

THE COST OF DOING BUSINESS AND THE COST OF LIVING IN ALASKA

By Kathleen Thomas and John Boucher

It is often said that the cost of doing business in Alaska far exceeds that of other parts of the country. To examine this possibility various business and living costs are evaluated for five metropolitan areas, three in Alaska and two in the contiguous United States. The three areas in Alaska are Fairbanks, Anchorage, and Juneau and the two in the contiguous United States are Seattle and Washington, D.C. The costs examined include both the direct costs of business and the cost of maintaining employees at the work site. In this article the costs of doing business examined are wage rates, office space rental rates, auto rental rates, hotel and motel room rates, shipping rates (air and barge), air fares, utility rates, insurance rates, heavy equipment rental rates, and the cost of office equipment. The cost of living comparisons include costs of food at home, housing costs (buying and renting), personal income, family budget comparisons, shipping of personal effects, residential utility rates, and insurance rates.

The data are obtained from a multitude of sources. Some data have been previously published while other data are from an in-house survey conducted for this article. Sometimes a mix of methods were used. For example, if the data for Alaska have been published, they are used but a telephone survey may have been necessary to gather unpublished data in Seattle and Washington, D.C. When the data are from a published source the source will be noted on the table representing the data.

For the purposes of the narrative the data will be explained and summarized. The detailed data are available in the accompanying tables. The data are useful for comparison purposes but extraneous variables could result in variations in costs to individual businesses not obvious in the data presented here. A difference in locale, method of operation, and size of operations could affect the use of the data. Some of the variables that should be considered when reviewing the data are listed below.

The first variable is that smaller, more isolated towns may not have the variation in prices available in larger cities. The data for which a range of prices is given is necessarily not an all inclusive range. For example, the range of hotel and motel room rates in Juneau may include almost all rates for the whole town. At the same time the range of rates in Seattle may cover only the medium priced hotels and motels. Smaller motels in the Seattle area may offer lower rates and larger, luxury hotels may have higher rates. With a highly centralized metropolitan area like Washington, D.C., hotel room rates become cheaper the farther away they are from the central business district. The main point is that all of these rates are median ranges

for comparison purposes only and subject to individual variations.

Secondly, a variation could exist due to the quantity of a good purchased by a firm. Discounts are generally given for the purchase of larger quantities of goods whether it is typewriters or heating fuel. This factor is affected by both firm size and community size. The larger the community, the greater the quantity ordered by the retailer, the larger the discount given to the retailer by the wholesaler, leading to a lower price for an individual machine. The same reasoning would be true for a larger firm that buys directly from the wholesaler, regardless of the size of the community. The larger the quantity bought by the individual firm the lower the price of the individual machine.

Another variable to be considered is the difference in the way communities operate. Even when relative prices are comparable, one community may emphasize the use of electricity for heating while another may emphasize the use of fuel oil. Some communities may assist the development of resources or firms through financing or grants while others rely on the firm to be self sufficient.

Smaller communities in Alaska, especially those located some distance from a population center have their own unique problems and factors that could not be considered in this survey. Items that have to be brought into these areas such as food, fuel oil and other supplies or local purchases may be exorbitantly expensive. However, one thing to be considered in some of these areas is the contribution a subsistence lifestyle can make in keeping living costs lower.

One other point to consider is that data from an area may not be available at the same level of detail as is available in another area. Cost of food at home, for example, was available for the individual Alaskan communities, but the data for Seattle and Washington, D.C. are for the Western and Southern Regions of the U.S. as published by the U.S. Department of Agriculture. While no universal cost of living comparison is available for every city in Alaska and the U.S., many communities in both Alaska and the U.S. have a McDonald's restaurant. As such we have devised the "Big Mac Meal Index" for the purpose of comparing Alaskan communities to each other as well as to the locale closest to you (See Table VII).

The data presented below are not designed to provide a comprehensive cost of living or cost of doing business in Alaska, but they are useful in comparing these locales to a particular situation and therefore gather a reasonable idea of what costs would be incurred by locating in Alaska. This data combined with data from other sources can give the business person or individual a more comprehensive view of the Alaska economy. For the business person, the Alaska Department of Commerce and Economic Development's publication *Establishing A Business in Alaska* is highly recommended as a source of information ranging from taxation to labor law and financial assistance. The Alaska Department of Labor's *Alaska Planning Information* is a very useful source for labor market information such as income data and employment and unemployment by area. Also available are more detailed information and some of the source data for this article such as Cost of Food at home. For more detailed information or for information regarding the source of information in this article contact the Alaska Department of Labor, Research and Analysis Section.

(Tables begin on following page)

Table I
Comparative Business Costs by Area

Except as noted, all amounts are in dollars.

	Anchorage	Fairbanks	Juneau	Seattle	Wash., D.C.	Virginia	Baltimore
Auto Rental Rates	45-50	50-55	48-50	47-50	56-58		
Hotel and Motel Room Rental Rates							
Winter	60-115	50-80	45-60	40-90	40-100		
Summer	70-125	60-80	50-70	40-90	40-100		
Office Rental Rates							
Per Square Foot	.90-2.15	.80-1.80	1.25-1.65	.30-1.00	9.00-20.00		
Heavy Equipment Rental Rates 1/							
Bulldozer	2000-3000	1150-2500	1150-2500	1400-2200	1900-2500		
Backhoe	3000-5000	1000-1500	1000-1500	2000-2500	1200-3500		
Wheel Loader	2000-3000	1500-2500	1500-2500	1500-2000	1500-3000		
Residential Marginal Electric Rates (¢/KWH)							
Winter	5.149	9.5	5.12	5.461		3.319	3.780
Summer	5.149	9.5	4.08	5.201		5.683	6.090
Commercial Marginal Electric Rates (¢/KWH)							
Winter	2.897	9.9(< 15,000) 7.58(> 15,000)	3.97	4.497(< 20,000) 3.485(> 20,000)		5.921(< 3,000) 3.741(> 3,000)	5.342(< 24,500) 3.047(> 24,500)
Summer	2.897	9.9(< 15,000) 7.58(> 15,000)	3.97	4.497(< 20,000) 3.485(> 20,000)		5.921(< 3,000) 3.895(> 3,000)	7.635(< 24,500) 3.047(> 24,500)
Office Machinery Purchase Price 2/							
Typewriter	900-1000	900-1000	900-1000	800-950	850-950		
Copy Machine	1600-2000	1600-2000	1600-2000	900-1600	1200-1800		
Calculator	100-200	100-200	100-200	100-175	140-180		
Commercial Telephone Rates (Per Line, Per Month)	23.85	24.90	28.09	35.84	18.55		

Water (Per 1000 Gal.)	1.72	2.25	13.00/1st 4000 1.50/add'l 1000	1.81	1.96
Sewer	6.00 ≤ 5 Empl. 25.35 6 ≤ Empl. < 25 146.75 ≥ 26 Emp.	3.03/ 1000 gal	21.00/Mo.	Included with Water	Included with Water

1/ Prices will vary depending on the size of equipment and whether an operator and gasoline are provided. Prices are based on the approximate equivalent of a Caterpillar D-6 bulldozer, a 225 Caterpillar backhoe, and a wheel loader with a three yard bucket.

2/ Prices are based on a) a standard electronic, desktop typewriter, b) a standard tabletop-copy machine with no special features, and c) standard 10-key calculator, 4 function, percent key, 4 key memory, a fluorescent display, and a tape printer.

Table II
Freight Shipping Costs 1/

Destination		Cost of Air Freight 2/		Cost of Barge 3/	Cost of Personal Goods by Barge 4/
From	To	Rate (¢/Pound)	Tax (In Dollars) 2/	Rate (\$/100 Pounds)	Rate (\$/100 Pounds)
Juneau, AK	Seattle, WA	16-22	12.50-17.50	9.00-13.00	12.00-13.00
Seattle, WA	Juneau, AK	25	19.00	9.00-13.00	15.50-16.00
Anchorage, AK	Seattle, WA	20-24	11.00	17.00-22.00	15.00-18.00
Seattle, WA	Anchorage, AK	30	16.00	17.00-22.00	15.00-18.00
Anchorage, AK	Washington, D.C.	45	31.50	—	—
Washington, D.C.	Anchorage, AK	48	34.50	—	—

1/ Freight prices are determinant on a multitude of factors and could vary widely.

2/ Based on 5,000 pounds of a representative wholesale good. Tax is a percentage and will vary dependent on cost, and distance shipped.

3/ Based on 5,000 pounds of heavy equipment.

4/ Based on 5,000 pounds of personal, household goods.

Table III
Personal Air Fares
One Person-Round Trip Coach 1/

From	To	Cost
Anchorage, AK	Washington, D.C.	\$1292.34
Anchorage, AK	Seattle, WA	649.74
Juneau, AK	Seattle, WA	476.92

1/ As of end of February 1985.

Table IV
Wage Rates in Selected Occupations 1/

	Anchorage- Mar-Su 1/	Interior Region 1/	Southeast Region 2/	Seattle- Everett 3/	Washington, D.C. SMSA 4/
Drafters	7.00-16.00	8.00-12.50	6.92-12.00	10.20-12.15	8.75-9.38
Computer Programmers	8.66-13.33	11.00-16.83	11.54-13.00	9.12-10.98	9.95-13.65
Systems Analysts	12.88-15.87	15.00-25.00	17.31	12.45-15.50	12.00-15.80
Janitors and Maids	4.00-13.56	4.00-7.36	4.60-12.10	5.73-7.55	3.70-4.50
Carpenters	8.00-25.88	10.00-26.41	12.50-23.95	11.91-14.32	7.00-7.50
Electricians	13.00-24.15	24.77	10.00-21.67	11.93-14.94	8.00-9.00
Automobile Mechanics	10.00-20.00	9.37-20.00	8.50-22.11	12.50-14.94	11.90-14.08
Truck Drivers, Heavy or Tractor Trailer	7.50-22.91	11.63-22.91	10.44-20.96	12.43-14.39	10.00-13.44
Bookkeeping, Accounting, and Auditing Clerks	5.00-11.75	5.75-22.00	5.00-16.06	6.12-8.38	6.37-6.88
Computer Operators	6.20-10.90	8.00-10.00	8.54-10.96	8.15-11.10	7.50-8.13
Data Entry Keyers	6.35-12.28	7.09-10.83	6.50-9.81	5.62-7.95	5.33-6.98
File Clerks	5.00-9.28	5.64-7.21	5.00-8.65	4.33-5.28	4.38-4.63
Receptionists	5.00-10.96	5.19-10.00	5.00-12.00	5.17-7.50	5.50-6.98
Secretaries	6.25-11.69	6.00-11.06	5.25-14.45	8.35-11.63	7.68-9.65
Switchboard Operators	5.00-9.22	5.38-9.11	5.77-8.65	5.83-7.95	5.50-7.00
Typists	5.48-16.60	6.50-9.50	5.48-13.24	5.70-9.38	5.70-7.75
Payroll-Timekeeping Clerks	9.73-10.50	8.00-.50	6.50-10.09	6.00-8.43	6.88-7.38

1/ Wage rates for Alaska are entry level wages while wage rates for Seattle-Everett and Washington, D.C. are average wage rates.

2/ Source: Alaska Department of Labor, Research and Analysis, *Wage Rates for Selected Occupations 1984*.

3/ Source: U.S. Department of Labor, Bureau of Labor Statistics, *Area Wage Survey 1984*.

4/ Source: Virginia Employment Commission, Virginia Occupational Information Coordinating Committee, *Virginia Occupational Demand, Supply and Wage Information*.

Table V
Comparative Living Costs by Area

	Anchorage	Fairbanks	Juneau	Seattle	Wash., D.C.
Cost of food for a week (2 adults; 1 male child 13, 1 female child 8) 2/	\$84.96	\$90.26	\$92.59	\$83.10	\$77.30
Housing					
Home purchase price 3/ (3 br., 2 ba., fr, 2000 sq. ft.)	147,000	159,000	155,000	110,000	135,000
Rental of similar unit	1,200	1,200	1,200	550-750	675-1200
2 Bedroom Apt. rental 4/	600-800	600-800	650-800	400-600	450-750
\$110,000 Homeowner Insurance Premium 5/					
Low Risk	350-570	375-550	300-475	230-325 13/	475-500
High Risk	800-1150	750-1250	625-1075	450-600 13/	•
55 gal. htg. oil (diesel #2 or equivalent) 6/	65-75	65-75	65-75	65-75	65-75
Utilities 7/					
Water & Sewer (1000 cu. ft.)	28.30	39.60	38.00	14.50	15.70
Residential rate 1000kw	60.47	104.91	117.05	28-58	45-60
Garbage collection	10-12	10.00	19.18	11.95	N/A 1/
Telephone res. private line	9-15	11-18	13-25	13.59	6.50-14.00
Transportation					
Auto insurance premium (1983 Chevy Cavalier or equivalent) 5/	500-1075	475-1100	400-650	325-500	•
Gasoline (1 gallon, regular) 8/	1.09	1.37	1.44	•	•
Daycare 9/					
1 month/1 preschool toddler	353	358	375	197-323	197-323
Property Tax Millage Rates 1984 10/					
City Proper	9.91	8.8	8.92	10.63	12.20-21.30
Rate of surrounding service areas	4.89-10.10	7.0-17.0	8.54-10.68	9.00-13.00	•
Local Sales Tax	0%	0%	4%	6.5%	6.0%
1981 Urban Family Budget Consumption adjusted by Local CPI-U					
Higher	34091	•	•	29472	29819
Intermediate	25868	•	•	21784	21798
Low	19689	•	•	15368	14684

Medical Costs 11/

Hospital Semi-Private Room Rate	257.63	276.50	*	216.20	280.41
Average Cost to Hospital per Day 1981 (by state)	453.00	453.00	453.00	315.00	430.60
Average Cost to Hospital per Stay 1981 (by state)	2627.40	2627.40	2627.40	1795.50	3703.20

Dental Charges 12/ (by state)

Initial Oral Exam	27	27	27	*	12
Prophylaxis-Adult	50	50	50	*	21
Permanent Amalgam Filling-Adult	67	67	67	*	32
Composite Resin Filling Two Surfaces	74	74	74	*	34
Porcelain Crown with Gold	431	431	431	*	336

* Not available or not applicable

Footnotes for Table V

- 1/ Paid Via Homeowner Taxes
- 2/ Cost of food at home for a week on a low cost food plan for 2 adults aged 20-50; 1 male child age 13, 1 female child age 8. Alaskan communities are from University of Alaska Cooperative Extension Service "Cost of Food at Home for a Week" December 1984. Seattle and Washington, D.C. are Northwest and Southern U.S. regional estimates from the U.S. Department of Agriculture for January 1985.
- 3/ Coldwell Banker Nationwide Relocation Service, January 1984.
- 4/ From classified ads of community's newspaper.
- 5/ From Alaska Department of Commerce and Economic Development, Division of Insurance. Washington: Insurance Services Office, 1984; Washington, D.C.-District of Columbia Insurance Division.
- 6/ Alaska observations: Energy Assistance Program, Department of Health and Social Services.
- 7/ Phone survey of respective utility for some.
- 8/ Alaska observations from "Cost of Food at Home for a Week".
- 9/ Alaska observations, child care coordinator, Alaska Department of Community and Regional Affairs, Community Development and Child Care Programs. National Observation: Child Care Action News, January-February 1985.

(Footnotes continued next page)

Footnotes for Table V

10/ Phone survey of revenue offices for the locale.

11/ Source Book of Health Insurance 1982-1983. Health Insurance Association of America.

12/ Washington, D.C. observations are for 1982 from Source Book of Health Insurance. Alaska Data is for 1984 from Health Insurance Association of America, unpublished data.

Table VI
Income Data by Area

	Anchorage	Fairbanks	Juneau	Seattle	Wash., D.C.
Estimated 1983 Median Income of Four Person Families (by state) 1/	38,238	38,238	38,238	30,185	28,701
1983 Per Capita Personal Income (by state) 2/	17,194	17,194	17,194	12,177	15,744
1982 Per Capita Income by County and Census Division 1/	18,429	18,381	19,889	13,239	15,064

1/ U.S. Department of Commerce, Bureau of the Census.

2/ U.S. Department of Commerce, Bureau of Economic Analysis.

Table VII
The Cost of a "Big Mac" Meal by Location
Alaska, Seattle and Washington D.C.

	Anchorage	Eagle River	Fairbanks	Juneau	Kodiak	Mat-Su Valley	Soldotna	Seattle	Wash., D.C.
Big Mac	\$1.55	\$1.55	\$1.65	\$1.75	\$1.75	\$1.55	\$1.75	\$1.30-\$1.39	\$1.43-\$1.47
Large Fries	.80	.80	.85	.90	.90	.80	.85	.65-.75	.80-.85
Medium Drink	.75	.75	.70	.70	.75	.75	.70	.50-.60	.50-.56
Total Meal	\$3.10	\$3.10	\$3.20	\$3.35	\$3.40	\$3.10	\$3.30	\$2.49-\$2.74 1/	\$2.73-\$2.88 1/

1/ The total cost is per location and may not equal the sum of the cost for the high and low cost per item.