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# **Section I: Executive Summary**

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## Introduction

In September 2008, the Alaska Department of Administration contracted with McDowell Group, an Alaska research firm, to conduct a comprehensive, statistically reliable study comparing the cost of living in Anchorage with other communities and regions throughout Alaska. The purpose of the study was to identify differences in the cost of living that could affect pay equity among state employees living in different areas of the state.

Prior to this study, the most recent statewide cost of living study in Alaska was conducted by McDowell Group in 1985. That study produced cost of living differentials for Alaska's 19 House election districts as they were defined at that time.

This report presents the results of the 2008 study and provides geographic cost of living differentials for a number of unique geographic differential "pools" (GDPs), including the same 19 districts examined in the 1985 study, 18 pools defined for purposes of this study, and 12 individual communities.

## Methodology

The study involved two primary research tasks, a Household Consumption Survey (HCS) and a Retail Price Survey (RPS). The HCS provided data on the relative importance of various components of the household budget (housing, food, transportation, etc.) and how consumption varies from community to community. The RPS provided data on how the prices for items in the household budget differ between various communities and Anchorage. It is the blend of HCS and RPS data – the combination of consumption differences and price differences – that produces the geographic cost differential.

### HOUSEHOLD CONSUMPTION SURVEY

The HCS included 2,547 surveys with randomly selected households in 74 communities throughout Alaska. Sample "blocks" were defined for purposes of sample distribution and to ensure sufficient sample sizes in various regions and among communities with common demographic and geographic characteristics. The largest communities (Anchorage, Fairbanks and Juneau) and the most populous boroughs (Mat-Su and Kenai Peninsula) were each assigned their own sample blocks. Smaller communities that were similar in terms of location and/or size were grouped together, and household surveys were distributed within that sample block in proportion to each community's population.

### RETAIL PRICE SURVEY

The RPS included 634 retail outlets in 58 communities throughout Alaska, plus numerous providers of various services, including health care, transportation, communications, insurance, and others. Each of the items in a household market basket of approximately 200 goods and services was priced in each community where the item was available.

## Findings

Geographic cost of living differentials for various GDPs and communities are presented in the following tables. As the base community, Anchorage is assigned a cost differential of 1.00. Differentials for GDPs and other communities provide a measure of the cost of living relative to Anchorage. For example, Kodiak's differential of 1.12 means that the cost of living in Kodiak is about 12 percent higher than in Anchorage. Similarly, the Palmer/Wasilla differential of 0.95 means the cost of living there is about 5 percent lower than in Anchorage.

As described above, the HCS sample blocks were defined so that communities with common demographic and geographic characteristics were grouped together. In particular, sample blocks were chosen to avoid mixing dissimilar communities, especially small rural communities with larger urban areas.

Cost differentials for each of the 18 sample blocks are provided in the following table. Some sample block definitions are identical to the 1985 GDS districts (Juneau, Kodiak, and Mat-Su). Others are similar, such as Fairbanks. However, in the 1985 GDS, the Fairbanks GDP included several small outlying communities, including Fort Yukon, while the 2008 sample block definition includes only the Fairbanks North Star Borough. Communities included in each 2008 sample block are identified in the introduction, following this executive summary.

**Table I-1: Geographic Cost Differentials, 2008 Sample Blocks**

Sample Block #	Sample Block	2008 Differential
1	Anchorage	1.00
2	Fairbanks	1.03
3	Parks/Elliott/Steese Highways	1.00
4	Glennallen Region	0.97
5	Delta Junction/Tok Region	1.04
6	Roadless Interior	1.31
7	Juneau	1.11
8	Ketchikan/Sitka	1.09
9	Southeast Mid-Size Communities	1.05
10	Southeast Small Communities	1.02
11	Mat-Su	0.95
12	Kenai Peninsula	1.01
13	Prince William Sound	1.08
14	Kodiak	1.12
15	Arctic Region	1.48
16	Bethel/Dillingham	1.49
17	Aleutian Region	1.50
18	Southwest Small Communities	1.44

In addition to the 18 sample blocks identified above, differentials were also calculated for 12 individual communities. Each of these communities is included in one of the 18 sample blocks, but in combination with one or more other communities. HCS sample sizes in these communities were large enough to allow for meaningful community-level cost of living analysis.

**Table I-2: Geographic Cost Differentials, 2008 Selected Communities**

Community	2008 Differential
Barrow	1.50
Bethel	1.53
Cordova	1.13
Dillingham	1.37
Homer	1.01
Ketchikan	1.04
Kotzebue	1.61
Nome	1.39
Petersburg	1.05
Sitka	1.17
Unalaska/Dutch Harbor	1.58
Valdez	1.08

A comparison of cost differentials for 2008 and 1985 for the districts as they were defined in 1985 (which followed election district boundaries) is instructive. In general, the 2008 *Geographic Differential Study* indicates that since 1985, communities outside Alaska’s Railbelt and off the Alaska road system have seen greater increases in living costs relative to Anchorage. The most remote districts have experienced the largest relative increases. The most populated areas outside of Anchorage, including Mat-Su, the Kenai/Soldotna area, and Fairbanks have differentials very similar to those identified in the 1985 study.

*See table next page.*

**Table I-3: 2008 Geographic Cost Differentials, with 1985 Comparisons**

1985 District #	1985 District Name	2008 Differential	1985 Differential	Change
1	Ketchikan/Prince of Wales	1.04	1.02	+0.02
2	Petersburg/Wrangell	1.04	0.98	+0.06
3	Sitka	1.17	1.01	+0.16
4	Juneau	1.11	1.03	+0.08
5	Icy Strait/Lynn Canal	1.06	1.05	+0.01
6	Cordova/Valdez	1.05	1.11	-0.06
7	Palmer/Wasilla	0.95	0.94	+0.01
8	Anchorage	1.00	1.00	0.00
9	Seward	1.03	1.00	+0.03
10	Kenai/Cook Inlet	1.01	1.01	0.00
11	Kodiak	1.12	1.06	+0.06
12	Aleutian Islands	1.49	1.26	+0.23
13	Bristol Bay	1.37	1.29	+0.08
14	Bethel	1.53	1.39	+0.14
15	Yukon/Kuskokwim	1.16	1.29	-0.13
16	Fairbanks/Fort Yukon	1.02	1.03	-0.01
17	Barrow/Kotzebue	1.55	1.45	+0.10
18	Nome	1.37	1.33	+0.04
19	Wade Hampton	1.48	1.26	+0.22

## Recommendations

How the State of Alaska chooses to use the geographic cost of living differentials measured in this study is primarily a matter of policy. However, the study team offers the following recommendations:

- Depart from the current plan that groups communities and assigns pay differentials primarily according to election district boundaries. This study has shown that significant variation in the cost of living exists within election districts.
- Initiate a policy of regularly updating the geographic cost differentials. This study has shown that differentials do change over time (especially in remote areas). The State might also consider conducting a near-term update (within a year or two) depending on trends in fuel prices.
- Consider defining GDPs such that communities (or sample blocks) within each GDP have cost of living differentials that do not differ from each other by a statistically significant amount. An example of such GDPs is provided in the following table.

Table 1-4 shows the five groupings that result if all the community-level differentials calculated for the study are grouped together based on a statistical test for significant differences among those differentials. These are purely mathematical groupings that ignore geography. For example, all the communities and regions in GDP #1 have differentials calculated for this study at between 0.95 and 1.05. Statistically, the differentials in GDP #1 are not meaningfully different from each other due to the degree of uncertainty inherent in survey research. The differentials for GDP #1 are, however, statistically different from those in the other four GDPs shown.

**Table I-4: Statistically-Based Geographic Cost Differential Pools**

2008 GDP #	Sample Blocks and/or Communities	Minimum Differential	Maximum Differential
1	Anchorage, Delta Junction/Tok Region, Fairbanks, Glennallen Region, Kenai Peninsula, Ketchikan, Mat-Su, Parks/Elliott/Steese Highways, Southeast Mid-size Communities, Southeast Small Communities	.95	1.05
2	Cordova, Juneau, Kodiak, Sitka, Valdez	1.08	1.17
3	Dillingham, Nome, Roadless Interior	1.31	1.39
4	Barrow, Bethel, Aleutians (other than Unalaska/Dutch Harbor), Southwest Small Communities	1.44	1.53
5	Kotzebue, Unalaska/Dutch Harbor	1.58	1.61

Note: There is no statistically meaningful difference in the measured cost of living differential among communities within each GDP.

Using GDPs that are defined in purely statistical terms has a number of attractions:

- The method is straightforward to explain.
- It acknowledges that there is uncertainty associated with calculating GDPs.
- It is easier to administer because of the small number of GDPs.

However, the challenge for the state is to determine how best to set actual pay differentials for each GDP. Grouping communities into statistically-based GDPs may result in pay differentials higher than warranted for some employees in any given pool and lower than warranted for others. Setting a pay differential for GDP 3 at 1.39, for example, would insure that no one in that group is potentially under-compensated, relative to their estimated cost of living differential, but it would certainly be the most costly approach in terms of total state payroll. Other options include using the mid-point between the minimum and maximum differential in each GDP or, more equitably, using the weighted average differential for each GDP (weighted by the number of state employees in each community within the GDP). The weighted average approach produces a differential of 1.11 for GDP 2, 1.37 for GDP 3, 1.50 for GDP 4 and 1.60 for GDP 5.

The cost and equity implications (in terms of state salaries) of the various options are important, but beyond the scope of this study.

## Note on Seattle’s Cost Differential

The 2008 Alaska GDS methodology did not include household surveying or retail price surveying in Seattle. This is due in part to the cost and complexity of surveying in a very large urban area, which would be vastly out of proportion to the number of Alaska state employees who reside in Seattle (five). Another reason is that

other data already exists for estimating cost of living differentials between Anchorage and Seattle. Available data and other analysis, described in detail in this report, indicate the cost of living in Seattle and Anchorage are now about equal, unlike 24 years ago when Anchorage was significantly more expensive than Seattle.