Alaska, Fairbanks, Cooperative Extension Service.

In 2004, rental costs for houses were highest in Juneau and the Valdez-Cordova Census Area. (See Exhibit 7.) Juneau has been near the top of the list for years, and increased another $41 in 2004. Valdez-Cordova saw a bigger increase, jumping from $1,354 in 2003 to $1,522 in 2004. The average price for Anchorage rentals actually declined by $10 after a big jump in 2003.

Juneau also tops the list of apartment rental costs, up $54 to $1,021 a month. The second most expensive market for apartment rental costs among the communities surveyed was Kodiak, where the average rent increased by $117 from 2003 to 2004. Rental prices in Anchorage increased by only $10 to $855. Rents in the Matanuska-Susitna Borough and on the Kenai Peninsula were also substantially less expensive than other parts of the state.

6 Weekly Food Cost for Eight Alaska Cities, 1978-2004

Costs for a Family of four with elementary school-age children

Year	Anch.	Fbks.	Pct. of Anch.	Juneau	Pct. of Anch.	Bethel	Pct. of Anch.	Nome	Pct. of Anch.	Kodiak	Pct. of Anch.	Kenai/ Soldotna	Pct. of Anch.	Tok	Pct. of Anch.
1978	$76.67	$84.15	110%	$73.72	96%	$114.05	149%	$118.85	155%	-	-	$82.48	108%	-	-
1979	82.18	89.39	109	74.88	91	129.16	157	128.67	157	-	-	100.41	122	-	-
1980	88.44	90.54	102	85.92	97	130.87	148	131.14	148	$99.42	112%	120.84	137	$108.82	123%
1981	86.69	98.47	114	93.95	108	138.66	160	150.27	173	-	-	-	-	114.80	132
1982	77.30	92.09	119	99.98	129	125.50	162	149.04	193	-	-	-	-	-	-
1983	81.66	83.79	103	88.62	109	128.30	157	130.14	159	104.94	129	86.98	107	-	-
1984	84.22	91.26	108	91.66	109	136.54	162	142.07	169	115.97	138	87.97	104	121.66	144
1985	89.06	90.08	101	106.61	120	138.13	155	152.41	171	108.17	121	91.47	103	116.19	130
1986	87.25	90.61	104	87.65	100	137.96	158	142.04	163	105.49	121	92.78	106	124.18	142
1987	88.90	85.12	96	88.24	99	140.81	158	147.96	166	104.39	117	96.95	109	117.51	132
1988	90.99	94.74	104	92.95	102	137.57	151	147.69	162	116.68	128	95.53	105	119.69	132
1989	93.80	94.33	101	96.73	103	140.65	150	-	-	124.61	133	104.20	111	139.43	149
1990	98.73	103.49	105	100.86	102	146.92	149	155.48	157	154.55	157	103.21	105	131.03	133
1991	102.84	114.65	111	104.21	101	152.49	148	150.29	146	127.96	124	111.88	109	143.45	139
1992	100.46	92.31	92	102.62	102	142.51	142	158.08	157	124.61	124	109.60	109	132.94	132
1993	97.89	93.42	95	103.70	106	147.84	151	145.94	149	125.19	128	111.61	114	136.96	140
1994	91.32	94.96	104	104.09	114	133.47	146	140.22	154	123.99	136	105.51	116	140.78	154
1995	89.30	93.26	104	99.38	111	140.68	158	148.55	166	123.04	138	102.48	115	122.89	138
1996	101.43	96.65	95	96.93	96	148.70	147	162.61	160	125.71	124	105.01	104	142.46	140
1997	96.57	97.73	101	98.89	102	150.42	156	-	-	123.92	128	104.87	109	-	-
1998	98.74	98.35	100	103.08	104	155.24	157	174.27	176	130.04	132	104.13	105	144.67	147
1999	99.87	98.52	99	104.45	105	163.11	163	155.29	155	143.81	144	109.58	110	132.61	133
2000	100.89	100.63	100	104.55	104	162.63	161	157.40	156	133.89	133	112.01	111	139.31	138
2001	106.43	103.61	97	112.53	106	180.89	170	176.56	166	140.23	132	119.55	112	141.73	133
2002	100.61	100.80	100	110.52	110	187.96	187	179.76	179	143.36	142	119.12	118	126.92	126
2003	105.54	112.77	107	117.78	112	186.07	176	177.38	168	144.13	137	122.39	116	126.37	120
2004	117.33	118.73	101	122.48	104	198.33	169	183.46	156	140.70	120	127.38	109	120.85	103

Note: Sales tax included in food prices.

Source: "Cost of Food at Home for a Week," September 1978 to September 2004.
University of Alaska Cooperative Extension Service, U.S. Dept of Agriculture and SEA Grant Cooperating. Website: http://extension.uaf.edu/ace/fcs/fcs.html

Housing sale prices highest in Anchorage and Juneau

A survey of lenders reveals that for houses sold during the second half of 2004, the highest average sale prices were in Juneau at $266,000 and Anchorage at $265,000. Those numbers are nearly $40,000 higher than the statewide average and noticeably higher than all of the other communities for which data were available. Both Juneau and Anchorage sale prices increased by around ten percent in 2004.

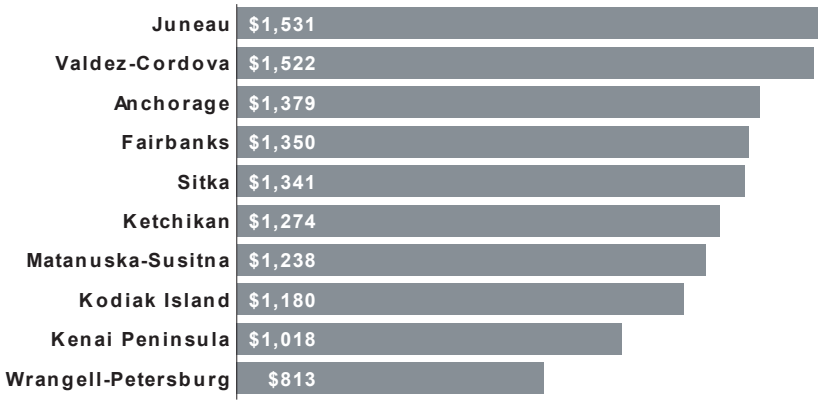
The average sale price for a Mat-Su home was more than $60,000 lower than an Anchorage home, partly explaining why the Mat-Su Borough has grown dramatically in recent years and why more and more Alaskans are commuting from Mat-Su to Anchorage. It is important to note that this survey captures only the prices of homes actually sold; how closely that amount approximates the value of the average homes in the various communities is a separate question.

Fairbanks tops list of housing affordability

The Alaska Housing Finance Corporation also establishes a housing affordability index for ten areas in the state. (See Exhibit 10.) This index not only takes the cost of housing into account but also the ability to pay for this housing, using the average wages in the respective areas and determining how many wage earners would be needed to afford the average house. Combining these two factors—housing costs and average wages—yields some surprising results.

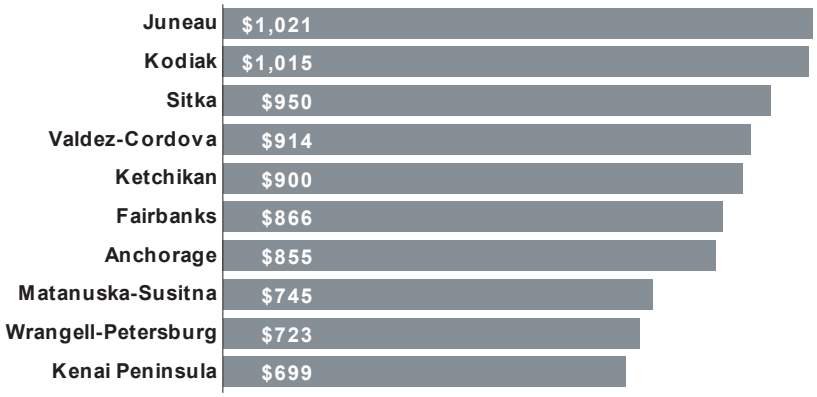
Although the Mat-Su Borough has some of the lowest housing costs in the state, for those who both live and work in the borough, purchasing a home takes slightly more wage earners than does Anchorage. In other words, Anchorage's higher housing costs are balanced by the city's higher wages and the benefit of low housing costs in Mat-Su are negated by relatively low wages. Not surprisingly, an increasing number of Alaskans are living in the Mat-Su Borough and working in Anchorage to get the best of both worlds.

Three-Bedroom Apartments 7
Cost highest in Juneau and Valdez-Cordova



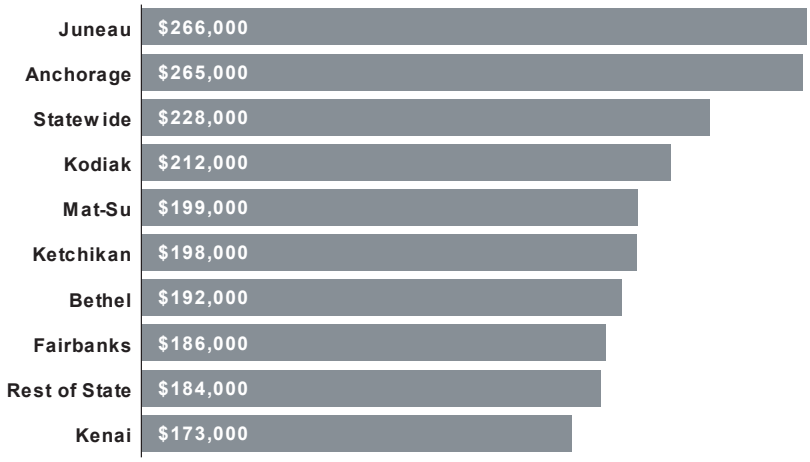
Note: Includes cost of utilities
Source: Alaska Department of Labor and Workforce Development, Research and Analysis Section and Alaska Housing Finance Corporation, 2004 Rental Market Survey.

Two-Bedroom Apartments 8
Costs highest in Juneau and Kodiak



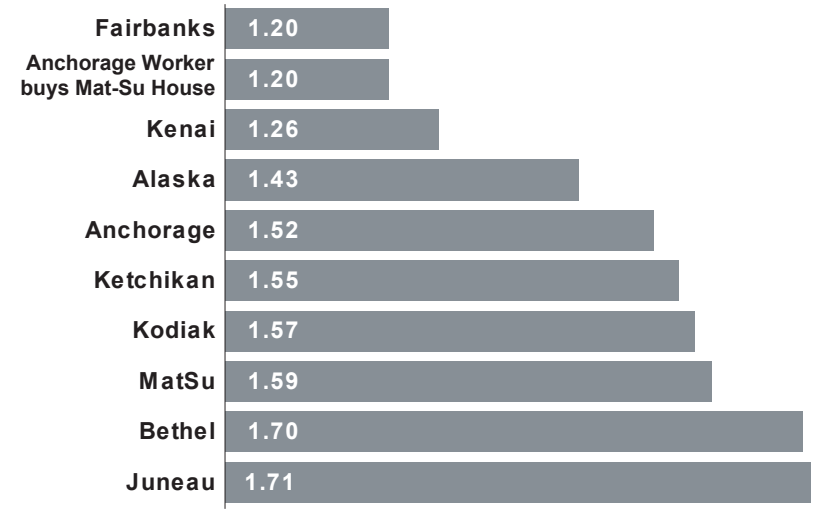
Note: Includes cost of utilities
Source: Alaska Department of Labor and Workforce Development, Research and Analysis Section and Alaska Housing Finance Corporation, 2004 Rental Market Survey.

9 Single-Family Home Sales Price
Juneau and Anchorage are close for top prices



Note: Average Sales price for second half of 2004
Source: Alaska Department of Labor and Workforce Development, Research and Analysis Section and Alaska Housing Finance Corporation, 2004 Survey of Lender's Activity.

10 Housing Affordability
Wage Earners Needed to Buy an Average House



Note: Data based upon second half of 2004
Source: Alaska Department of Labor and Workforce Development, Research and Analysis Section and Alaska Housing Finance Corporation, 2004 Alaska Affordability Index.

Only Fairbanks can match the Anchorage wage earner living in Mat-Su for housing affordability. In both places it takes just 1.2 wage earners to purchase the average house. Contrast that with Juneau, where despite above average wages housing is less affordable because it is some of the state's most expensive. Housing in Bethel is less affordable because of lower than average wages and high housing costs related to its remote location.

ACCRA looks at higher income households

Every quarter the nonprofit American Chamber of Commerce Researchers Association (ACCRA) publishes the results of its detailed cost of living surveys of about 400 cities. ACCRA's market basket is meant to capture the expenditure patterns of professional and executive households with incomes in the top fifth of all U.S. households. Expenditures for each city are compared to the average for all cities surveyed, which is assigned a score of 100. For example, a city with an index score of 125 has costs 25 percent higher than the average of all ACCRA cities surveyed. The survey does not include taxes, a significant point for Alaskans, whose tax burden is the lowest in the country.

The first quarter 2005 ACCRA survey reveals that the cost of living for Alaska's higher income residents is still well above average. Anchorage, Fairbanks, Juneau, and Kodiak all recorded composite index scores above 120. (See Exhibit 11.)

Juneau, Kodiak, and Fairbanks were all among the 20 most expensive ACCRA cities surveyed. (See Exhibit 12.) Health care costs are still substantially higher in Alaska than in the average U.S. city, but the gap has narrowed since last year. Juneau's health care costs were more than seventy percent higher than the average city (ACCRA index score of 170.1) compared to about fifty percent higher in the most current ACCRA numbers (index score of 148.9). The other three Alaska cities all saw similar declines. The most likely reason is because Alaska health care costs, though still increasing, are doing so at a slower rate than most other parts of the country.

Alaska cities remain expensive in the ACCRA survey primarily because of high housing costs (housing has the largest weight in the overall index score). Juneau housing is more than 40 percent more expensive than average and Anchorage, the least expensive Alaska city measured by ACCRA, reports housing costs about 27 percent higher than average.

Exhibit 11 and 12 show that housing costs on both the East and West coasts raise living costs significantly there, while generally cheaper housing in the middle of the country lower overall costs there. Of the 20 most expensive ACCRA cities, all but Chicago and Fairbanks are either on or near one of the nation's coasts.

Runzheimer Survey

The Runzheimer Plan of Living Cost Standards looks at households on the lower end of the income spectrum. (See Exhibit 13.) The Alaska Department of Labor and Workforce Development contracts with Runzheimer to survey geographic cost differentials for a family of four with an annual income of $32,000. The survey determines how much more or less it would cost in various cities for the family to

Selected Cities - ACCRA 11
First Quarter 2005

Region City	Items Index Costs	All Grocery Items	Housing	Util.	Trans.	Health Care	Misc. Goods & Services
Anchorage, AK	**120.3**	**135.9**	**127.1**	**83.1**	**112.2**	**129.2**	**120.5**
Fairbanks, AK	**126.8**	**134.3**	**130.1**	**142.8**	**112.2**	**140.5**	**118.9**
Juneau, AK	**132.2**	**144.5**	**140.6**	**135.9**	**132.5**	**148.9**	**117.8**
Kodiak, AK	**131.6**	**144.5**	**137.8**	**132.0**	**127.6**	**135.5**	**122.2**
West							
Seattle, WA	116.5	108.9	133.0	105.2	111.2	127.7	108.9
Corvalis, OR	109.9	114.7	108.9	112.7	110.2	120.8	106.7
Los Angeles-Long Beach, CA	153.7	123.4	253.2	114.1	112.5	120.6	108.2
San Francisco, CA	178.7	153.8	307.0	98.2	112.2	129.1	127.5
Las Vegas, NV	110.6	102.0	130.0	104.8	104.4	111.0	100.9
Southwest/Mountain							
Boise, ID	94.7	85.2	86.8	91.7	104.4	104.5	102.0
St. George, UT	94.2	91.1	91.3	80.6	102.3	88.1	100.2
Phoenix, AZ	96.8	100.7	88.8	92.9	102.3	99.5	101.3
Denver, CO	101.6	106.4	105.2	87.5	96.0	106.5	101.7
Dallas, TX	91.7	91.6	75.5	103.8	102.3	100.8	97.8
Midwest							
Rochester, MN	97.3	88.6	90.7	113.5	102.1	101.9	99.6
Cleveland, OH	102.5	109.7	101.6	119.0	102.0	99.9	96.3
Chicago, IL	128.6	116.3	165.3	105.1	111.9	120.3	114.8
Southeast							
Orlando, FL	97.0	92.4	90.7	95.3	99.7	89.6	104.5
Montgomery, AL	94.3	93.1	90.0	95.9	97.5	85.4	98.0
Atlanta, GA	96.0	95.0	91.6	86.7	106.3	110.4	98.3
Raleigh, NC	93.8	102.6	75.8	102.6	107.4	109.5	97.6
Atlantic/New England							
New York City - Manhattan	203.9	142.6	373.2	153.4	113.6	138.4	131.6
Boston, MA	137.2	119.1	178.4	133.2	111.3	132.0	118.2
Philadelphia, PA	123.2	127.7	135.3	122.0	113.3	116.1	115.1

Source: American Chamber of Commerce Researchers Association, Urban Area Index Data, First Quarter 2005.

maintain the same standard of living $32,000 would purchase in the standard U.S. city.

According to the Runzheimer survey, a household in Anchorage would need an income of $36,884 to maintain the standard of living obtainable with $32,000 in the standard city. A slightly lower income would be necessary in Fairbanks, and a noticeably higher amount in Juneau. The principal difference between the three Alaska cities surveyed by Runzheimer is the price of housing for relatively low-income families. Housing costs for households with this income level add up to a few thousand dollars less a year in Fairbanks than in Anchorage and more than $5,000 less than in Juneau (costs include mortgage payments, real estate taxes, insurance, utilities, and maintenance).

As with most other cost of living measures, housing prices have the most significant impact on the Runzheimer data. Los Angeles is especially expensive for households with lower incomes because housing prices are 262.8 percent higher than the standard city. As a result, living in Los Angeles with the same standard of living that $32,000 buys in the standard U.S. city would require an income of more than $57,000.

The military's cost of living index

The United States Department of Defense (DOD) produces a cost-of-living index for all of its overseas locations, including Alaska and Hawaii. (See Exhibit 14.) The DOD index shows the allowance paid to service members stationed in high-cost areas to help them maintain purchasing power similar to that obtainable in the continental U.S.

12 ACCRA Cost of Living Index First Quarter 2005
20 Highest Cost Urban Areas

City	All Items Index	Grocery Items	Housing	Utilities	Trans.	Health Care	Misc. Goods & Services
Expenditure Weight		**13%**	**29%**	**10%**	**9%**	**4%**	**33%**
New York (Manhattan), NY	203.9	142.6	373.2	153.4	113.6	138.4	131.6
San Francisco, CA	178.7	153.8	307.0	98.2	112.2	129.1	127.5
San Jose, CA	167.2	140.5	269.8	110.3	117.6	119.7	126.6
Honolulu, HI	156.9	149.7	216.5	150.5	127.5	112.2	124.6
Los Angeles-Long Beach, CA	153.7	123.4	253.2	114.1	112.5	120.6	108.2
Orange County, CA	152.8	127.3	247.5	111.0	114.2	120.4	109.4
Oakland, CA	150.7	149.9	229.2	93.3	115.4	126.1	114.1
Stamford, CT	148.0	114.1	228.0	121.4	114.2	119.7	113.9
San Diego, CA	146.9	109.0	229.0	97.5	118.8	122.9	117.1
New York (Queens), NY	142.9	125.6	184.7	143.6	116.6	119.3	123.9
Washington DC/Suburban MD, VA	140.0	105.3	214.1	105.2	111.2	120.5	111.1
Bergen-Passaic, NJ	137.6	123.1	191.9	115.7	105.0	106.8	116.3
Boston, MA	137.2	119.1	178.4	133.2	111.3	1325.0	118.2
Bethesda, MD	133.7	105.5	186.3	111.0	113.2	110.5	114.9
Newark-Elizabeth, NJ	133.5	119.9	174.7	116.1	106.8	110.6	118.9
Juneau, AK	**132.2**	**144.5**	**140.6**	**135.9**	**132.5**	**148.9**	**117.8**
Kodiak, AK	**131.6**	**144.5**	**137.8**	**132.0**	**127.6**	**135.5**	**122.2**
Middlesex, NJ	130.2	120.4	172.1	111.6	106.5	106.0	113.3
Chicago, IL	128.6	116.3	165.3	105.1	111.9	120.3	114.8
Fairbanks, AK	**126.8**	**134.3**	**130.1**	**142.8**	**112.2**	**140.5**	**118.9**

Source: American Chamber of Commerce Researchers Association, Urban Area Index Data, First Quarter 2005.

This adjustment is calculated on income remaining after housing expenses, taxes, savings, life insurance, gifts, and charitable contributions are deducted. DOD collects pricing data on approximately 120 goods and uses the Bureau of Labor Statistics consumer expenditure survey for assigning weights to the various goods. One of the DOD index's strengths is its broad geographic coverage—27 Alaska locations are included. Another strength is that the data are relatively current. Its biggest weakness is that it does not include housing, which is treated separately by the military with a housing allowance program.

State of Alaska geographic differentials

One of the most comprehensive data sets of state cost differentials was produced in a 1985 State of Alaska survey done to determine location pay

Runzheimer International Living Cost Standards 13

December 2004

	Total Costs	Pct. of Std. City	Taxation	Pct. of Std. City	Trans.	Pct. of Std. City	Housing	Pct. of Std. City	Misc. Goods & Services	Pct. of Std. City
Alaska Composite	37,273	116.5%	2,448	77.4%	4,648	106.5%	18,972	135.2%	12,572	110.4%
Anchorage	36,884	115.3%	2,448	77.4%	4,759	109.0%	18,648	132.9%	12,503	109.8%
Fairbanks	34,645	108.3%	2,448	77.4%	4,668	106.9%	16,458	117.3%	12,606	110.7%
Juneau	40,289	125.9%	2,448	77.4%	4,517	103.5%	21,812	155.4%	12,606	110.7%
West										
Astoria, OR	33,802	105.6%	3,390	107.2%	4,367	100.0%	16,386	116.8%	11,383	99.9%
Bellingham, WA	35,976	112.4%	2,448	77.4%	4,684	107.3%	17,835	127.1%	11,836	103.9%
Corvalis, OR	33,880	105.9%	3,390	107.2%	4,358	99.8%	16,458	117.3%	11,398	100.1%
Hilo, HI	36,636	114.5%	3,123	98.7%	5,582	127.9%	16,207	115.5%	12,931	113.5%
Lakeport, CA	41,802	130.6%	2,448	77.4%	5,272	120.8%	22,993	163.8%	12,141	106.6%
Los Angeles, CA	57,446	179.5%	2,448	77.4%	6,488	148.6%	36,888	262.8%	12,556	110.2%
Yakima, WA	31,293	97.8%	2,448	77.4%	4,680	107.2%	13,188	94.0%	11,836	103.9%
Southwest/Mountain										
Cody, WY	27,961	87.4%	2,448	77.4%	4,539	104.0%	11,305	80.5%	10,850	95.3%
El Paso, TX	27,649	86.4%	2,448	77.4%	4,643	106.4%	11,035	78.6%	10,746	94.3%
Flagstaff, AZ	34,974	109.3%	2,719	86.0%	4,670	107.0%	16,753	119.4%	11,815	103.7%
Jackson, WY	51,455	160.8%	2,448	77.4%	4,539	104.0%	34,691	247.2%	10,850	95.3%
Lewiston, ID	30,521	95.4%	2,790	88.2%	4,482	102.7%	13,822	98.5%	10,551	92.6%
Reno, NV	35,262	110.2%	2,448	77.4%	4,953	113.5%	17,147	122.2%	11,584	101.7%
Provo, UT	30,676	95.9%	3,175	100.4%	4,660	106.8%	12,755	90.9%	11,122	97.6%
Midwest										
Grand Rapids, MN	30,360	94.9%	2,583	81.7%	4,960	113.6%	13,228	94.3%	10,930	96.0%
Lansing, MI	36,102	112.8%	2,744	86.8%	5,535	126.8%	17,717	126.2%	11,236	98.6%
Oklahoma City, OK	28,317	88.5%	3,215	101.6%	4,548	104.2%	10,316	73.5%	11,068	97.2%
Springfield , MO	27,588	86.2%	3,215	101.6%	4,509	103.3%	9,756	69.5%	11,142	97.8%
Southeast										
Nashville, TN	28,806	90.0%	2,448	77.4%	4,168	95.5%	11,703	83.4%	11,195	98.3%
New Orleans, LA	30,524	95.4%	3,091	97.7%	5,475	125.4%	12,033	85.7%	10,924	95.9%
West Palm Beach , FL	37,478	117.1%	2,448	77.4%	5,433	124.5%	19,155	136.5%	11,559	101.5%
Wilmer, AL	27,471	85.8%	3,433	108.5%	4,211	96.5%	10,313	73.5%	10,692	93.9%
Atlantic/New England										
Boston, MA	48,062	150.2%	3,241	102.5%	6,361	145.7%	27,570	196.4%	12,335	108.3%
Elmira, NY	29,160	91.1%	3,099	98.0%	4,659	106.7%	11,303	80.5%	11,036	96.9%
Trenton, NJ	45,624	142.6%	2,754	87.1%	5,453	124.9%	27,391	195.2%	11,436	100.4%

Source: Runzheimer's Living Cost Index, December 2004

14 OCONUS* 2005
Cost-Of-Living Allowance Indexes

Location	Index
Anchorage	122
Barrow	152
Bethel	152
Clear AFS	124
College	124
Cordova	134
Delta Junction	126
Dillingham	152
Fairbanks	124
Galena	152
Homer	134
Juneau	128
Kenai (incld. Soldotna)	134
Ketchikan	138
Kodiak	128
Kotzebue	152
Metlakatla	152
Nome	152
Petersburg	138
Seward	134
Sitka	136
Spuce Cape	128
Tok	132
Unalaska	128
Valdez	134
Wainwright	152
Wasilla	120

Note: *Overseas Cost of living allowance.
Source: Department of Defense, effective date May 2005.

15 Geographic Pay Differential
State of Alaska

Place Names and Duty Stations	Cost of Living Differential
Aleutians Islands	112
Aniak,McGrath,Galena	130
Anchorage (base district)	100
Barrow,Kotzebue	142
Bethel	138
Bristol Bay	127
Delta Junction,Tok	116
Fairbanks	104
Fort Yukon (above Arctic Circle)	142
Juneau	100
Kenai, Cook Inlet	100
Ketchikan	100
Kodiak	109
Nenana Duty Station	120
Nome	134
Palmer,Wasilla	100
Seward	100
Sitka	100
Skagway,Haines, Yakutat	105
Valdez,Cordova,Glennallen	111
Wade Hampton	130
Wrangell, Petersburg	100

Source:The McDowell Group and State of Alaska, Department of Administration, 1986.

for state workers. (See Exhibit 15.) The results of this survey are still used by the state. Workers in Fairbanks, for example, receive a four- percent higher wage or salary than their colleagues in Anchorage in similar positions. The highest geographic differential pay goes to state workers in Barrow and Kotzebue, where cost of living was determined to be 42 percent higher than in Anchorage, Juneau, Kenai, and the other cities in Exhibit 16 with scores of 100.

A new approach to geographic differentials

The Institute of Social and Economic Research (ISER) at the University of Alaska Anchorage recently completed a study of cost differences among Alaska's 53 school districts. (See Exhibit 16.) Most previous school studies have looked at differences in the costs of heating schools, travel, materials, and teacher salaries. The ISER researchers added a twist by attempting to calculate how high salaries would have to be for districts around the state to attract and retain teachers and administrators with similar qualifications.

They looked at data on teacher recruitment and turnover, as well as differences in climate, amenities, and any other factors teachers consider when deciding whether to stay in a particular area. The researchers used Anchorage costs as the base (Anchorage = 100). The highest indexed school district was 211.6 for Yukon Flats and 21 school districts had scores of at least 150. For more information about the ISER study, see: www.iser.uaa.alaska.edu

Summary

Cost-of-living questions can have complicated answers and no single survey or index can supply a perfect answer. Each survey has specific limitations that must be considered before reaching conclusions about either the change in costs over time or the difference in costs from one place to another. With that in mind, users have an abundance of information to explore the cost of living in Alaska, one of the state's most fundamental economic issues.

Proposed and Current Geographic Cost Differentials 16

Anchorage Costs = 100

Districts with Lower Cost Differentials	Proposed Cost Differentials	Current Cost Differentials
Anchorage School District	100.0	100.0
Matanuska-Susitna School District	107.0	101.0
Fairbanks NS Borough School District	107.0	103.9
Juneau Borough Schools	114.5	100.5
Wrangell City School District	115.9	100.0
Ketchikan Getway Borough District	117.0	100.0
Valdez City School District	117.0	109.5
Kenai Peninsula Borough Schools	117.1	100.4
Skagway City School District	117.4	114.3
Sitka Borough School District	119.5	100.0
Haines Borough School District	120.0	100.8
Craig City School District	120.6	101.0
Districts with Mid-Range Differentials		
Cordova City School District	123.4	109.6
Delta Greely School District	124.1	110.6
Petersburg City School District	124.4	100.0
Kodiak Island Borough School District	128.9	109.3
Klawock City School District	130.2	101.7
Copper River School District	131.6	117.6
Denali Borough School District	133.2	131.3
Nenana City School District	133.8	127.0
Annette Island School District	133.8	101.1
Dillingham City School District	134.6	125.4
Galena City School District	139.1	134.8
Hoonah City School District	139.9	105.5
Southeast Island School District	140.3	112.4
Yakutat School District	141.2	104.6
Unalaska City School District	144.1	124.5
Nome City School District	145.0	131.9
Kake City School District	145.9	102.5
Pelican City School District	147.7	129.0
Bristol Bay Borough School	147.8	126.2
Chugach School District	149.6	129.4
Hydaburg City School District	150.4	108.5
Districts with Highest Cost Differentials		
Chatham Region Schools	157.6	112.0
Alaska Gateway School District	159.4	129.1
Kashunamiut School District	161.9	138.9
St.Marys City School District	162.4	135.1
Lower Kuskikwim School District	166.3	149.1
Southwest Region School District	168.5	142.3
Pribilof Island School District	169.1	141.9
Yupiit School District	172.3	146.9
Kuspuk School District	173.4	143.4
Tanana City School District	178.6	149.6
North Slope Borough School District	179.1	150.4
Northwest Arctic School District	182.3	154.9
Yukon Koyukuk School District	183.5	150.2
Iditarod Area School District	184.6	147.0
Lower Yukon School District	186.1	143.8
Aleutian Region School District	193.9	173.6
Aleutians East Borough School District	199.1	142.3
Lake and Peninsula School District	199.4	155.8
Bering Strait School District	199.8	152.5
Yukon Flats School District	211.6	166.8

Source: Institute of Social and Economic Research, University of Alaska Anchorage

Alaska Cost-of-Living Information on the World Wide Web

Beyond the information in this article there are web sites that can provide quick cost of living comparisons. The sites generally provide little detail, but they can be handy as quick reference sources.

www.labor.state.ak.us/research/relocate/relocmap.htm

The Alaska Department of Labor and Workforce Development's relocation site offers cost of living information, general information about Alaska, information on employment opportunities, and about traveling to Alaska.

www.stats.bls.gov

The U.S. Department of Labor, Bureau of Labor Statistics, Consumer Price Index site provides CPI data for Anchorage and all areas. There is also general, technical, and research information on the CPI. There is also an inflation calculator at this site.

www.homefair.com/calc/citysnap.html

The Homefair City Reports present a side-by-side comparison of two cities' cost of living, climate, demographics, and other vital information from a database that is updated quarterly. Homefair City Reports offers one complimentary report with up to two destinations.

There are many other web sites with cost-of-living information. They include:

CityRating.com	www.cityrating.com/costofliving.asp
Homeadvisor msn	homeadvisor.msn.com/pickaplace/comparecities.aspx
ACCRA	www.accra.org/