
Section II: Introduction

The challenge before the State of Alaska is how to equitably remunerate state employees living throughout Alaska in exchange for the services they provide. McDowell Group's 1985 *Alaska Geographic Differential Study* served as the benchmark for most state salary differential adjustments. However, changes in the economies of all of the state's regions in the past 23 years have rendered the objective data from the 1985 study obsolete.

Alaska is unique among the 50 states in its geographic, climatic, economic, social, cultural, and lifestyle diversity. State employees are located throughout Alaska, in major cities as well as remote villages. Many small communities have a limited selection of goods and services available to support households. Transportation linkages and market size efficiencies can dramatically affect the price of the same item in different locations, even in locations close to one another. Climate can dictate household purchasing patterns, with residents of different areas consuming different household market baskets. Income differences between the state's bustling urban economies and struggling rural regions also significantly influence the makeup of household budgets. For example, expenditures on food require a higher proportion of income in economically depressed regions, while spending on recreation and entertainment tends to be much lower. Alaskans (including state employees) simply do not – and in many cases cannot – live in Barrow, Klawock or even Cordova the same way Alaskans live in Anchorage.

The 1985 geographic differential pools (GDPs) were based on Alaska's 19 election districts. Current Senate districts (20), House districts (40), and Census Areas/Boroughs (27) are more commonly used divisions for analyzing the state. However, the major factors that determine differences in household costs – market size efficiencies, road access, shipping distance and method, competition, climate, economic conditions, for example – do not conveniently confine themselves to district boundaries.

In September 2008, the Alaska Department of Administration contracted with McDowell Group, an Alaska research firm, to conduct a comprehensive, statistically defensible cost of living analysis in Alaska. The purpose of the study was to compare the cost of living in regions and communities throughout Alaska to the cost of living in Anchorage, and from that analysis, calculate geographic cost differentials.

It is important to understand what this study does not do. For example, this study does not place an absolute measure on the cost of living in any particular place; it only measures the difference in the cost of living between Anchorage and other communities where state employees reside. Further, this study does not measure changes in the cost of living over time, i.e., inflation. There is only one reliable measure of inflation, and that is the Anchorage Consumer Price Index (CPI), which is updated semi-annually. Finally, the 2008 Alaska GDS does not determine if state employee pay levels are too high, too low, or on par with past pay levels. This study only indicates how pay levels should vary relative to Anchorage to account for differences in living costs experienced by state employees residing elsewhere in Alaska.

The 2008 Alaska Geographic Differential Study was conducted by McDowell Group in association with ECONorthwest (database management and statistical analysis) and GMA Research (urban telephone survey research).

Report Organization

The report includes seven major segments:

- I. **Executive Summary**
- II. **Introduction** (including a definition of terms and geographic definitions)
- III. **Study Results by Sample Block and Community** (one-page summaries of expenditure weights and price differentials for each sample block and for selected communities)
- IV. **Methods and Analysis** (an overview of study methods, detailed methods and results for each main household budget component for each sample block)
- V. **Data Collection Methodology** (detailed discussion of the methodologies employed on the Household Consumption Survey and the Retail Price Survey)
- VI. **Statistical Analysis** (discussion of the statistical reliability of the cost of living differentials measured in this study)
- VII. **Appendix** (bibliography, survey instruments and related information).

Definitions

Geographic Differential Pools (GDPs): Collections of communities grouped together for purposes of administering geographic pay differentials. Historically, GDPs have been defined by election district boundaries, with minor variations.

Household Consumption Survey (HCS): The HCS included 2,547 telephone surveys with randomly selected households located in 74 communities. The HCS collected data on household spending related to housing (including mortgage and rent payment, property taxes, insurance and all utilities), food, transportation, health care, and clothing. The survey was fielded during October and November 2008.

Retail Price Survey (RPS): The RPS included 634 retail outlets in 58 communities, plus numerous providers of various services, including health care, transportation, communications, insurance, and others. A market basket of approximately 200 goods and services was priced in each community where they were available. Data was collected in person and by telephone.

Expenditure Weights: A measure of the relative importance of various components of the household budget. The HCS and secondary data provided measures of the relative importance of various components of the household budget and how the importance of those components varies from community to community. The HCS provided measures of expenditure weights in 18 categories of household spending. Data from the Consumer Price Index was used to develop expenditure weights in four additional categories.

Price Differentials: The difference in prices between Anchorage and other communities in Alaska. Price differentials for specific items or services are calculated by dividing an item's average price in a particular community by the average price of the same item in Anchorage.

Sample Blocks: Sample blocks were defined for purposes of household survey sample distribution 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 most populous boroughs (Matanuska-Susitna and Kenai Peninsula) formed their own sample blocks. Smaller communities, similar in terms of location or size, were grouped together into sample blocks, and household surveys were distributed within those blocks in proportion to each community's population. The communities included in each sample block are identified in the following table.

Table II-1: 2008 Geographical Differential Study Sample Blocks

Sample Block #	Sample Block Name	Sample Block Communities
1	Anchorage	Municipality of Anchorage
2	Fairbanks	Fairbanks North Star Borough
3	Parks/Elliott/Steese Highways	Healy, Cantwell, Central, Nenana, Manley Hot Springs, Talkeetna
4	Glennallen Region	Glennallen, Chitina, Paxson, Slana, Tazlina
5	Delta Junction/Tok Region	Delta Junction, Tok, Eagle, Northway
6	Roadless Interior	Galena, Fort Yukon, McGrath
7	Juneau	City and Borough of Juneau
8	Ketchikan/Sitka	Ketchikan Gateway Borough, City and Borough of Sitka
9	Southeast Mid-Size Communities	Craig, Haines, Klawock, Metlakatla, Petersburg, Wrangell
10	Southeast Small Communities	Hoonah, Skagway, Yakutat, Elfin Cove, Gustavus, Pelican, Tenakee Springs
11	Mat-Su	Matanuska-Susitna Borough (not including Talkeetna)
12	Kenai Peninsula	Kenai Peninsula Borough
13	Prince William Sound	Cordova, Valdez, Whittier
14	Kodiak	Community of Kodiak (does not include remote Borough communities)
15	Arctic Region	Barrow, Kotzebue, Nome, Teller
16	Bethel/Dillingham	Bethel, Dillingham
17	Aleutian Region	Adak, Cold Bay, King Cove, Sand Point, Unalaska/Dutch Harbor
18	Southwest Small Communities	Aniak, Anvik, Chignik, Emmonak, Goodnews Bay, Iliamna, King Salmon, Saint Mary's, Unalakleet

1985 GDS Districts: The 1985 Alaska Geographic Differential Study was required to consider the cost of living in each of Alaska's 19 official 1961 House Election Districts. Those districts and communities contained therein are defined in the following table. (Note: Not all communities located in each district are listed, only those where survey research was conducted in the 1985 study are shown.)

Table II-2: 1985 Geographical Differential Study Districts

District #	District Name	District Communities
1	Ketchikan/Prince of Wales	Ketchikan, Craig, Klawock
2	Petersburg/Wrangell	Petersburg, Wrangell, Kake
3	Sitka	Sitka, Angoon
4	Juneau	Juneau
5	Icy Strait/Lynn Canal	Yakutat, Haines, Hoonah, Skagway, Gustavus
6	Cordova/Valdez	Cordova, Valdez, Chitina, Glennallen, Tazlina, Gulkana, Slana
7	Palmer/Wasilla	Palmer, Wasilla, Big Lake, Willow, Talkeetna, Sutton
8	Anchorage	Anchorage
9	Seward	Seward, Moose Pass, Cooper Landing, Hope
10	Kenai/Cook Inlet	Homer, Kenai, Ninilchik, Soldotna, Sterling, Kasilof, Anchor Point, Halibut Cove, Seldovia
11	Kodiak	Kodiak, Karluk
12	Aleutian Islands	Unalaska, Sand Point, Cold Bay, St. Paul Island, Atka, Chignik
13	Bristol Bay	Naknek, King Salmon, Iliamna, Dillingham
14	Bethel	Bethel
15	Yukon/Kuskokwim	Aniak, Holy Cross, Grayling, McGrath, Healy, Cantwell, Galena, Manley Hot Springs, Rampart, Ruby, Nenana, Clear, Tanana, Nulato
16	Fairbanks/Fort Yukon	Fairbanks North Star Borough, Tok, Northway, Delta Junction/Ft. Greely, Fort Yukon, Eagle
17	Barrow/Kotzebue	Barrow, Kotzebue, Selawick, Noorvik, Ambler
18	Nome	Nome, Unalakleet, Gamble, Savoonga, Teller, Shishmaref
19	Wade Hampton	Mountain Village, St. Mary's