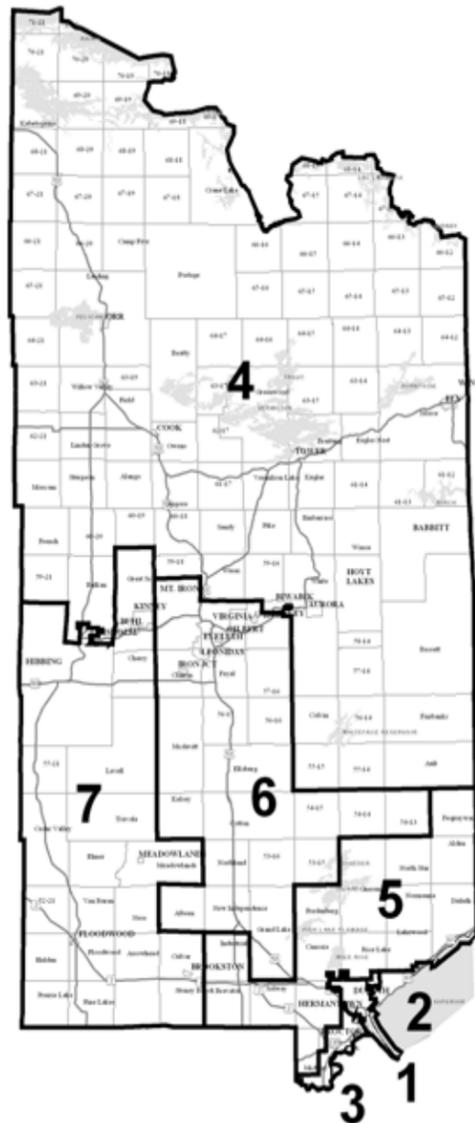


Cost of Living

Professional & Managerial Positions

2003

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St. Louis County Commissioners

- 1st District
Dennis Fink
- 2nd District
Joanne Fay
- 3rd District
Bill Kron
- 4th District
Michael Forsman
- 5th District
Peg Sweeney
- 6th District
Keith Nelson
- 7th District
Steve Raukar

County Administrator
Dana Frey

County Planning Director
Barbara Hayden

President & CEO
Chamber of Commerce
David Ross

Contact Information

Darren Jablonsky
 St. Louis County Planning Department
 100 Missabe Building
 227 West First Street
 Duluth, MN 55802
 Phone: (218) 725-5000
 Fax: (218) 725-5029
 Email: jablonskyd@co.st-louis.mn.us

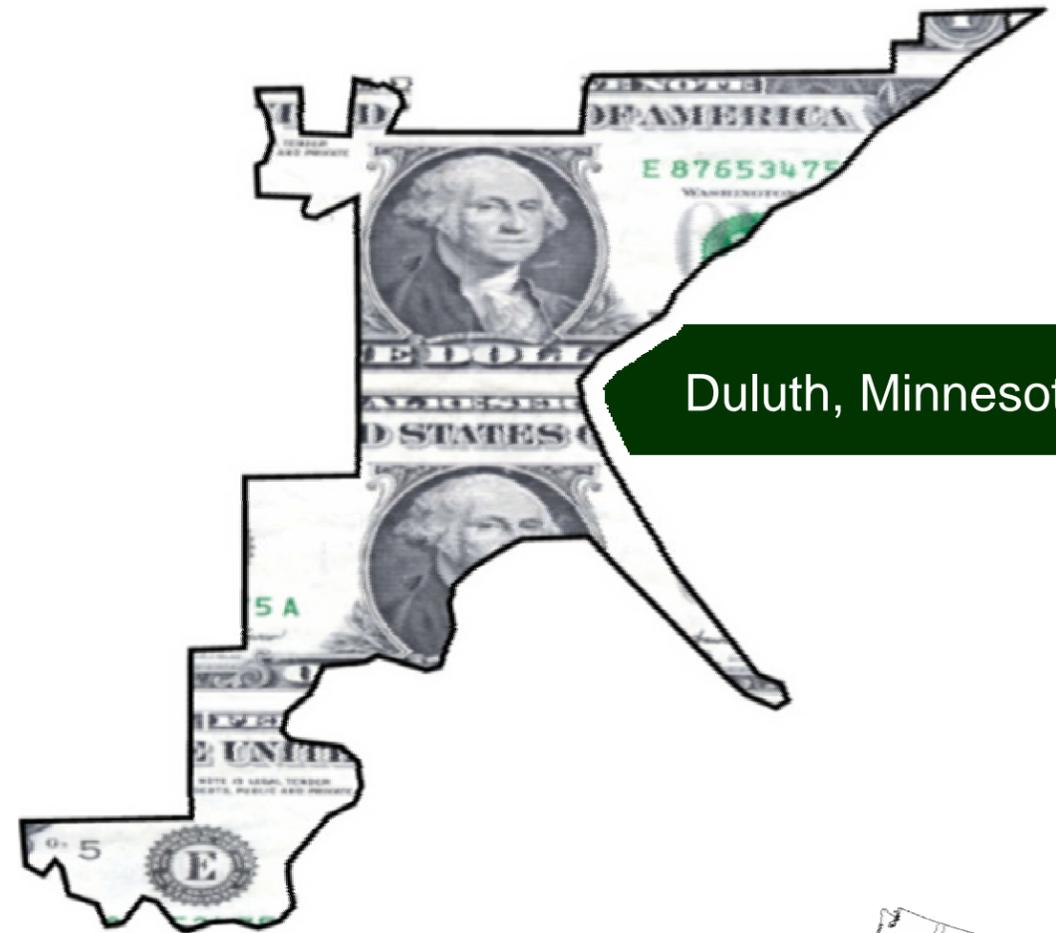
Duluth Area Chamber of Commerce
 5 West First Street
 Duluth, MN 55802
 Phone: (218) 722-5501
 Fax: (218) 722-3223

COST OF LIVING

Professional & Executive Households

Duluth's National Comparison

2003



Duluth, Minnesota





About the Cost-Of-Living Report

The report should be used as a discussion guide regarding the cost-of-living in Duluth. It measures the cost-of-living for professional and executive households with incomes in the top 20 percent of the area.

The cost-of-living was tracked to provide accurate data and information, promote the true cost-of-living in a region, assist in business recruitment and retention, and provide comparisons to other areas of the country.

Background

Quality data is an important component in promoting economic development in our region. Businesses looking to expand and/or relocate want easy access to comparable data.

From 1996-1998, the cost-of-living was tracked by the University of Minnesota Duluth Bureau of Business and Economic Research (BBER).

After several years of being dormant, the Duluth Chamber of Commerce, the University of Minnesota Duluth, and St. Louis County worked together to track this data in 2002-2003 to determine an accurate measurement of the cost-of-living.

ACCRA, formerly the American Chamber of Commerce Research Association, has a nationally recognized model used by government, businesses, site selectors, and general public through numerous websites which compare cost of living data. For example, this data is featured in CNN Money Magazine, U.S. Abstract, and other publications.

About the Index

ACCRA is a nonprofit organization promoting excellence in research for economic and community development.

Duluth Area Chamber of Commerce

The Duluth Area Chamber of Commerce would like to thank all the chamber members who participated in providing data for the Cost-of-Living Index.

Due to agreements with participants to keep collected product prices and participants confidential, the Chamber will not list participating members.

The report should be used as a guide for further discussion regarding the cost-of-living and potential usage in marketing material.

The ACCRA produces the *Cost-of-Living Index* to provide a useful, reasonable and accurate measure of living cost differences among urban areas.

Items on which the Index is based have been carefully chosen by ACCRA to reflect the different categories of consumer expenditures. Weights assigned to relative costs are based on government survey data on expenditure patterns for *professional and executive* households. All items are priced nationally on specified dates and according to standardized specifications.

Interpreting the Index

The *ACCRA Cost of Living Index* measures *relative* price levels for consumer goods and services in participating areas. The average for all participating areas, both metropolitan and non-metropolitan, equals 100, and each participant's index is read as a *percentage* of the average for all places.

The index reflects cost differentials for professional and executive households in the top income quintile (20%). Operationally, this standard of living is set by the weighting structure.

Atmospheric Administration (NOAA) and assumes high levels of energy efficiency typical of new homes.

Miscellaneous Goods and Services

Duluth's average miscellaneous goods and services costs were generally 4.5% higher than the national average over the four quarters information and pricing was collected (3rd quarter, 2002-2nd quarter 2003).

The main components of this goods and services category, which accounts for 33% of the *Cost-of-Living Index*, were costs associated with a variety of expenditures for items such as: pizza, haircuts, toothpaste, movie tickets, dry cleaning, slacks, and a variety of other expenditures related to a professional and executive household.

Lower Average Costs

Grocery

Duluth's average grocery costs were generally 3% lower than the national average over the four quarters information and pricing was collected (3rd quarter, 2002-2nd quarter 2003).

The grocery index, which accounts for 14% of the *Cost-of-Living Index*, includes many meat products, dairy products, produce, bakery products, tobacco, and miscellaneous grocery products.

Average Cost Health Care and Transportation

Duluth's average health care and transportation costs were generally near the national average over the four quarters information and pricing was collected (3rd quarter, 2002-2nd quarter 2003).

The health care index, which accounts for 4% of the *Cost-of-Living Index*, includes costs for a doctor and dental office visit, hospital room costs, and antibiotic products.

The transportation index, which accounts for 10% of the *Cost-of-Living Index*, includes costs for commuter fare, auto maintenance, and gasoline.

Duluth's average gasoline costs for one gallon of regular unleaded (including all taxes) gasoline was lower than the national average in two out of the four quarters information and pricing was collected.



Housing Costs & Rate

New construction, 2,400 sq. ft living area, 3 or 4 bedrooms, 2 full baths, 8,000 sq. ft. lot

	3 rd Q, 2002 July 11-13		4 th Q, 2002 Oct 3-5		1 st Q, 2003 Jan 9-11		2 nd Q, 2003 April 3-5	
	Average Home Price	Average Mortgage Rate (%)	Average Home Price	Average Mortgage Rate (%)	Average Home Price	Average Mortgage Rate (%)	Average Home Price	Average Mortgage Rate (%)
Chicago, IL	425,409	6.47	484,428	6.15	487,120	6.00	430,678	6.00
Minneapolis, MN	237,369	6.51	275,861	6.05	272,058	5.86	276,061	5.70
Duluth, MN	248,712	6.53	252,886	6.01	247,894	5.93	273,696	5.84
U.S. Average	241,193	6.47	241,940	6.06	245,001	5.95	249,440	5.84
Rochester, MN	235,000	6.44	223,450	6.09	227,000	5.97	217,967	5.88
St. Cloud, MN	212,850	6.55	217,880	6.04	227,960	5.96	230,980	5.97
Sioux Falls, SD	204,134	6.41	203,043	6.04	204,918	5.97	207,792	5.87
Grand Forks, ND	211,950	6.47	210,200	5.97	204,133	5.84	229,450	5.80

Source: ACCRA Cost of Living Index - CCLI
Average Mortgage Rate: effective rate, including points and origination fee, for 30 year conventional fixed rate mortgage.



Cost-of-Living Categories

Duluth's average *Cost-of-Living Index* was generally 3.0% higher than the national average over the four quarters product information was collected (3rd quarter, 2002-2nd quarter 2003).

Higher Average Costs

Housing

Duluth's average housing costs were generally 5.9% higher than the national average over the four quarters information and pricing was collected (3rd quarter, 2002-2nd quarter 2003).

The housing index, which accounts for 29% of the *Cost-of-Living Index*, includes costs associated with apartment rent and the cost of a newly constructed home. The newly constructed home accounted for the majority of the average for this section.

The newly constructed home had to be based upon certain specifications such as: 2,400 square foot living area, 3 or 4 bedrooms, two full bathrooms, 8,000 square foot lot with all utilities, and others.

Once the housing cost is determined, the average interest rate for the area is multiplied based upon a 30 year conventional rate mortgage.

Based upon the housing costs and rate table, Duluth newly constructed homes costs were consistently above the national average.

Utilities

Duluth's average utility costs were generally 5.7% higher than the national average over the four quarters information and pricing was collected (3rd quarter, 2002-2nd quarter 2003).

The utilities index, which accounts for 10% of the *Cost-of-Living Index*, is based upon three items: electricity, other home energy, and telephone service. All three are calculated using consumption data and utility rate schedules, both which vary by location.

Essentially, the utilities index asks how much a family buying that new home (identified in the index) will spend for energy when they move into the home.

Energy consumption figures are based upon local weather data from the National Oceanographic &

Duluth ACCRA Cost of Living Index

Time Lapse

Average for all Urban Areas=100

	3rd Q, 2002 July 11-13	4th Q, 2002 Oct 3-5	1st Q, 2003 Jan 9-11	2nd Q, 2003 April 3-5	Four Quarter Average
Grocery Items (14%)	98.3	95.9	97.0	96.9	97.0
Housing (29%)	104.4	105.2	103.6	110.2	105.9
Utilities (10%)	108.9	108.1	104.4	101.3	105.7
Transportation (10%)	100.9	107.4	100.3	93.2	100.5
Health Care (4%)	99.3	100.0	97.3	105.5	100.5
Misc. Goods and Services (33%)	103.0	103.3	104.7	107.0	104.5
Composite Index (100%)	102.7	103.3	102.5	104.5	103.3

Source: ACCRA Cost of Living Index - COLI
Note: The 3rd and 4th quarter of 2002, the weighted averages were grocery 16%, housing 28%, utilities 8%, transportation 10%, health care 5%, and misc. goods and services 33%.

Because the number of items priced is limited, it is not valid to treat percentage differences between areas as exact measurements. Small differences, however, should not be construed as significant, –or even as indicating correctly which area is more expensive.

ACCRA has opted to produce an index that adequately measures differences in goods and services, rather than to produce an inaccurate measure that attempts to incorporate taxes levied on real and intangible property, retail purchases and income.

ACCRA Cost-of-Living Index

Measuring a Specific Standard of Living

The question the *ACCRA Cost-of-Living Index* is designed to answer is: How do urban areas compare in the cost of maintaining a standard of living appropriate for moderately affluent professional and managerial households?

The first thing to note about this question is that it's not at all the same as comparing average standard of living. The index is designed to compare the costs of a particular standard of living in all areas, and it doesn't matter whether that standard of living is typical of the overall population of your area.

The kind of household on which the *ACCRA Cost-of-Living Index* is based has the following characteristics:

- Household consists of both spouses/one child
- Household income is in the top quintile (20%) for the area. In Duluth, the top 20% would earn a household income of about \$65,000 and over
- Both spouses hold college degrees; at least one has an established professional or managerial career
- Products and services surveyed geared towards this household makeup.

Where the Cost of Living is Used

The cost of living is widely used by various entities such as: U.S. Statistical Abstract, U.S. Bureau of Labor Statistics (BLS), CNN, Money Magazine, economic development organizations, Chambers of Commerce, and a host of cost-of-living organizations to conduct cost-of-living comparisons.

GOODS & SERVICES SAMPLED

The items for this *Index* are listed below. Establishment samples are selected to reflect a mid-management standard of living. Weights are shown for the component indexes.

GROCERY ITEMS (14%)

- Meats
 - T-bone steak
 - Ground beef or hamburger
 - Sausage
 - Frying chicken
 - Chunk light tuna
- Dairy Products
 - Whole milk
 - Eggs
 - Margarine
 - Parmesan cheese, grated
- Produce
 - Potatoes
 - Bananas
 - Iceberg Lettuce
- Bakery Products
 - Bread, white
- Tobacco
 - Cigarettes
- Misc. Grocery Products
 - Coffee
 - Sugar
 - Corn flakes
 - Sweet peas
 - Tomatoes
 - Peaches
 - Facial tissue
 - Dishwasher powder
 - Shortening
 - Frozen orange juice
 - Frozen corn
 - Baby food
 - Soft drink

HOUSING (29%)

- Apartment, monthly rent
- Total new home purchase, 2,400 sq. ft. home
- Mortgage rates
- P & I monthly payment

UTILITIES (10%)

- Total home energy cost
- Electricity
- Other home energy
- Telephone

TRANSPORTATION (10%)

- Commuter fare
- Auto maintenance
- Gasoline

HEALTH CARE (4%)

- Hospital room
- Office visit, doctor
- Office visit, dentist
- Antibiotic ointment

MISC. GOODS & SERVICES (33%)

- Hamburger sandwich
- Pizza
- Fried chicken
- Haircut
- Beauty salon
- Toothpaste
- Dry cleaning
- Man's dress shirt
- Boy's underwear
- Man's slacks
- Major appliance repair
- Newspaper subscription
- Movie
- Bowling
- Tennis balls
- Child's game
- Liquor
- Beer
- Wine

Further explanations on each product weight for the index and specifications can be found at www.acra.org.



Cost-of-Living Index (COLI)

National and Regional

Participating Areas and How Data Collected

Areas included in this survey are those who have volunteered to participate in a particular quarter. In the 2nd Quarter, 2003, there were 295 metro and non-metro cities participating in the cost-of-living data collection.

In Duluth, the Duluth Chamber of Commerce and the St. Louis County Planning Department teamed up to collect data from an array of businesses from the Duluth area on specified dates.

A range of three to five prices were collected for each

product in a three day period. ACCRA then averaged and calculated all weighted goods and services.

Duluth is the only population center eligible to participate in the Cost-of-Living Index in St. Louis County due to stipulations established by ACCRA.

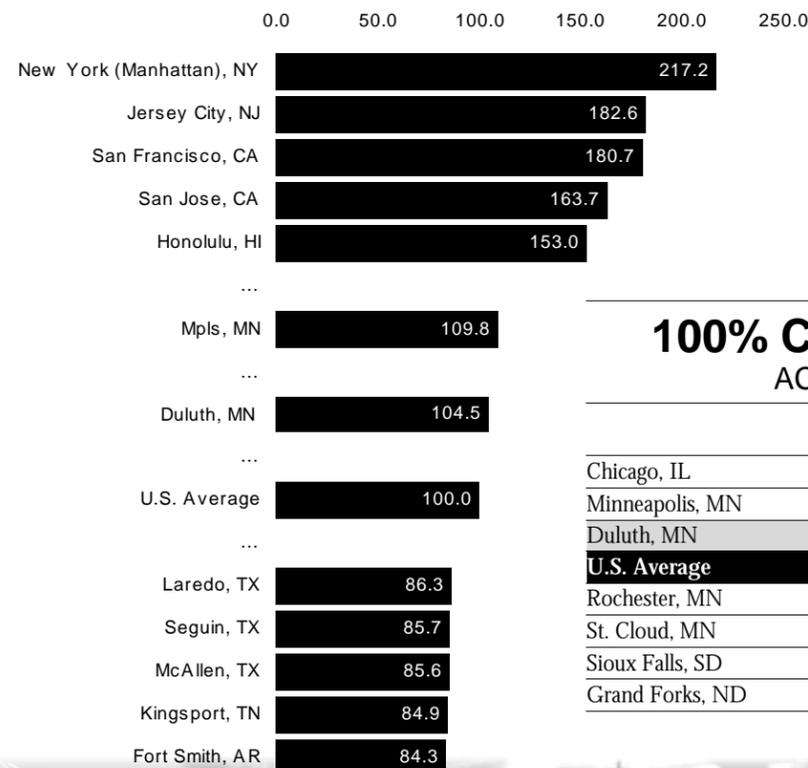
National Cost of Living – 2nd Quarter, 2003

Of the 295 urban areas participating in the Cost-of-Living Index in the 2nd Quarter of 2003, Manhattan, New York ranks as the most expensive area, while Fort Smith, Arkansas is the least expensive metro location.

The Most and Least Expensive Metro Locations

2nd Quarter (April 3-5), 2003

Source: ACCRA Cost of Living Index - COLI
Average for 295 Urban Areas = 100



Source: ACCRA Cost of Living Index - COLI

100% Composite Time Lapse

ACCRA Cost of Living Index

	3 rd Q, 2002 July 11-13	4 th Q, 2002 Oct 3-5	1 st Q, 2003 Jan 9-11	2 nd Q, 2003 April 3-5
Chicago, IL	135.7	139.0	139.0	132.8
Minneapolis, MN	106.1	110.5	111.3	109.8
Duluth, MN	102.7	103.3	102.5	104.5
U.S. Average	100.0	100.0	100.0	100.0
Rochester, MN	102.1	101.3	101.5	99.1
St. Cloud, MN	94.6	96.5	99.6	99.6
Sioux Falls, SD	92.6	95.0	96.0	95.4
Grand Forks, ND	91.9	92.3	92.1	93.8



Regional Cost of Living

There are four Minnesota cities that participate in the Cost-of-Living Index: Minneapolis, Rochester, St. Cloud, and Duluth. Several border cities also participated which include: Sioux Falls, South Dakota, and Grand Forks, North Dakota.

Over a year period of data collection, Duluth has shown a relatively consistent cost-of-living average score that is approximately 2.5%-4.5% higher than the national average.

In the 2nd quarter, 2003, Duluth (population 86,319) had a composite index score of 104.5. In other words, Duluth's cost-of-living was 4.5% higher than the national average.

Duluth's cost-of-living is higher than cities of comparable size such as: St. Cloud, Minnesota (population 59,107) with an average index score of 99.6; Rochester, Minnesota (population 85,806) with an average index score of 99.1; Sioux Falls, South Dakota (population 123,975) with an average index score of

95.4; and Grand Forks, North Dakota (population 49,321) with an average score of 93.8.

The City of Minneapolis, Minnesota, which is much larger in size (population 382,618) than Duluth, has a higher cost-of-living than Duluth of 109.8.

Cost of Living Components

A closer examination of the cost-of-living index shows areas in which Duluth cost-of-living is higher or lower than the national average. Areas that are consistently cheaper in Duluth, over the four quarters information and pricing was collected, were grocery and healthcare products.

Areas for higher expenses were generally housing, utilities, and misc. goods and services.

It should be noted that any slight variations in number should not be skewed as significant price fluctuations. However, consistent data can reflect price differentials.

ACCRA Cost of Living Index

2nd Quarter (April 3-5), 2003

Average for 295 Urban Areas=100

Urban MSA and City	100% Composite Index	16% Grocery Items	28% Housing	8% Utilities	10% Transportation	5% Health Care	33% Misc. Goods and Services
Chicago, IL	132.8	120.8	177.4	115.4	114.7	133.1	109.4
Minneapolis, MN	109.8	101.4	115.6	114.3	101.5	128.1	107.1
Duluth, MN	104.5	96.9	110.2	101.3	93.2	105.5	107.0
U.S. Average	100.0	100.0	100.0	100.0	100.0	100.0	100.0
St. Cloud, MN	99.6	101.2	92.7	108.3	97.0	103.4	102.6
Rochester, MN	99.1	100.2	93.7	102.2	93.8	115.0	102.0
Sioux Falls, SD	95.4	87.4	85.9	125.7	95.5	93.7	98.3
Grand Forks, ND	93.8	96.6	90.5	83.8	93.9	95.7	98.4

Source: ACCRA Cost of Living Index - COLI

