

## **SCHEDULE 10**

### **INDEX FACTOR**

#### **1. GENERAL**

##### **1.1 Capitalized Terms**

Capitalized terms used in this Schedule have the definitions as set out in the Agreement to Design, Build, Finance and Maintain Twelve New Schools in Central and Southern Alberta (the “**DBFM Agreement**”) between Her Majesty the Queen in right of Alberta and the Contractor, as defined therein, unless expressed otherwise.

##### **1.2 DBFM Agreement Reference**

This Schedule is referenced in sections 1.3, 10.1, 10.2 and 11.6 of the DBFM Agreement.

#### **2. ADDITIONAL DEFINITIONS**

These additional capitalized terms used in this Schedule have the following definitions:

“**Fiscal Year**” means the twelve-month period beginning on April 1 of a year and ending on March 31 of the following year; and

“**Maintenance Payment**” means the component of the M&R Payment that is described as the Maintenance Payment in Appendix 1, as attached and forming part of Schedule 14 (Payment Schedule).

#### **3. SPECIFIC PAYMENTS AND ADJUSTMENTS SUBJECT TO INFLATION**

In order to account for the impacts of inflation or deflation during the Construction Period and the M&R Period, a number of payments, payment adjustments and other amounts, as specified in sections 10.1, 10.2 and 11.6 of the DBFM Agreement, will be subject to an inflation adjustment. Payments, payment adjustments and other amounts that will be increased or decreased by this inflation adjustment include:

- (a) Maintenance Payments;
- (b) Renewal Payments;
- (c) Property Damage Amount; and

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- (d) All applicable Payment Adjustments, and the threshold amount referenced in section 16.8(m) of the DBFM Agreement.

### **4. THE INDEX FACTOR**

The inflation adjustment for the DBFM Agreement will be determined based on the Index Factor, which is calculated using the maintenance and renewal price index (the “**M&R Index**”) set out in Appendix 1 to this Schedule 10. The M&R Index will be prepared annually during the Construction Period and the M&R Period on a calendar year basis by the Province for the purposes of the DBFM Agreement.

### **5. M&R INDEX CALCULATION**

#### **5.1 M&R Index Indices**

The M&R Index will be calculated by the Province based on a weighted combination of a number of inflation indices. The indices and the method for calculation of the M&R Index are described in Appendix 1 to this Schedule 10.

#### **5.2 Replacing Indices**

In the event that any of the indices or data used in the calculation of the M&R Index becomes unavailable or inapplicable during the Construction Period or the M&R Period, the Province shall, in consultation with the building maintenance industry and the Contractor, substitute reasonable alternative indices or data.

#### **5.3 Altering the Weighting of Inflation Areas within the M&R Index**

At any time during the M&R Period but no more frequently than once every five years, at the request of either the Province or the Contractor, the Province and the Contractor shall retain an independent advisor to determine the impact of inflation or deflation on the building maintenance industry in Alberta since the Execution of the DBFM Agreement or since the last time that this Schedule was amended by operation of this Section 5.3 (whichever is most recent) and to advise the Contractor and the Province whether an alteration to the weighting of the constituent inflation areas within the M&R Index (manpower, consumer goods and construction) is required to ensure that the M&R Index better reflects the impact of inflation or deflation on the building maintenance industry in Alberta (a “**Weighting Alteration**”). Should the independent advisor determine that a Weighting Alteration is appropriate the Province and the Contractor shall implement the Weighting Alteration and this Schedule shall be amended accordingly and as amended shall apply to inflation adjustments determined subsequent to such amendment.

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The independent advisor shall be retained in accordance with the following:

- (a) the Province and the Contractor will appoint a person acceptable to both, acting reasonably, as an independent advisor for the purposes of this Section 5.3 and will enter into a written agreement with that person with terms satisfactory to both the Province and the Contractor, acting reasonably;
- (b) the independent advisor must be an experienced construction or building cost consultant practicing in Alberta;
- (c) the independent advisor must agree to carry out and discharge the responsibilities contemplated by this Section 5.3;
- (d) the independent advisor must carry professional liability insurance with errors and omissions coverage of not less than \$500,000 per claim;
- (e) all fees and expenses of the independent advisor are to be shared equally by the Contractor and the Province; and
- (f) the independent advisor shall be impartial to the parties when required to make any determination under Section 5.3.

### **5.4 Timing of M&R Index Calculation**

The Province shall calculate the M&R Index, and subsequently the Index Factor, each year after the published data required for the calculations are available for the upcoming Fiscal Year. Once the Province calculates the M&R Index, it will be used in the calculation of the Index Factor as specified in Section 6, to be applied to Maintenance Payments and Renewal Payments to be made to the Contractor in the upcoming Fiscal Year, to the Payment Adjustments that may be applied to the Contractor in the upcoming Fiscal Year, to the Property Damage Amount applicable in the upcoming Fiscal Year, and to the threshold amount referenced in section 16.8(m) of the DBFM.

## **6. INDEX FACTOR AND INFLATION ADJUSTMENT**

Payment amounts in Schedule 14 (Payment Schedule) that are indicated as being subject to an inflation adjustment in accordance with this Schedule and any adjustments as specified in sections 10.1 and 10.2 of the DBFM Agreement, will be multiplied by the Index Factor to arrive at the inflation adjusted values.

For amounts payable in each month of the Fiscal Year “T” starting April 1 of “Year T”, the applicable Index Factor will be determined as follows:

$$\text{Index Factor}_{(\text{Fiscal Year T})} = \frac{\text{M\&R Index}_{(T-1)}}{\text{M\&R Index}_{(2012)}}$$

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For example, for amounts payable in the 12 months from April 2015 to March 2016, the applicable Index Factor will be calculated by dividing the M&R Index value for 2014 by the M&R Index value for 2012.

Appendix 2 to this Schedule 10 illustrates how the Index Factor will be calculated and applied. The illustration is based on an assumption of Total Availability on June 30, 2014.

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**APPENDIX 1  
M&R INDEX CALCULATION**

The M&R Index is calculated by the Province based on a weighted combination of the following inflation areas:

<b>Inflation Area (Weight)</b>	<b>Indices Used in Each Inflation Area</b>
Manpower (50%)	<p>An average of the following two indices:</p> <ul style="list-style-type: none"> <li>▪ The Alberta Union of Provincial Employees (“<b>AUPE</b>”) Local 004 Published Hourly Salary, for Maintenance Service Worker II at the Top Level (Not Including Benefits).</li> <li>▪ Statistics Canada Catalogue No. 70-002-X Employment, Earnings, and Hours, (Table 6-1), North American Industry Classification System (NAICS) – Repair and Maintenance [811] Hourly Rate (Canada).</li> </ul>
Consumer Goods (20%)	Statistics Canada Catalogue No. 62-001-X, The Consumer Price Index (Alberta), All Items (excluding food and energy).
Construction (30%)	<p>An average of the following two indices:</p> <ul style="list-style-type: none"> <li>▪ Statistics Canada Catalogue No. 62-007-X (Table 327-0043), (2002=100), Non-Residential Building Construction Price Index, Edmonton.</li> <li>▪ Statistics Canada Catalogue No. 62-007-X (Table 327-0043), (2002=100), Non-Residential Building Construction Price Index, Calgary.</li> </ul>

The following table illustrates the historical results of the M&R index and the calculation methodology for the inflation adjusted payments and payment adjustments. The base year for the M&R Index is 2005 and the value is set to be 1.000.

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**CALCULATION OF M&R INDEX**

**(a) MANPOWER**

	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>
(i) AUPE Local 04 hourly salary (top of a Maintenance Service 2 Worker)	\$20.87	\$21.50	\$22.55	\$23.64	\$24.65	\$24.55
(ii) North American Industry Classification System (NAICS)=Repair and maintenance [811] Hourly Rate	\$20.92	\$20.59	\$21.30	\$22.41	\$22.29	\$21.86
<i>Calculated Indexes</i>						
(i) Alberta Union of Provincial Employees, Local 04	1.000	1.030	1.080	1.133	1.181	1.176
(ii) North American Industry Classification System Repair and maintenance [811]	1.000	0.98	1.018	1.071	1.065	1.045
<b>MANPOWER INDEX (Base Year 2005)</b>	<b>1.000</b>	<b>1.007</b>	<b>1.049</b>	<b>1.102</b>	<b>1.123</b>	<b>1.111</b>

**(b) CONSUMER GOODS**

<i>Statistics Canada All Items (excluding Food and Energy)</i>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>
Alberta	106.1	110.3	115.8	118.12	119.8	120.7
<b>CONSUMER GOODS INDEX (Base Year 2005)</b>	<b>1.000</b>	<b>1.040</b>	<b>1.091</b>	<b>1.113</b>	<b>1.129</b>	<b>1.138</b>

**(c) CONSTRUCTION COSTS (Table 327-0043) Replaces Table 327-0039 (2002 = 100)**

<i>Statistics Canada Non-Residential</i>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>
Calgary	117.6	132.6	156.1	177.5	163.9	160.3
Edmonton	117.2	130.8	153.1	172.4	151.8	155.0
<i>Calculated Indexes</i>						
Calgary	1.000	1.128	1.327	1.509	1.394	1.363
Edmonton	1.000	1.116	1.306	1.471	1.295	1.323
<b>CONSTRUCTION COSTS INDEX (Base Year 2005)</b>	<b>1.000</b>	<b>1.122</b>	<b>1.317</b>	<b>1.490</b>	<b>1.344</b>	<b>1.343</b>

**(d) M&R INDEX**

<i>Weighting Factors</i>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>
MANPOWER (50%)	0.50	0.504	0.525	0.551	0.562	0.555
CONSUMER GOODS (20%)	0.20	0.208	0.218	0.223	0.226	0.228
CONSTRUCTION COSTS (30%)	0.30	0.337	0.395	0.447	0.403	0.403
<b>M&amp;R INDEX (Base Year 2005)</b>	<b>1.00</b>	<b>1.048</b>	<b>1.138</b>	<b>1.221</b>	<b>1.191</b>	<b>1.186</b>

**ESCALATION ADJUSTMENT FACTOR:**

**EFFECTIVE ON:**

<b>1.048</b>	<b>1.138</b>	<b>1.221</b>	<b>1.191</b>	<b>1.186</b>
<b>April 07</b>	<b>April 08</b>	<b>April 09</b>	<b>April 10</b>	<b>April 11</b>

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**APPENDIX 2  
ILLUSTRATION OF CALCULATION  
AND APPLICATION OF INDEX FACTOR**

*Illustrative M&R Index and Index Factor values*

M&R Index		Index Factor		
Year	Value		Fiscal Year	Value
2010	1.186			
2011	1.269			
2012*	1.358		2013/14	1.000
2013	1.453		2014/15	1.070
2014	1.555		2015/16	1.145
2015	1.663		2016/17	1.225

\* Maintenance Payments in Form G1 to be stated in constant 2012 dollars.

*Illustrative Application of Index Factor to Maintenance Payment based on fictitious data for Price Indices*

Maintenance Payment for each month in Constant 2012 \$		Index Factor Applicable	Amount Payable after Inflation Adjustment
Apr. 2014	\$ -	1.070	\$ -
May 2014	\$ -	1.070	\$ -
Jun. 2014	\$ -	1.070	\$ -
Jul. 2014	\$1,000.00	1.070	\$1,070.00
Aug. 2014	\$1,000.00	1.070	\$1,070.00
Sep. 2014	\$1,000.00	1.070	\$1,070.00
Oct. 2014	\$1,000.00	1.070	\$1,070.00
Nov. 2014	\$1,000.00	1.070	\$1,070.00
Dec. 2014	\$1,000.00	1.070	\$1,070.00
Jan. 2015	\$1,000.00	1.070	\$1,070.00
Feb. 2015	\$1,000.00	1.070	\$1,070.00
Mar. 2015	\$1,000.00	1.070	\$1,070.00