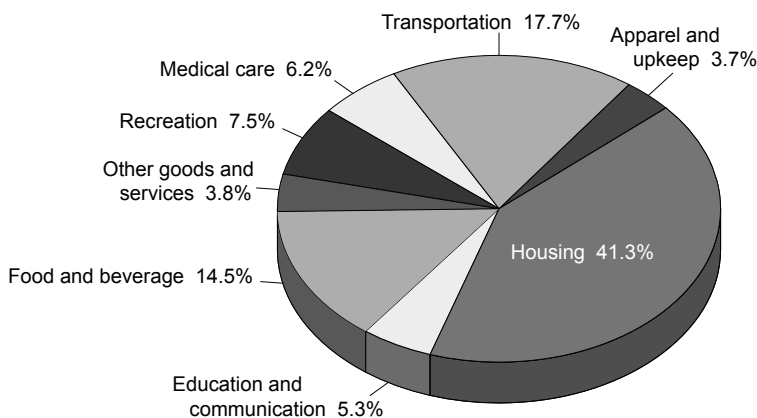


Alaskans love to talk about it

Alaska's cost of living is frequently a topic of casual conversation and sometimes a cause for heated debates. For many years, a great deal of myth and lore has surrounded the idea of how much things cost in the Last Frontier. Cost of liv-

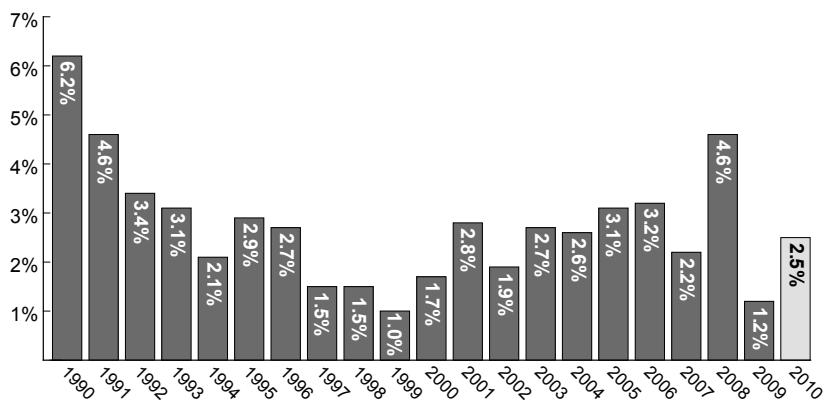
ing information ranks among the most requested economic data. It's also a story that is in constant flux, making up-to-date information vitally important. This article attempts to corral cost of living information from a variety of sources into one place.

1 Largest Slice of the Pie is Housing CPI weighting, December 2009



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

2 Inflation remains moderate in 2010 Changes in Anchorage CPI-U, 1990 to 2010¹



¹ The CPI for 2010 is the percent increase in the index from the first half of 2009 to the first half of 2010. All of the other percentages are annual averages for 1990-2009.

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

Different ways to measure the cost of living

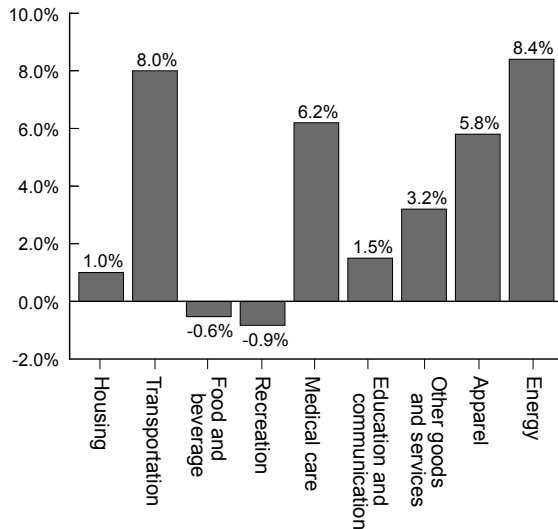
There are two very different cost of living measures that help answer two different questions.

One measure observes the change in the cost of living from one time period to another for a specific geographic place. It is popularly referred to as the inflation rate and is measured by the Consumer Price Index, commonly known as the CPI.¹ Workers, unions, employers and others pay close attention to the CPI. Bargaining agreements and other wage rate negotiations often incorporate an adjustment for inflation. However, the CPI also plays a role in long-term real estate rental contracts, child support payments and budgeting. Most Alaskans are affected when the Permanent Fund Corporation uses the CPI to inflation proof the fund. When trying to determine a change in the cost of living, the CPI needs to be used.

The other type of cost of living measure addresses cost differences between two places. For example, is it more expensive to live in Fairbanks than Palmer? Differentials result from comparing costs of living among different communities in Alaska and other places around the country. These studies assume a certain consumption pattern and investigate how much more or less it costs to maintain a specific standard of living.

¹ All references to the CPI refer to the CPI-U.

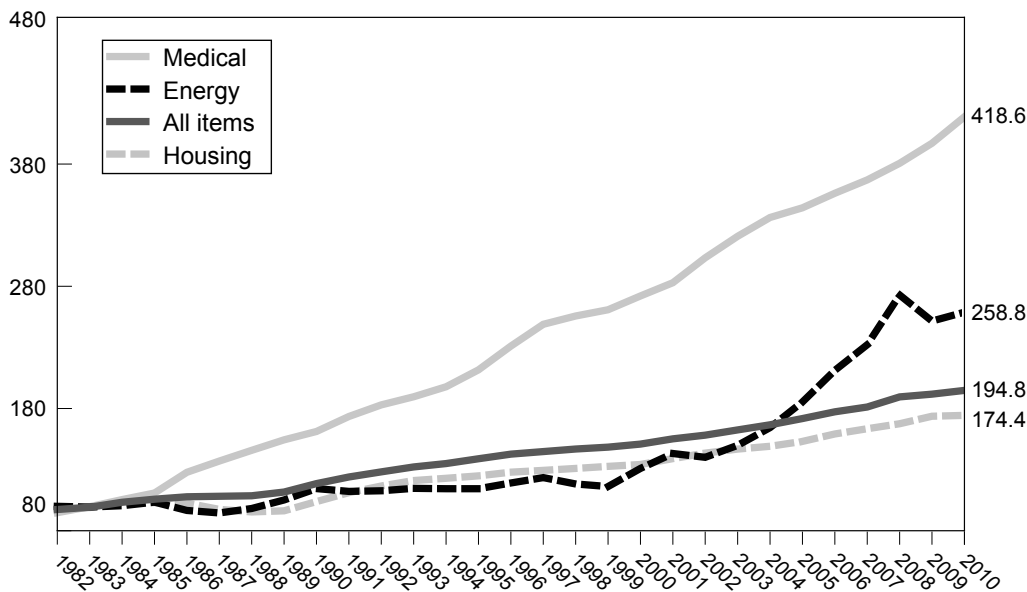
3 Behind the 2.5 Percent Increase Increase by major CPI components, 2010¹



¹ The CPI for 2010 is the percent increase in the index from the first half of 2009 to the first half of 2010.

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

4 Medical In its Own League Selected components of Anchorage CPI, 1982-2010¹



¹The CPI for 2010 is the percent increase in the index from the first half of 2009 to the first half of 2010. All of the other percentages are annual averages for 1982-2009.

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

Some examples of these measures include the following: McDowell Group's Alaska Geographic Differential Study, Runzheimer's Living Cost Index, Cooperative Extension Service's Food Cost Survey, and Alaska Housing Finance Corporation's Survey of Mortgage Lending Activity.

Treat these indicators with care

All measures of the cost of living have shortcomings. It's far from a perfect science and some measures are much better than others. No two consumers spend their money alike; no index exists that accurately captures all the differences. For example, the average household in Kotzebue may spend its income quite differently than the average household in Haines, and the differences could be even more dramatic when compared to a household in Washington D.C.

Also, consumers' spending habits are continuously in flux. Technology keeps advancing, tastes change and people react differently to changes in consumer prices. In spite of these difficulties, most of the cost of living indexes measure prices from a sample of goods and services believed to best mimic the average consumer or a specific

group of consumers. This list of items is often referred to as a market basket. Items such as housing, food, transportation, medical and entertainment are included in these baskets. Some indexes go to great lengths to construct these market baskets while others are very simple.

How fast are prices rising?

The U.S. Department of Labor, Bureau of Labor Statistics produces the Anchorage Consumer Price Index, which is probably the most important cost of living index in Alaska. Anchorage is one of 27 urban areas where the bureau tracks changes in consumer prices. The Anchorage CPI is often treated as the de facto statewide inflation measure.²

The Bureau of Labor Statistics goes to great lengths and expense to produce the CPI. It con-

² Anchorage is in a group of 13 metropolitan areas for which data are published every six months and is the only city in Alaska for which a CPI rate is calculated by the Bureau of Labor Statistics.

ducts elaborate surveys of consumers' spending habits to examine the market basket of goods and determine the location specific weights of the goods. (See Exhibit 1.)

The Bureau of Labor Statistics produces two price indexes. The Consumer Price Index for Wage and Clerical Workers is known as the CPI-W, and the Consumer Price Index for All Urban Consumer is called the CPI-U. The CPI-W consumer coverage is derived from a significantly smaller consumer group. The CPI-U is the most prominent measure and is used more frequently than any other measure that observes price changes on a national or local scale. All references to the CPI in this article refer to the CPI-U.

The Anchorage CPI is produced twice each year for the periods of January to June and July to December. Information for the latter of the two periods is released in February of the following year; next, the annual average index is calculated. The annual CPI figure is the rate most often observed as the measure of Alaska's inflation.

There is a national CPI and also separate indexes for 27 metropolitan areas around the country. The CPI should not be used to compare costs between different locations. The CPI only measures changes in prices for an individual geographic location.

Inflation increases some in 2010

From the first half of 2009 to the first half 2010, Anchorage's inflation rate was 2.5 percent. (See Exhibit 2.) Rising prices for gasoline and health care explain much of the increase. Gasoline prices peaked in 2008, came down in 2009, and increased again by 31 percent between the first half of 2009 and the first half of 2010. During the same time period, health care costs grew by 6.2 percent. (See Exhibit 3.)

Most consumers spend the largest share of their consumption dollars on housing. (See Exhibit 1.) As a result, housing has a powerful influence on the overall index. Housing also gives the CPI its local flavor because local market forces exert influence on housing prices. In contrast to housing,

Geographic Cost Differentials by Area Alaska, 2008

5

Anchorage	1.00
Mat-Su	0.95
Glennallen Region	0.97
Parks/Elliott/Steese Highways	1.00
Kenai Peninsula	1.01
Southeast Small Communities	1.02
Fairbanks	1.03
Delta Junction/Tok Region	1.04
Southeast Mid-Size Communities	1.05
Prince William Sound	1.08
Ketchikan/Sitka	1.09
Juneau	1.11
Kodiak	1.12
Roadless Interior	1.31
Southwest Small Communities	1.44
Arctic Region	1.48
Bethel/Dillingham	1.49
Aleutian Region	1.50

Source: The McDowell Group

Geographic Cost Differentials By Alaska communities, 2008

6

Anchorage	1.00
Homer	1.01
Ketchikan	1.04
Petersburg	1.05
Valdez	1.08
Cordova	1.13
Sitka	1.17
Dillingham	1.37
Nome	1.39
Barrow	1.50
Bethel	1.53
Unalaska/Dutch Harbor	1.58
Kotzebue	1.61

Note: Anchorage was used as the base city and assigned a value of 1.00 from which comparisons of the other areas could be made. For example, Mat-Su's index number of 0.95 means that living costs there are 95 percent as high as Anchorage's; the Aleutian region's 1.50 index number means costs there are 150 percent as high as in Anchorage.

Source: The McDowell Group

the cost of most others goods and services is largely influenced by national or international trends.

During most of the past decade, housing markets in Anchorage were not radically different from those in the nation as a whole. However, over the past three years, there was some divergence in that trend. In the first half of 2010, Anchorage's CPI housing component increased by 1 percent, while the nation's housing prices declined by 0.6 percent.

Health care remains an outlier

Health care by itself is not a large enough category to influence the Anchorage CPI very much,

7 Alaska Cities More Expensive for Professional Households

ACCRA¹ Cost of Living Index, selected cities, 2009

	Items Index Costs	Grocery Items	Housing	Utilities	Transportation	Health Care	Miscellaneous Goods and Services
Anchorage, AK	124.6	129.3	137.0	101.9	118.2	127.6	120.5
Fairbanks, AK	134.2	123.9	150.2	159.4	126.5	144.3	117.7
Juneau, AK	125.9	130.4	134.8	130.8	125.7	142.2	112.5
Kodiak, AK	125.5	145.0	121.9	127.5	140.5	128.7	114.4
West							
Portland, OR	116.5	115.5	128.7	93.4	112.5	108.6	115.6
Honolulu, HI	166.3	157.6	248.8	139.9	128.1	117.6	123.8
San Francisco, CA	162.9	118.6	273.0	92.4	112.6	118.6	127.5
Reno, NV	105.9	107.2	112.3	97.2	108.7	105.5	101.4
Seattle, WA	123.3	112.0	151.2	83.1	117.4	121.8	117.7
Spokane, WA	93.1	93.7	83.1	84.7	106.4	106.7	97.8
Tacoma, WA	107.6	107.5	116.5	83.5	108.1	117.0	105.7
Bellingham, WA	112.4	110.0	133.2	85.8	115.9	114.5	101.4
Boise, ID	95.0	94.4	83.4	100.8	103.4	103.3	99.7
Bozeman, MT	104.4	108.3	109.3	94.5	96.1	100.9	105.0
Laramie, WY	97.9	105.7	102.9	86.6	89.1	94.7	97.3
Southwest/Mountain							
Cedar City, UT	90.9	100.2	82.4	79.7	95.7	82.6	97.6
Phoenix, AZ	98.4	105.6	94.6	88.5	101.3	97.7	100.9
Denver, CO	102.9	101.4	107.4	99.3	94.3	105.3	103.4
Dallas, TX	92.1	96.1	71.2	107.9	99.3	104.2	100.2
Midland, TX	91.4	90.9	85.3	96.9	92.2	98.9	94.3
Midwest							
Fargo, ND/Moorehead, MN	92.4	101.9	84.0	81.3	96.8	102.5	96.7
Cleveland, OH	99.6	109.3	88.6	113.5	101.3	100.5	100.6
Chicago, IL	113.2	104.4	131.5	114.3	115.4	110.3	99.3
Southeast							
Orlando, FL	98.4	98.1	87.5	103.9	104.4	95.7	104.7
Mobile, AL	92.3	102.7	80.1	107.3	92.0	84.7	95.5
Atlanta, GA	94.2	100.6	88.6	82.5	97.7	103.7	97.8
Atlantic/New England							
New York City - Manhattan	217.2	145.9	399.5	156.8	128.3	130.7	144.2
Boston, MA	130.9	117.0	146.7	156.6	100.7	127.5	125.9
Philadelphia, PA	123.9	123.3	141.9	129.2	104.3	109.6	115.2

Note: Index numbers represent a comparison to the average for all cities for which ACCRA volunteers collected data. These numbers are based on 2009 annual data.

¹ The ACCRA Cost of Living Index was originally produced by the American Chamber of Commerce Researchers Association. It's now produced by The Council for Community and Economic Research. The focus of the index, which has been published since 1968, is on professional and managerial households with incomes in the top 20 percent for the area.

Source: *The Council For Community And Economic Research*

but its meteoric rise has caught people's attention. (See Exhibit 4.) No other component of the Anchorage CPI has come close to matching the increase in health care prices. During the past decade, health care costs in Anchorage have grown by 53.9 percent versus 29.1 percent for the overall index.

The intrastate cost of living standard

In 2008, the State of Alaska contracted with the McDowell Group to complete the Alaska Geo-

graphic Differential Study. (See Exhibits 5 and 6.) The purpose of this study was to help determine appropriate pay rates for state employees living in different parts of Alaska. However, the study is also useful to individuals, businesses and a variety of organizations.³

Currently, this study provides the most comprehensive data that exist for Alaska. It's a good source of data for broad overall comparisons of costs between communities and for more detailed comparisons of the costs of food, clothing, housing, transportation, health care and other expenses. The study is a few years old, but there is little reason to believe that cost of living differentials would have shifted.

ACCRA – a comparison of 300 U.S. cities

Four times per year and once annually, the Council for Community and Economic Research publishes the results of its cost of living survey for over 300 U.S. cities. The survey is known as the ACCRA Cost of Living Index.⁴ It examines costs for 57 consumer items which are grouped into the following categories: groceries,

housing, utilities, transportation, health care, and miscellaneous goods and services. The survey is based on a consumption pattern for a professional or executive household in the top income quartile. Consumption patterns differ around the country but ACCRA does not take this into account. Nor does it measure taxation where Alaska has a clear advantage.

³ The full study is available at: <http://doa.alaska.gov/gds/home.html>

⁴ The ACCRA Cost of Living Index was originally produced by the American Chamber of Commerce Researchers Association, which gave the index its acronym. It's now produced by The Council for Community and Economic Research.

Low-Income Households Come Closer to Average Runzheimer Plan of Living Cost Standards, February 2008¹



	Total Costs	Percent of Standard City	Taxation	Percent of Standard City	Transportation	Percent of Standard City	Housing	Percent of Standard City	Miscellaneous Goods and Services	Percent of Standard City
Alaska Composite	\$39,417	123.2%	\$2,448	80.5%	\$4,749	113.6%	\$24,498	136.7%	\$7,722	112.6%
Anchorage	\$41,522	129.8%	\$2,448	80.5%	\$4,934	118.0%	\$26,471	147.7%	\$7,669	111.8%
Fairbanks	\$35,112	109.7%	\$2,448	80.5%	\$4,714	112.8%	\$20,351	113.6%	\$7,599	110.8%
Juneau	\$41,616	130.1%	\$2,448	80.5%	\$4,599	110.0%	\$26,672	148.9%	\$7,897	115.1%
West										
Bellingham, Wash.	\$35,414	110.7%	\$2,448	80.5%	\$4,514	108.0%	\$20,994	117.2%	\$7,458	108.7%
Bend, Ore.	\$38,237	119.5%	\$2,723	89.5%	\$4,205	100.6%	\$24,635	137.5%	\$6,674	97.3%
Honolulu	\$57,071	178.3%	\$2,448	80.5%	\$5,240	125.4%	\$40,689	227.1%	\$8,694	126.7%
Lancaster, Calif.	\$37,149	116.1%	\$2,448	80.5%	\$4,865	116.4%	\$21,686	121.0%	\$8,150	118.8%
Los Angeles, Calif.	\$62,636	195.7%	\$2,448	80.5%	\$6,132	146.7%	\$45,824	255.7%	\$8,232	120.0%
Reno, Nev.	\$37,879	118.4%	\$2,448	80.5%	\$4,632	110.8%	\$23,380	130.5%	\$7,419	108.1%
Southwest/Mountain										
El Paso, Texas	\$29,894	93.4%	\$2,448	80.5%	\$4,377	104.7%	\$16,443	91.8%	\$6,626	96.6%
Fort Collins, Colo.	\$31,446	98.3%	\$2,736	89.9%	\$4,507	107.8%	\$17,645	98.5%	\$6,558	95.6%
Lake Havasu City, Ariz.	\$34,868	109.0%	\$2,610	85.8%	\$4,479	107.2%	\$20,667	115.3%	\$7,112	103.7%
Pinehurst, Idaho	\$27,367	85.5%	\$2,674	87.9%	\$4,182	100.0%	\$14,356	80.1%	\$6,155	89.7%
Salt Lake City, Utah	\$32,033	100.1%	\$2,808	92.3%	\$4,442	106.3%	\$18,294	102.1%	\$6,489	94.6%
Midwest										
Highland, Mich.	\$34,043	106.4%	\$2,448	80.5%	\$5,394	129.0%	\$19,118	106.7%	\$7,083	103.3%
Rapid City, S.D.	\$26,398	82.5%	\$2,448	80.5%	\$4,182	100.0%	\$13,607	75.9%	\$6,161	89.8%
Shawnee, Okla.	\$24,988	78.1%	\$3,181	104.6%	\$4,414	105.6%	\$10,960	61.2%	\$6,433	93.8%
Verndale, Minn.	\$30,176	94.3%	\$2,448	80.5%	\$4,605	110.2%	\$16,416	91.6%	\$6,707	97.8%
Southeast										
Augusta, Ga.	\$24,178	75.6%	\$3,033	99.7%	\$4,650	111.2%	\$10,175	56.8%	\$6,320	92.1%
Columbia, S.C.	\$26,042	81.4%	\$2,625	86.3%	\$4,280	102.4%	\$12,747	71.1%	\$6,390	93.1%
Cape Coral, Fla.	\$38,415	120.0%	\$2,448	80.5%	\$4,554	108.9%	\$24,508	136.8%	\$6,905	100.7%
Hessmer, La.	\$26,616	83.2%	\$3,036	99.8%	\$4,869	116.5%	\$12,057	67.3%	\$6,654	97.0%
Atlantic/New England										
Fairfax, Va.	\$44,941	140.4%	\$2,603	85.6%	\$4,645	111.1%	\$30,162	168.3%	\$7,531	109.8%
New York	\$55,946	174.8%	\$2,463	81.0%	\$5,441	130.2%	\$39,278	219.2%	\$8,764	127.8%
Egg Harbor City, N.J.	\$45,423	141.9%	\$2,743	90.2%	\$5,272	126.1%	\$30,547	170.5%	\$6,861	100.0%

Note: This exhibit shows how much more or less it would cost for a family of four to live in different cities while maintaining the same standard of living.

¹ This article is based on Runzheimer data released in February 2008; new data are scheduled for release in late 2010.

Source: Runzheimer International, Runzheimer's Living Cost Index, February 2008

The respective cost to live in Anchorage, Juneau, Fairbanks and Kodiak is well above the national average. According to the 2009 ACCRA data, Anchorage cost of living is 24.6 percent higher, Fairbanks is 34.2 percent higher, Juneau is 25.9 percent higher and Kodiak is 25.5 percent more expensive. (See Exhibit 7.)

Housing in Alaskan cities is not the only component that drove up overall consumer costs. Consumer expenditures in all categories were above the U.S. city standard.

A bit of caution for the Fairbanks index is in order, as the number for housing appears too high. All other sources of housing data show that Fairbanks housing costs are lower than in

Anchorage, Juneau or Kodiak.⁵ Therefore, the differential would be smaller.

Runzheimer's provides a different sample of costs than ACCRA

The Runzheimer Plan of Living Cost Standards compares living costs at the other end of the income spectrum. This index is designed to show how much more or less it would cost for a family of four to live in different cities while maintaining the same standard of living. (See Exhibit 8.)

⁵ The sources include the McDowell Group's Alaska Geographic Differential Study, Runzheimer's Index and the Alaska Housing Finance Corporation's Survey of Mortgage Lending Activity.

9 Rural Alaskans Pay More Food, fuel, and lumber cost, March 2010

	Food at Home for a Week ¹	One Gallon Heating Oil	One Gallon Gasoline	One Gallon Propane	Lumber 2x4x8
Anchorage	\$123.89	\$3.28	\$3.33	\$4.60	\$2.77
Bethel	\$251.75	\$4.62	\$5.37	\$7.84	\$5.99
Cordova	\$206.10	\$3.56	\$3.97	\$3.92	\$3.88
Delta Junction	\$166.97	\$3.00	\$3.48	\$3.65	\$2.95
Fairbanks	\$128.00	\$3.07	\$3.29	\$3.75	\$3.12
Haines	\$166.03	\$3.19	\$3.45	\$3.62	\$2.99
Homer	\$170.51	\$2.77	\$3.70	\$4.35	\$3.24
Juneau	\$135.99	\$3.08	\$3.11	\$3.68	\$2.88
Kenai-Soldotna	\$148.69	\$2.75	\$3.65	\$4.35	\$2.95
Ketchikan	\$150.47	\$2.83	\$3.13	\$3.18	\$2.09
King Salmon	\$304.87	\$3.87	\$4.45	\$6.23	\$7.49
Kodiak	\$188.60	\$3.57	\$3.60	\$4.86	\$3.52
Kotzebue	\$271.55	\$4.64	\$6.54	\$6.93	\$11.00
Palmer - Wasilla	\$129.78	\$3.00	\$3.34	\$3.88	\$2.79
Nome	\$232.46	\$4.38	\$4.49	\$5.70	\$5.99
Portland, OR	\$103.61	\$3.17	\$2.73	\$2.85	\$2.06
Sitka	\$170.05	\$2.69	\$3.15	\$3.50	\$2.58
Valdez	\$166.75	\$3.28	\$3.81	\$3.85	\$4.25

¹ The weekly cost for a family of four with children ages 6 to 11.
Source: University of Alaska Fairbanks, Cooperative Extension Service

According to the Runzheimer Index, a household would need more than \$41,000 to maintain the same standard of living in Anchorage or Juneau as it could with income of \$32,000 in the standard U.S. city. Fairbanks' costs at this relatively low level of income would be considerably less – about \$35,000.⁶

The one advantage Alaska households have over the standard U.S. city is a lower than average tax burden. In all the other Runzheimer categories, the Alaska cities are more expensive.

King Salmon's weekly food costs top \$304

Four times a year, the University of Alaska Fairbanks Cooperative Extension Service posts its results from surveys of the cost of food at home for a week. The Food Cost Survey includes approximately 20 communities around Alaska and also Portland, Oregon. (See Exhibit 9.) The survey's food basket includes items that contain minimum levels of nutrition for an individual or family at the lowest possible cost. In addition, the survey includes information on utilities, fuel and lumber prices.

The survey has two strengths: it has been consistently produced for many years and covers a wide geographical area. Few other surveys in the state cover as many places. However, the survey is limited to food and energy costs, which are relatively small components of the cost of living.

The survey also assumes that the market baskets consist of identical items in all of the communities, but the buying habits of residents in different places may vary dramatically. Many items that can be purchased in urban Alaska are not available in rural communities.

Recently, the study included cost calculations for grocery items ordered by mail from urban merchants, a common practice in rural Alaska. However, grocery items carried on the plane as baggage and items that were traded or bartered

⁶ This article uses Runzheimer data released in February 2008; new data are scheduled for release in late 2010.

10 Rural Alaska Pays Fuel Premium Fuel price survey, January 2010

Selected Communities ¹	One Gallon Heating Oil	One Gallon Gasoline	Method of Transportation
Anvik	\$4.50	\$5.00	Barge
Arctic Village	\$10.00	\$10.00	Air
Atkasuk ²	\$1.40	\$4.10	Barge/Air
Barrow ³	–	\$4.25	Barge
Chenega Bay	\$6.00	\$6.00	Barge
Delta Junction	\$3.02	\$3.62	Truck
Dillingham	\$4.41	\$4.64	Barge
Emmonak	\$5.15	\$6.07	Barge
Fairbanks	\$3.07	\$2.32	Refinery/Truck
Gambell	\$5.10	\$5.55	Barge
Homer	\$2.88	\$3.51	Barge/Truck
Hoonah	\$3.54	\$3.39	Barge
Hooper Bay	\$6.56	\$6.66	Barge
Huslia	\$4.25	\$5.00	Barge
Hughes	\$8.55	\$7.50	Air
Juneau	\$3.18	\$2.96	Barge
Kodiak	\$3.23	\$3.24	Barge
Kotzebue	\$4.92	\$5.18	Barge
Nelson Lagoon	\$4.22	\$4.58	Barge
Nenana	\$3.29	\$3.62	Truck
Nondalton	\$5.80	\$6.85	Air
Pelican	\$4.60	\$4.79	Barge
Petersburg	\$3.11	\$3.03	Barge
Port Lions	\$4.05	\$4.30	Barge
Russian Mission	\$4.95	\$5.99	Barge
Unalaska	\$3.57	\$3.31	Barge
Valdez	\$3.10	\$3.55	Refinery/Barge

¹ This is just a partial list of the 100 communities surveyed.

² The North Slope Borough subsidizes heating fuel.

³ Barrow uses natural gas as a source of heat.

Source: Alaska Department of Commerce, Community and Economic Development, Current Community Conditions: Fuel Prices Across Alaska, January 2010 Update.

were not included. Moreover, the survey's list of food items ignores the possible substitution of store bought items with subsistence harvested meats, fowl, fish, berries and other products.

Gasoline prices \$10.00 in Arctic Village

In 2005, the Alaska Department of Commerce, Community and Economic Development began a semiannual survey of fuel prices in 100 communities around the state. The survey started in response to rising fuel prices and the disproportionate affect on rural communities. Fuel prices are highest in remote communities that receive all of their fuel by air transportation. (See Exhibit 10.) Some examples of these communities include Arctic Village, Hughes and Nondalton. With few exceptions, smaller rural communities pay significantly higher fuel prices than larger urban areas of the state. Fuel prices in most communities changed little between 2009 and 2010.

Housing gets more affordable

Rent or mortgage costs are often the largest slice of a household's income, which makes this expense a good proxy for an area's cost of living. The Alaska Housing Finance Corporation contracts with the Alaska Department of Labor and Workforce Development to collect housing rental and mortgage data for boroughs and areas around the state. (See Exhibit 12 and 13.)⁷

Like food and other items, the cost of housing varies dramatically. Supply of housing, vacancy rates, quality of housing, economic conditions of the local economy, building costs and local demographics are factors that explain some of the differences in housing costs.

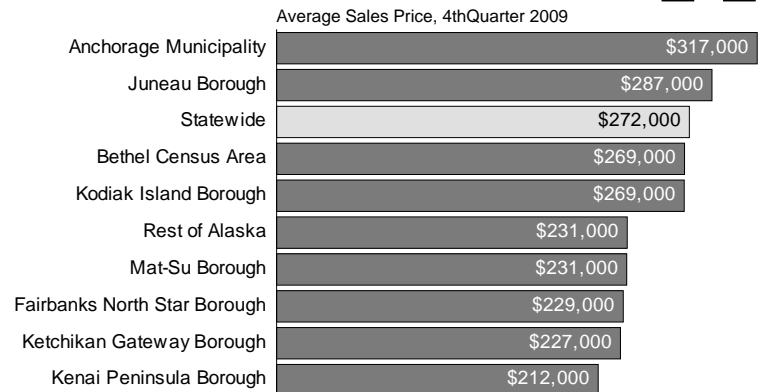
Another useful measure of the cost of housing is the Alaska Affordability Index, which is calculated for selected areas in the state. (See Exhibit 13.) The index is a measure of the number of wage earners necessary to afford an average home. The index value indicates the number of earners⁸ per residence that are necessary to

⁷ See the AHFC Web Site: http://www.ahfc.state.ak.us/grants/housing_market_indicators.cfm

⁸ Based on workers who earned average wages for their geographic location.

The Cost of Single-Family Homes 11

Highest in Anchorage lowest in Kenai



Alaska Department of Labor and Workforce Development, Research and Analysis Section and Alaska Housing Finance Corporation, Alaska Quarterly Survey of Mortgage Lending Activity

Rent for a Two-Bedroom Apartment 12

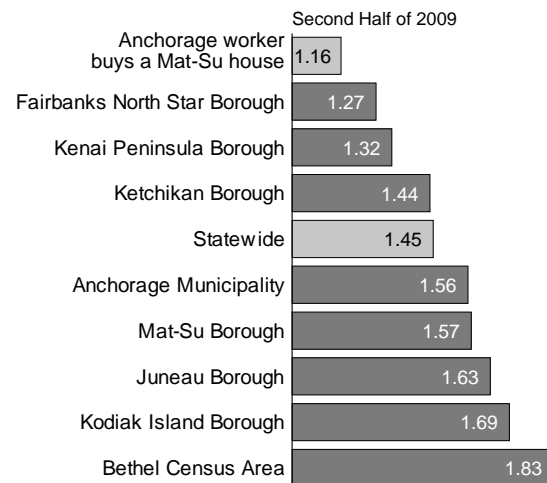
Costs are highest in Juneau and Anchorage



Sources: Alaska Department of Labor and Workforce Development, Research and Analysis Section; Alaska Housing Finance Corporation, 2010 Rental Market Survey

Where is Housing Most Affordable? 13

Wage earners needed to buy average house



Sources: Alaska Department of Labor and Workforce Development, Research and Analysis Section; Alaska Housing Finance Corporation

14 Military Cost-Of-Living Allowance OCONUS¹ Index, Alaska 2010

Location	Index
Anchorage	126
Barrow	152
Bethel	152
Clear Air Force Station	128
College	128
Cordova	138
Delta Junction	130
Fairbanks	128
Homer	132
Juneau	130
Kenai (includes Soldotna)	132
Ketchikan	142
King Salmon (includes Bristol Bay Borough)	132
Kodiak	132
Nome	152
Petersburg	142
Seward	130
Sitka	138
Spuce Cape	134
Tok	132
Unalaska	134
Valdez	138
Wainwright	152
Wasilla	124
Other	152

¹ OCONUS is an acronym for Outside the Continental U.S. Alaska is counted as an OCONUS location for purposes of the index.
Source: Department of Defense, effective date June 2010

qualify for a 30-year single-family home mortgage, with an average interest rate and 15 percent down payment. An increase in this index means that a family is less able to afford a home. During the first half of 2009, housing became noticeably more affordable – reaching the most affordable level since 1993. Higher wages, falling interest rates, and a softer housing market were all contributing factors in making housing more affordable over the past year.

The Mat-Su Borough has some of the lowest costs for housing but also lower average wages than Anchorage; as a result, purchasing a home there is actually no more affordable than in Anchorage. Many residents of Mat-Su commute to Anchorage to earn higher wages. In Juneau, annual earnings are above average but housing is less affordable because of higher purchase prices for single-family homes.

The military's cost-of-living index

The U.S. Department of Defense produces a cost of living index for all of its overseas locations which include Alaska, Afghanistan, Hawaii and other places. (See Exhibit 14.) Allowances paid to service members, stationed in high-cost areas, help them maintain the same purchasing power as they would have in the United States, when buying similar goods and services. The Department of Defense collects pricing data on approximately 120 goods. The index does not include housing which is handled through an allowance program.

Also, this cost-of-living adjustment is only calculated for spendable income and not total income. Spendable income is calculated by taking household income and subtracting housing expenses, taxes, savings, life insurance, gifts and contributions.

The strength of the index is its broad geographic coverage of 24 areas in Alaska. The highest prices were in Barrow, Bethel, Nome and Wainwright; and the lowest were in Wasilla, Anchorage, Fairbanks, Clear and College (within the Fairbanks North Star Borough). For the most part, the results line up with other data in this article.

The Federal government gives up on COLA⁹

For over four decades, most federal workers in Alaska received an additional 25 percent of tax-free dollars in their paychecks. It was the gold standard in the COLA world. After many years of study, litigation, and temporary changes the flat COLA adjustment is now history. Over the next three years, the federal government is moving to locality pay which has existed everywhere in the country except Alaska and Hawaii. This means that federal workers' compensation will not be based on the cost of living; instead, it will be adjusted to reflect what other workers in Alaska earn.

⁹ Cost of Living Allowance