

The gap is narrowing between Alaska and the U.S.

The high cost of living in Alaska is part of the state's folklore. Stories are told of eggs being sold for a dollar each in Skagway during the Klondike gold rush and of converted garages renting for \$1,000 a month in Fairbanks during construction of the trans-Alaska oil pipeline. Even during more stable economic periods, the unique benefits of living in the 49th state – a rugged and expansive land more remote from the nation's population centers than every other state except Hawaii – come with unique costs.

This article takes a look at some of those costs by examining the most current information from a variety of cost-of-living studies and concludes that although it's still more expensive to live in Alaska than in much of the rest of the country, the gap is gradually narrowing.

Two ways to look at cost of living

Cost-of-living measures come in two basic types. One looks at the change in prices over time in a specific location. The Consumer Price Index, considered the broadest and most comprehensive measure of inflation, is the best example of this type of measure. Landlords, workers, unions and employers use the CPI to adjust rents and salaries, among other things, and the Alaska Permanent Fund Corporation uses the CPI to determine how much money must be added to the principal of the Permanent Fund every year to keep up with inflation.

Other cost-of-living studies compare prices in different locations for a specific time period. These studies are used primarily by employ-

ers and benefit providers who want to equalize wages or payments to people in different locations – and by employees and benefit recipients who want to make a case for why their wages or benefit payments should be raised. A number of these types of measures will be examined.

Highest inflation in 12 years

For the first time since 1993, inflation as measured by the Anchorage CPI¹ crested the 3 percent mark in 2005. (See Exhibits 1 and 2.) The city's 3.1 percent increase was lower than the national inflation rate of 3.4 percent, but well above Anchorage's 10-year average of 2.2 percent.

Prices rose in nearly all major categories in 2005, with the biggest increase coming in the transportation component. (See Exhibit 3.) The only decline among the major categories was in apparel and upkeep, where prices have fallen in seven out of the last 10 years, due mostly to the dramatic increase in cheaper imports from China. In general, national inflation exceeded Anchorage's, continuing a long-running trend of a slowly narrowing gap between Alaska prices and average prices for the nation as a whole.

Housing costs, which have the largest impact on

¹ Because a Consumer Price Index is not calculated for any other Alaska city, the Anchorage CPI is often used as the best substitute for a statewide inflation measure. All references to the CPI in this article are to the CPI-U (Consumer Price Index for all Urban Consumers). The CPI-U covers about 87 percent of the U.S. population and nearly all of the Anchorage population. The U.S. Department of Labor's Bureau of Labor Statistics also produces an index called the Consumer Price Index for all Urban Wage Earners and Clerical Workers, or CPI-W, which covers a subset of the CPI-U population who work in clerical or wage occupations.

the overall CPI, rose by 2.7 percent, compared to 3.3 percent for the U.S. High oil and natural gas prices are reflected in a number of CPI categories. Fuels and utilities, a subcategory of housing, rose by 8.2 percent in 2005 after an even higher increase of 9.2 percent in 2004. Overall, energy prices, which are scattered throughout a number of other categories, rose by 12.8 percent in 2005, the largest single-year increase for the category in the last decade. Nationally, energy prices rose even more – 17.0 percent – in 2005.

How the inflation rate is calculated

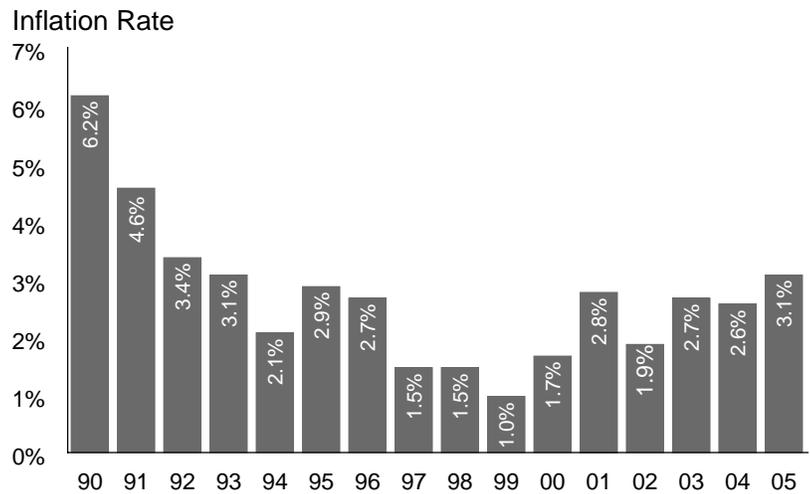
As noted above, the Consumer Price Index measures price changes over time. More specifically, it measures the average change over time in the prices paid by urban consumers for a combination of consumer goods and services referred to as the “market basket.” Anchorage is one of 27 local areas nationwide for which a CPI is calculated. CPI data for Anchorage is available on a semi-annual basis back to 1984.

To produce the Anchorage CPI, the U.S. Department of Labor’s Bureau of Labor Statistics conducts detailed surveys of Anchorage consumers’ spending habits. Survey responses determine the makeup of the city’s market basket as well as the weight each item will have in the overall index. A category’s weight represents its percentage of the average consumer’s total expenditures. (See Exhibit 4.)

Not surprisingly, the CPI weights housing highest.² As a result, housing has the most influence on the overall index. Housing’s dominant weight also gives the CPI a local flavor, since housing prices can differ substantially throughout the

² The CPI measures housing prices according to “rental equivalency,” which looks at the current rental values of houses rather than actual sale prices or appraised values. This method has been criticized as not being reflective of the actual increases in consumer expenditures for housing, since rental prices have not increased as much as sale prices for homes in recent years. One of the Bureau of Labor Statistics’ responses has been that some of the increase in home values is due to investment buying and investments are excluded from CPI calculations.

Anchorage Consumer Price Index 3.1% inflation is the highest in 12 years



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

country depending on local market forces. When local CPI numbers differ substantially from national CPI numbers (see Exhibits 2 and 3), housing prices are the most likely culprit since other CPI categories such as transportation, food, clothing and recreation costs are dictated more by national and international conditions than local ones.

One example of this was during the late 1980s when Anchorage’s real estate market crashed. Falling housing prices kept Anchorage’s overall CPI nearly flat in 1987 and 1988 – 0.4 percent for each of the two years. (See Exhibit 2.) During this same period, the national housing market was robust and as a result the national inflation rate was considerably higher than Anchorage’s – 3.6 percent in 1987 and 4.1 percent in 1988.

Medical costs available again

CPI data for Anchorage medical care were published again in 2005 after being unavailable since the first half of 2002 due to an insufficient sample of medical costs.³ The lack of annual data from 2002 through 2004 makes it impos-

³ Although medical care costs were not separately published, they were still incorporated into the overall CPI.

2 Consumer Price Index - Urban U.S. city and Anchorage averages, 1960 to 2005

Year	Anchorage Average	Percent Change from Previous Year	U.S. Average	Percent Change from Previous Year
1960	34.0		29.6	
1961	34.5	1.5%	29.9	1.0%
1962	34.7	0.6%	30.2	1.0%
1963	34.8	0.3%	30.6	1.3%
1964	35.0	0.6%	31.0	1.3%
1965	35.3	0.9%	31.5	1.6%
1966	36.3	2.8%	32.4	2.9%
1967	37.2	2.5%	33.4	3.1%
1968	38.1	2.4%	34.8	4.2%
1969	39.6	3.9%	36.7	5.5%
1970	41.1	3.8%	38.8	5.7%
1971	42.3	2.9%	40.5	4.4%
1972	43.4	2.6%	41.8	3.2%
1973	45.3	4.4%	44.4	6.2%
1974	50.2	10.8%	49.3	11.0%
1975	57.1	13.7%	53.8	9.1%
1976	61.5	7.7%	56.9	5.8%
1977	65.6	6.7%	60.6	6.5%
1978	70.2	7.0%	65.2	7.6%
1979	77.6	10.5%	72.6	11.3%
1980	85.5	10.2%	82.4	13.5%
1981	92.4	8.1%	90.9	10.3%
1982	97.4	5.4%	96.5	6.2%
1983	99.2	1.8%	99.6	3.2%
1984	103.3	4.1%	103.9	4.3%
1985	105.8	2.4%	107.6	3.6%
1986	107.8	1.9%	109.6	1.9%
1987	108.2	0.4%	113.6	3.6%
1988	108.6	0.4%	118.3	4.1%
1989	111.7	2.9%	124.0	4.8%
1990	118.6	6.2%	130.7	5.4%
1991	124.0	4.6%	136.2	4.2%
1992	128.2	3.4%	140.3	3.0%
1993	132.2	3.1%	144.5	3.0%
1994	135.0	2.1%	148.2	2.6%
1995	138.9	2.9%	152.4	2.8%
1996	142.7	2.7%	156.9	3.0%
1997	144.8	1.5%	160.5	2.3%
1998	146.9	1.5%	163.0	1.6%
1999	148.4	1.0%	166.6	2.2%
2000	150.9	1.7%	172.2	3.4%
2001	155.2	2.8%	177.1	2.8%
2002	158.2	1.9%	179.9	1.6%
2003	162.5	2.7%	184.0	2.3%
2004	166.7	2.6%	188.9	2.7%
2005	171.8	3.1%	195.3	3.4%

Note: The base years are 1982 to 1984.

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

sible to calculate yearly percentage increases over that period, but there is no doubt that health care prices have been soaring. Between 2001 and 2005, medical costs increased by 22 percent.

Over the longer term, no other component of the CPI comes close to matching the increase in costs for medical care. (See Exhibit 5.) Since 1984, medical care has increased by a whopping 226 percent. Nationally the story is much the same, with an increase of nearly 203 percent over the same period. Whether medical costs will continue to rise at such a pace is uncertain, but one factor suggesting they might is increasing demand, fueled by the aging baby boomer population.

CPI can't be used for geographic comparisons

National and city-specific CPI data are released as index numbers from which percent changes are then calculated. In 2005, for example, the U.S. index was 195.3 and Anchorage's was 171.8. (See Exhibit 2.) The reference base for both areas is 1982-1984, which means that since those base years, U.S. prices have risen 95.3 percent and Anchorage prices have risen 71.8 percent.

What the higher U.S. number does not mean is that U.S. prices are higher than Anchorage's. The only conclusion that can be drawn from the higher U.S. number is that, since the 1982-1984 period, prices have increased more nationally than they have for Anchorage. As other cost-of-living studies show, prices in Anchorage and other Alaska cities are still higher than the national average. What these studies and the CPI data confirm, however, is that the difference between Alaska prices and nationwide averages is significantly smaller than it used to be.

Food costs especially high in Southwest Alaska

Four times a year the University of Alaska Fairbanks' Cooperative Extension Service surveys food costs in about 20 Alaska communities and Portland, Ore. (See Exhibits 6 and 7.) The food

The Consumer Price Index in Anchorage and the U.S.

Annual averages for selected components, 1983 to 2005



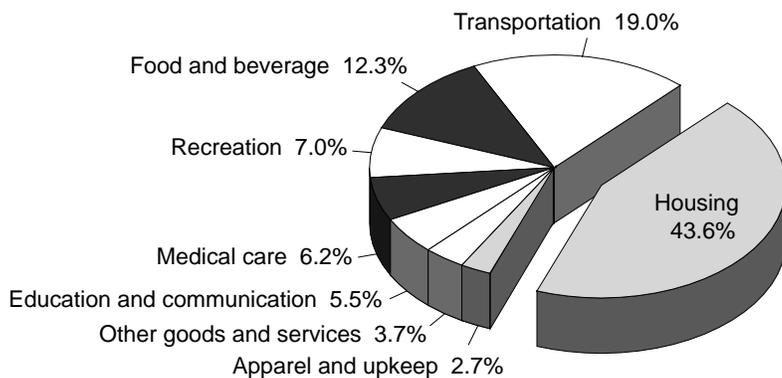
Year	ALL ITEMS EXCEPT SHELTER				HOUSING				TRANSPORTATION			
	U.S. Average	Percent Change from Prev. Year	Anchorage Average	Percent Change from Prev. Year	U.S. Average	Percent Change from Prev. Year	Anchorage Average	Percent Change from Prev. Year	U.S. Average	Percent Change from Prev. Year	Anchorage Average	Percent Change from Prev. Year
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	2.5%	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%
2005	186.1	3.8%	177.5	3.4%	195.7	3.3%	153.1	2.7%	173.9	6.6%	171.7	5.5%

Year	FOOD and BEVERAGES				MEDICAL CARE ¹				APPAREL and UPKEEP			
	U.S. Average	Percent Change from Prev. Year	Anchorage Average	Percent Change from Prev. Year	U.S. Average	Percent Change from Prev. Year	Anchorage Average	Percent Change from Prev. Year	U.S. Average	Percent Change from Prev. Year	Anchorage Average	Percent Change from Prev. Year
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	-1.0%	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%
2005	191.2	2.5%	173.1	2.5%	323.2	4.2%	344.2	-----	119.5	-0.1%	121.3	-2.1%

¹ No index was created for medical care for Anchorage for the years 2002 to 2004.

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

4 Consumers Spend Most on Housing Consumer Price Index weighting¹

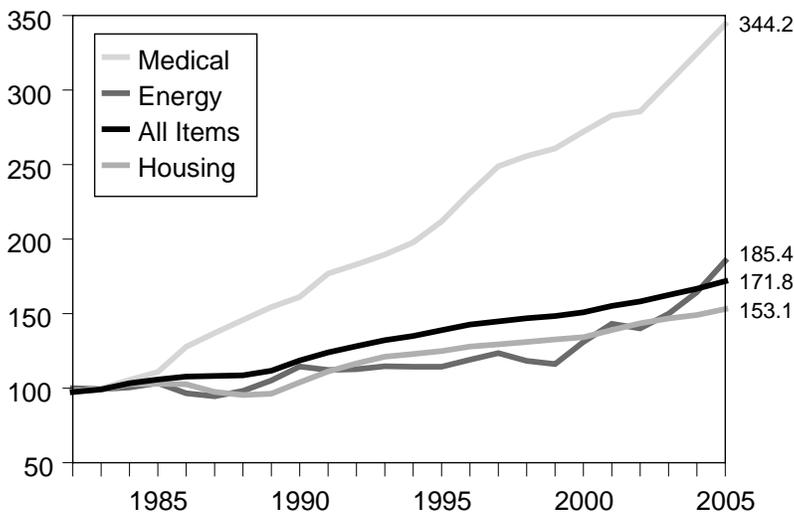


¹ As of December 2005

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

5 Health Care in its Own League Anchorage Consumer Price Index

Index Values



Note: The base years are 1982 to 1984.

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

items selected are based on a national survey of eating habits and are meant to represent a low-cost, balanced diet. Prices are also gathered for electricity, heating oil, automobile gas, lumber and propane.

The survey is especially useful because it covers so many different Alaska communities. In many of the areas, the survey is the only source of cost-of-living information. It is important to note, however, that because the survey is mostly

limited to food, which is only part of the average consumer's expenditures, it should be used with caution when it is used as a substitute for a more comprehensive cost-of-living comparison. The fact that food costs in St. Paul are twice as expensive as food costs in Ketchikan, for example, does not necessarily mean that the overall cost of living in St. Paul is twice as high as in Ketchikan.

Another limitation of the survey is that it uses the same market basket of food items for all areas, despite the fact that there may be significant differences between the list of food items consumed by a family in Anchorage and that consumed by a family in Bethel. The survey recently began including the cost of having grocery items delivered by mail, but it does not account for subsistence-harvested meat, fish, berries and other items that often replace store-bought food.

Within Alaska, food costs were the lowest in the Mat-Su area, Fairbanks and Anchorage, although all of the Alaska communities surveyed had at least slightly higher food costs than Portland, Ore. (See Exhibit 6.) The highest cost areas tend to be the most remote, requiring delivery of food by air for much of the year and by barge during the summer months. St. Paul, Naknek-King Salmon, Dillingham, Bethel and Dutch Harbor all fall into this category.

The next tier consists of relatively small communities that lie on a major transportation system – either a road system or the Alaska Marine Highway. Among those included in this group are Kodiak, Haines, Cordova and Seward. Other important factors in the cost of food are proximity to larger population centers, the year-round stability of a community's population and the level of competition within the local market.

High rents in Kodiak and Juneau

Housing costs can be a good proxy for an area's cost of living because they make up such a large percentage of total household expenditures. A 2005 survey of rental prices for housing in 10 areas around the state, conducted by

the Alaska Department of Labor & Workforce Development for the Alaska Housing Finance Corporation, shows that renting a house was most expensive in Juneau and renting an apartment was most expensive in Kodiak. (See Exhibits 8 and 9.)

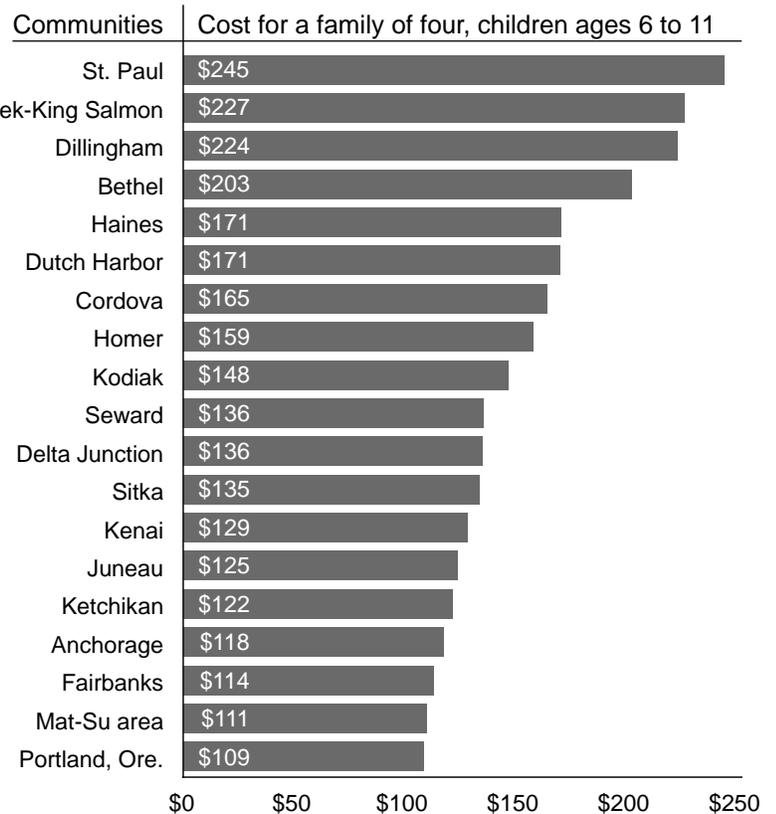
According to the survey, the median rent and utilities for a three-bedroom single-family home in Juneau was \$1,617, a 6 percent increase from 2004 and more than double the median cost in the Wrangell-Petersburg Census Area. Kodiak Island Borough saw the biggest increase in housing rental costs from 2004 to 2005, rising from \$1,180 to \$1,305 – a jump of 11 percent. Wrangell-Petersburg, the Kenai Peninsula Borough and Sitka all experienced reductions in housing rental prices and the remaining areas surveyed had moderate increases.

Kodiak apartment rentals also increased substantially in 2005, jumping 9 percent from \$1,015 to \$1,111. The median rental price of a two-bedroom apartment in eight of the other nine areas surveyed increased much more modestly and in the Wrangell-Petersburg Census Area the median rent actually fell by \$70.

Rural Alaskans Pay More for Food

Food costs at home for a week, December 2005

6



Source: University of Alaska Fairbanks' Cooperative Extension Service

What would \$100 in 1980 equal today?

The Anchorage Consumer Price Index can help determine how much money it would take today to equal a dollar amount from some earlier year. To illustrate, this equation shows how \$100 in 1980 would be equal to \$201 in 2005.

$$\frac{\text{2005 Anchorage CPI (see Exhibit 2)}}{\text{Divided by 1980 Anchorage CPI}} = \frac{171.8}{85.5} = 2.01$$

The 2.01 is then multiplied by the number of 1980 dollars in order to find the 2005 equivalent (\$100 x 2.01 = \$201). Another way to describe this is to say that \$100 in 1985 had the same purchasing power as \$201 had in 2005.

The formula can also be reversed to deflate current dollars to some earlier year (for example, \$100 in 2005 would equal about \$50 in 1980). Inflation calculators that require only the years and a dollar amount are available at several Web sites, including ours: almis.labor.state.ak.us. (Click on "Cost of Living" in the left margin; then click on "Inflation Calculator," which is based on the U.S. Consumer Price Index.)

7 The Cost of Food at Home for a Week in Eight Alaska Cities

Cost for a family of four with children ages 6 to 11, 1978 to 2005^{1,2}

Year ³	Anchorage	Fairbanks	Percent of Anchorage	Juneau	Percent of Anchorage	Bethel	Percent of Anchorage	Nome	Percent of Anchorage	Kodiak	Percent of Anchorage	Kenai ⁴ /Soldotna	Percent of Anchorage	Tok	Percent of Anchorage
1978	\$76.67	\$84.15	110%	\$73.72	96%	\$114.05	149%	\$118.85	155%	-	-	\$82.48	108%	-	-
1979 ⁴	\$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%
2005	\$121.50	\$123.72	102%	\$123.60	102%	\$202.08	166%	\$199.08	164%	\$147.77	122%	\$128.05	105%	\$126.03	104%

¹ Sales tax included in food prices.

² A hyphen means data are unavailable.

³ Data are for September of each year.

⁴ September 1979 data for Kenai/Soldotna are not available; December 1979 data are used instead.

Source: University of Alaska Fairbanks' Cooperative Extension Service, "Cost of Food at Home for a Week in Alaska." The food survey can be found at www.uaf.edu/ces/fcs/index.html.

Average selling price for houses highest in Anchorage

Prices for single-family homes have skyrocketed in recent years. Another survey conducted for AHFC shows that the average sale price rose 9 percent from the second half of 2004 to the second half of 2005. For the first time, Anchorage had the highest average sales price at \$294,000, bumping

Juneau down to second at \$281,000. (See Exhibit 10.) Strong economic growth and a shrinking inventory of undeveloped land help explain the 11 percent increase in Anchorage's numbers.

It is important to recognize, however, that average sales price data do not necessarily represent the average prices for an area's total single-family housing stock, but merely the portion that was

sold in the given time period. Average sales prices were lowest among the specific areas surveyed in the Kenai Peninsula Borough (\$195,000) and Fairbanks (\$200,000).

Housing is among the most affordable in Fairbanks

Housing affordability indexes combine the sales price data above with average wages in the same area to determine how many wage earners are necessary to afford the average home. In Fairbanks, for example, it takes 1.3 wage earners to buy an average-priced single-family Fairbanks home. (See Exhibit 11.) Higher index numbers represent less affordable housing.

Although housing in the Matanuska-Susitna Borough is relatively inexpensive, lower than average wages make housing less affordable for those who live and work there than it is in many other areas of the state. At the other end of the spectrum, Anchorage’s high housing costs are partially offset by higher than average wages, making housing slightly more affordable for those who live and work there.

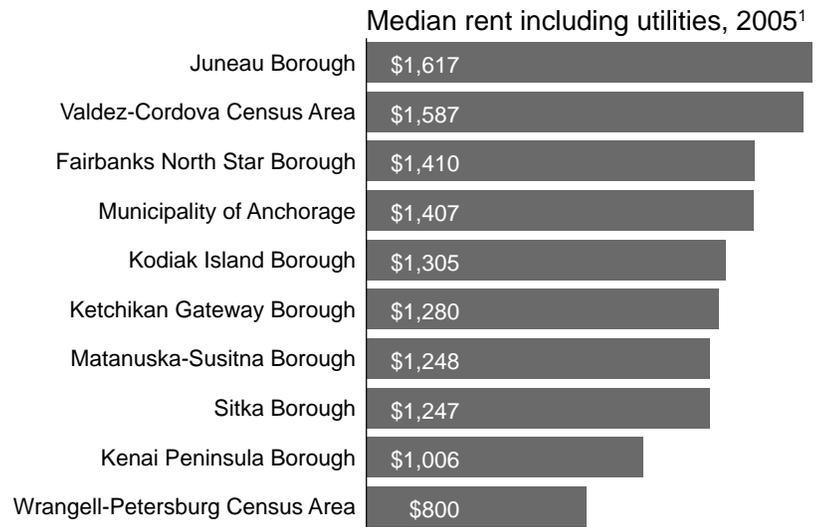
Not surprisingly, many Mat-Su residents commute to Anchorage to get the best of both worlds – inexpensive housing and high wages. This group shares honors with Fairbanks for the most affordable housing in the state. Housing in Bethel is the least affordable among the areas studied due to a combination of high average housing costs and relatively low average wages.

Statewide, the affordability index rose to 1.5 in the second half of 2005, up from 1.4 a year earlier. The last time the index was as high as 1.5 was in 2000. With the exception of Kodiak, all areas surveyed saw increases in their index numbers. Kodiak enjoyed an improvement in housing affordability due to a higher than average increase in wages – 7 percent compared to the statewide average of 4 percent.

ACCRA focuses on high-income households

Every quarter the ACCRA (formerly the American Chamber of Commerce Researchers Associ-

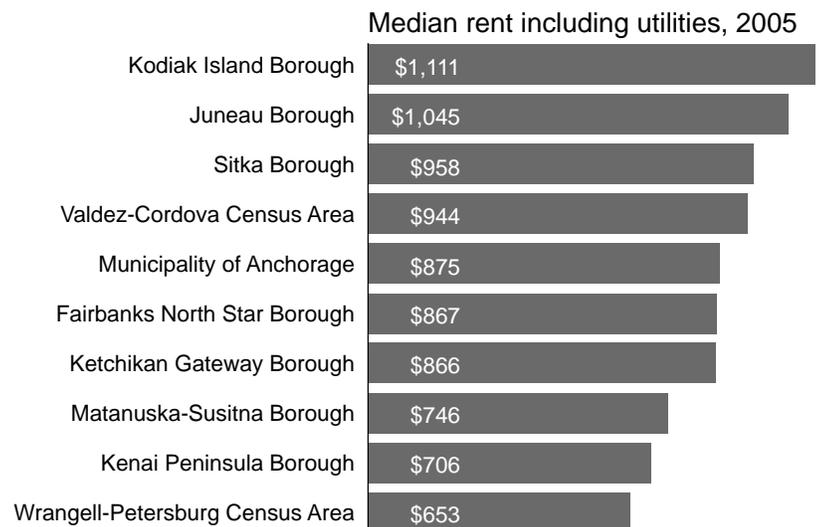
Rent for a Three-Bedroom Home 8 Highest rents in Juneau and Valdez/Cordova



¹ For a single-family home

Sources: Alaska Department of Labor & Workforce Development, Research and Analysis Section; and the Alaska Housing Finance Corporation’s 2005 Rental Market Survey

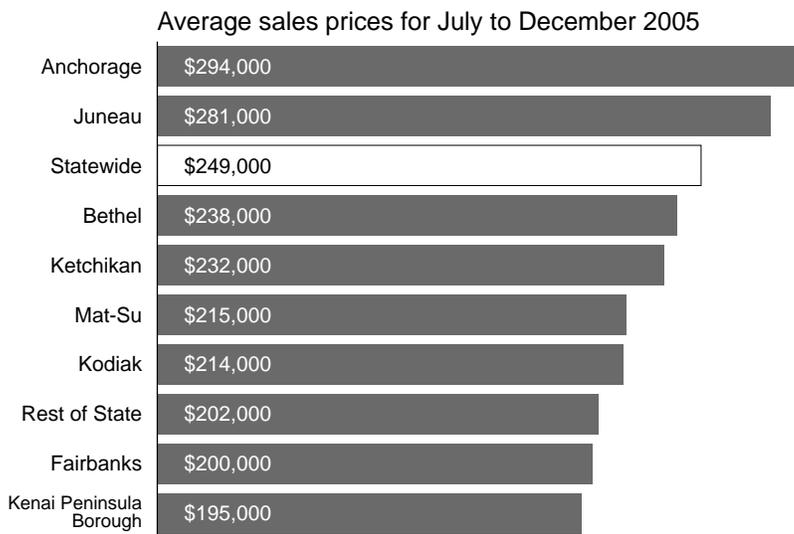
Rent for Two-Bedroom Apartments 9 Rental costs are highest in Kodiak and Juneau



Sources: Alaska Department of Labor & Workforce Development, Research and Analysis Section; and the Alaska Housing Finance Corporation’s 2005 Rental Market Survey

10 The Cost of Single-Family Homes

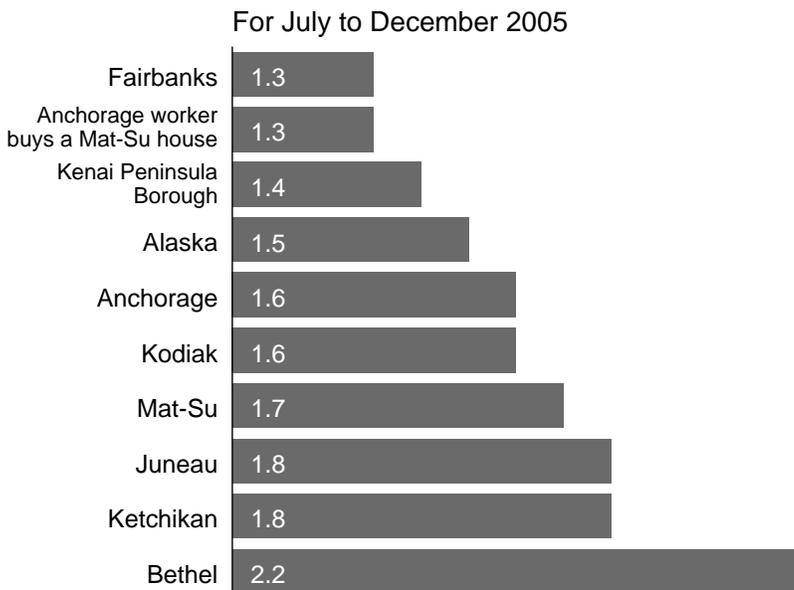
Prices in Anchorage surpass Juneau



Sources: Alaska Department of Labor & Workforce Development, Research and Analysis Section; and the Alaska Housing Finance Corporation's 2005 Survey of Lender's Activity

11 Housing Affordability

Wage earners needed to buy average house



Sources: Alaska Department of Labor & Workforce Development, Research and Analysis Section; and the Alaska Housing Finance Corporation's 2005 Alaska Affordability Index

ation) Cost of Living Index provides comparisons of living costs for about 300 urban areas in the United States. ACCRA looks at costs for professional and managerial households with incomes in the top 20 percent for the area.

In recent years ACCRA data have consistently shown that for this specific group of households, Alaska cities are from 15 percent to 33 percent more expensive than the average of all cities surveyed. For the first quarter of 2006, the four Alaska cities covered by ACCRA ranged from about 17 percent to about 33 percent more expensive than the average city. (See Exhibit 12.)

ACCRA data are collected by organizations in the cities that volunteer to participate and meet certain minimum standards. As a result, there is more room for error than in some surveys and ACCRA encourages users not to use percentage differences as exact measures. This may partly explain why ACCRA data show that Fairbanks housing costs exceed those for Anchorage, despite the fact that the AHFC data discussed above show that Fairbanks housing is significantly less expensive than Anchorage's.⁴

Runzheimer looks at lower-income households

The Runzheimer Plan of Living Cost Standards provides useful information about households on the lower end of the income spectrum.⁵ Runzheimer data are designed to show how much more or less it would cost in different cities to maintain the standard of living a specific income level would provide in a standard U.S. city. The data show that maintaining the living standards of a household with \$32,000 in income in the standard city would require \$40,289 in Juneau, \$36,884 in Anchorage, and \$34,645 in Fairbanks. (See Exhibit 13.)

⁴ There are other possible explanations based on the surveys' different target groups and methodologies, but it seems likely that at least part of the reason for the unusually high Fairbanks housing costs is survey error, given all of the other available housing cost data.

⁵ The Alaska Department of Labor's Workers' Compensation Division contracts with Runzheimer International to survey geographic cost differentials for households with specific annual incomes every two years in order to equalize workers' compensation payments.

Professional and Managerial Households with Incomes in the Top 20% ACCRA¹ Cost of Living Index for selected cities, First Quarter 2006

12

Region City	Items Index Costs	Grocery Items	Housing	Utilities	Transportation	Health Care	Misc. Goods and Services
Anchorage	117.4	125.2	122.6	88.2	102.0	135.1	121.1
Fairbanks	124.1	123.9	130.7	139.3	106.7	135.8	118.3
Juneau	132.6	140.0	146.3	130.6	116.7	151.2	121.9
Kodiak	126.4	145.9	125.7	129.0	128.7	135.3	117.4
West							
Seattle	116.3	110.0	136.8	93.6	108.7	117.1	110.6
Vancouver, Wash.	97.9	92.7	95.8	83.9	104.5	111.8	102.1
Los Angeles-Long Beach	158.2	135.8	271.7	102.9	115.0	116.6	108.7
San Francisco	170.6	145.3	283.9	86.6	112.0	126.9	135.1
Las Vegas	106.1	96.7	123.1	116.4	107.8	102.3	93.2
Southwest/Mountain							
Boise, Idaho	98.0	93.6	89.3	92.7	98.8	102.2	107.5
St. George, Utah	98.2	93.4	102.5	77.7	92.4	89.7	105.1
Phoenix	103.8	99.1	113.4	90.4	101.4	100.8	102.7
Denver	100.4	103.7	106.7	94.3	94.7	102.5	97.1
Dallas	95.8	105.8	78.4	119.1	102.6	99.7	97.0
Midwest							
Rochester, Minn.	99.7	88.9	89.5	128.1	97.6	103.8	103.9
Cleveland	98.0	106.4	92.0	112.4	99.1	100.9	95.0
Chicago	111.9	109.4	133.5	107.2	105.2	107.5	99.3
Southeast							
Orlando, Fla.	102.9	94.9	108.0	91.2	107.0	94.4	104.8
Montgomery, Ala.	95.1	92.9	89.0	98.5	98.8	87.1	99.6
Atlanta	97.5	97.8	96.3	86.2	102.0	101.2	99.9
Raleigh, N.C.	93.1	101.1	75.9	95.7	100.1	118.1	98.3
Atlantic/New England							
New York City - Manhattan	201.2	144.6	373.6	135.1	108.6	127.8	138.2
Boston	133.6	112.6	163.2	126.0	111.5	130.4	126.4
Philadelphia	124.0	123.7	144.7	115.2	110.0	115.9	115.1

Note: Index numbers represent a comparison to the average for all cities studied. For example, 117.4 means that city has 17.4 percent higher costs than the average.

¹ ACCRA, founded in 1961 as the American Chamber of Commerce Researchers Association, is a nonprofit professional organization. The ACCRA Cost of Living Index's stated purpose is to compare the cost of maintaining a standard of living appropriate for moderately affluent professional and managerial households. It has been published quarterly since 1968.

Source: ACCRA Cost of Living Index

Compared to the ACCRA survey, the percentage difference between Alaska cities and the respective averages for cities covered is not dramatically different with the exception of Fairbanks where the 24 percent ACCRA difference shrinks to 8 percent in the Runzheimer data. Of the three cities studied, Juneau's relatively low-income households face the highest costs.

The military's cost-of-living index

In order to roughly equalize payments to military personnel, the Department of Defense produces a cost-of-living index for areas where troops are or may be stationed outside the Lower 48. (See Exhibit 14.) The index compares prices for about 120 goods and services,

13 Gap is Smaller for Low-Income Households

Runzheimer Plan of Living Cost Standards, December 2004¹

	Total Costs	Percent of Standard City	Taxation	Percent of Standard City	Transportation	Percent of Standard City	Housing	Percent of Standard City	Misc. Goods and Services	Percent of Standard 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, Ore.	33,802	105.6%	3,390	107.2%	4,367	100.0%	16,386	116.8%	11,383	99.9%
Bellingham, Wash.	35,976	112.4%	2,448	77.4%	4,684	107.3%	17,835	127.1%	11,836	103.9%
Corvallis, Ore.	33,880	105.9%	3,390	107.2%	4,358	99.8%	16,458	117.3%	11,398	100.1%
Hilo, Hawaii	36,636	114.5%	3,123	98.7%	5,582	127.9%	16,207	115.5%	12,931	113.5%
Lakeport, Calif.	41,802	130.6%	2,448	77.4%	5,272	120.8%	22,993	163.8%	12,141	106.6%
Los Angeles	57,446	179.5%	2,448	77.4%	6,488	148.6%	36,888	262.8%	12,556	110.2%
Yakima, Wash.	31,293	97.8%	2,448	77.4%	4,680	107.2%	13,188	94.0%	11,836	103.9%
Southwest/Mountain										
Cody, Wyo.	27,961	87.4%	2,448	77.4%	4,539	104.0%	11,305	80.5%	10,850	95.3%
El Paso, Texas	27,649	86.4%	2,448	77.4%	4,643	106.4%	11,035	78.6%	10,746	94.3%
Flagstaff, Ariz.	34,974	109.3%	2,719	86.0%	4,670	107.0%	16,753	119.4%	11,815	103.7%
Jackson, Wyo.	51,455	160.8%	2,448	77.4%	4,539	104.0%	34,691	247.2%	10,850	95.3%
Lewiston, Idaho	30,521	95.4%	2,790	88.2%	4,482	102.7%	13,822	98.5%	10,551	92.6%
Reno, Nev.	35,262	110.2%	2,448	77.4%	4,953	113.5%	17,147	122.2%	11,584	101.7%
Provo, Utah	30,676	95.9%	3,175	100.4%	4,660	106.8%	12,755	90.9%	11,122	97.6%
Midwest										
Grand Rapids, Minn.	30,360	94.9%	2,583	81.7%	4,960	113.6%	13,228	94.3%	10,930	96.0%
Lansing, Mich.	36,102	112.8%	2,744	86.8%	5,535	126.8%	17,717	126.2%	11,236	98.6%
Oklahoma City	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, Tenn.	28,806	90.0%	2,448	77.4%	4,168	95.5%	11,703	83.4%	11,195	98.3%
New Orleans	30,524	95.4%	3,091	97.7%	5,475	125.4%	12,033	85.7%	10,924	95.9%
West Palm Beach, Fla.	37,478	117.1%	2,448	77.4%	5,433	124.5%	19,155	136.5%	11,559	101.5%
Wilmer, Ala.	27,471	85.8%	3,433	108.5%	4,211	96.5%	10,313	73.5%	10,692	93.9%
Atlantic/New England										
Boston	48,062	150.2%	3,241	102.5%	6,361	145.7%	27,570	196.4%	12,335	108.3%
Elmira, N.Y.	29,160	91.1%	3,099	98.0%	4,659	106.7%	11,303	80.5%	11,036	96.9%
Trenton, N.J.	45,624	142.6%	2,754	87.1%	5,453	124.9%	27,391	195.2%	11,436	100.4%

¹ Runzheimer International is a private consultant that provides geographic cost comparisons on a contract basis. The data in this exhibit were produced by Runzheimer for the Alaska Department of Labor's Workers' Compensation Division for the purpose of equalizing workers' compensation payments. Runzheimer's Web site is www.runzheimer.com.

Source: Runzheimer International

including food, clothing, personal care, vehicles, transportation, medical care and utilities. The index does not include housing, which is treated separately by the military with specific housing allowances for different locations. It also does not cover taxes or insurance.

The military index is a helpful addition to the library of Alaska cost-of-living information

because it includes data for so many Alaska locations – 27 in 2006 – and also because it is updated frequently. For the goods and services included in the index, Barrow, Bethel, Dillingham, Galena, Kotzebue, Metlakatla, Nome and Wainwright had the highest prices. Wasilla had the lowest prices, with Anchorage a close second. Fairbanks and Juneau were also relatively inexpensive, confirming that goods and

services are generally cheaper in the state's population centers.

Geographic pay for state workers

A 1986 study of geographic cost differences done by the McDowell Group, a research and consulting firm, is still used in state workers' salary schedules and, though dated, remains helpful for the general information it gives on cost-of-living differences around the state. (See Exhibit 15.) The study's authors noted that the areas studied fell into distinct groups, with the least expensive group consisting of the larger urban communities and the most expensive consisting of remote, small communities and villages with minimal retail development, small but expensive housing and a lack of ground transportation access. The same factors certainly apply 20 years later.

Federal COLA is changing

For decades, most federal workers in Alaska have received a 25 percent tax-free cost-of-living adjustment. Originally, the figure was based on the cost differences between living in Washington, D.C., and Alaska, but over time the number became less and less defensible on economic grounds.

After years of study, the federal government has decided to phase out the flat 25 percent supplement and replace it with more specific locality supplements. Eventually, federal workers in Anchorage will receive a 14 percent supplement, Fairbanks 16 percent and Juneau 18 percent.⁶ The new percentages are based on surveys conducted in 2003 and will apply to all areas within a 50 mile radius of the three communities. All other areas of the state will continue to receive the 25 percent supplement.

The percentages will be updated every three

⁶ Federal workers will have their supplemental pay reduced by a percentage point a year until the new percentages are reached.

Military Cost-of-Living Allowances OCONUS¹ Index, Alaska 2006

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Location	Index
Anchorage	122
Barrow	152
Bethel	152
Clear Air Station, USAF (south of Nenana)	124
College (near Fairbanks)	124
Cordova	134
Delta Junction	126
Dillingham	152
Fairbanks	124
Galena	152
Homer	134
Juneau	128
Kenai/Soldotna	134
Ketchikan	138
Kodiak	128
Kotzebue	152
Metlakatla	152
Nome	152
Petersburg	138
Seward	134
Sitka	136
Spruce Cape (on Kodiak Island)	128
Tok	132
Unalaska	128
Valdez	134
Wainwright	152
Wasilla	120

¹ OCONUS is an acronym for Outside the Continental U.S.; Alaska is counted as an OCONUS location.

Source: Department of Defense, as posted in June 2006

15 Geographic Pay Differential¹ State of Alaska

	Cost-of-Living Differential
Aleutian Islands	112
Aniak, Galena and McGrath	130
Anchorage	100
Barrow and Kotzebue	142
Bethel	138
Bristol Bay	127
Cook Inlet and Kenai	100
Cordova, Glennallen and Valdez	111
Delta Junction and Tok	116
Fairbanks	104
Fort Yukon	142
Haines, Skagway and Yakutat	105
Juneau	100
Ketchikan	100
Kodiak	109
Nenana	120
Nome	134
Palmer and Wasilla	100
Seward	100
Sitka	100
Wade Hampton Census Area	130
Wrangell and Petersburg	100

¹ Based on a 1986 McDowell Group study

Source: Alaska Department of Administration

years based on new survey information and since a new round of surveys is currently being conducted, they could change in the near future. There is also the possibility of delay in implementation since some of the affected federal employees have sued to prevent the planned changes from going forward.

Alaska is still expensive – but less so than it used to be

Each of the many surveys and studies discussed in this article provides useful information about the cost of living in Alaska. Taken as a whole, they clearly indicate that it generally costs more to live in Alaska than in the average U.S. city.

Alaska Cost-of-Living Information on the Internet

Aside from the information in the preceding article, there are Web sites that can provide quick cost-of-living comparisons. Most of the data provide little detail but the Web sites can be a handy quick reference.

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

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

The U.S. Department of Labor's Bureau of Labor Statistics' Consumer Price Index site provides CPI data for Anchorage and other areas throughout the U.S., as well as general, technical and research information on the index. The site also has an inflation calculator.

www.stats.bls.gov/cpi/home.htm

Other private Web sites include ACCRA, which was mentioned in the preceding article, and CityRating.com.

www.cityrating.com/costofliving.asp
www.accra.org