

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 Nine New Schools in Edmonton and Nine New Schools in Calgary (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 and 10.2 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 and payment adjustments, as specified in sections 10.1 and 10.2 of the DBFM Agreement, will be subject to an inflation adjustment. Payments and payment adjustments that will be increased or decreased by this inflation adjustment include:

- (a) Maintenance Payments;
- (b) Renewal Payments; and
- (c) All applicable Payment Adjustments, and the threshold amount referenced in section 16.8(l) 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 Contactor 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.

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

SCHEDULE 10 – DBFM AGREEMENT

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;

(c) the independent advisor must carry professional liability insurance with errors and omissions coverage of not less than \$500,000 per occurrence;

(d) all fees and expenses of the independent advisor are to be shared equally by the Contractor and the Province; and

(e) 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, and to the threshold amount referenced in section 16.8(1) 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:

$$\text{Index Factor (Fiscal Year T)} = \frac{\text{M\&R Index (T - 1)}}{\text{M\&R Index (2008)}}$$

For example, for amounts payable in the 12 months from April 2011 to March 2012, the applicable Index Factor will be calculated by dividing the M&R Index value for 2010 by the M&R Index value for 2008.

SCHEDULE 10 – DBFM AGREEMENT

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, 2010.

SCHEDULE 10 – DBFM AGREEMENT

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:

Inflation Area (Weight)	Indices Used in Each Inflation Area
Manpower (40%)	<p>An average of the following two indices:</p> <ul style="list-style-type: none"> ▪ The Alberta Union of Provincial Employees (AUPE) Local 104 Published Hourly Salary, for Maintenance Service Worker II at the Top Level (Not Including Benefits). ▪ North American Industry Classification System (NAICS) – Repair and Maintenance [811] Hourly Rate.
Consumer Goods (20%)	<p>Statistics Canada Report 62-001-SPB, Consumer Price Statistics, Alberta Index, All Items (excluding food and energy).</p>
Construction (40%)	<p>An average of the following two indices:</p> <ul style="list-style-type: none"> ▪ Statistics Canada Report 62-007-XPB, Construction Price Statistics, Non-Residential Building Construction Price Index, Edmonton. ▪ Statistics Canada Report 62-007-XPB, Construction Price Statistics, Non-Residential Building Construction Price Index, Calgary.

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 2001 and the value is set to be 1.000.

SCHEDULE 10 – DBFM AGREEMENT

**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
2006	1.2499		
2007	1.3374	2008/09	
2008	1.4310	2009/10	1.000
2009	1.5312	2010/11	1.070
2010	1.6384	2011/12	1.145

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

Maintenance Payment for each month in Constant 2008 \$	Index Factor Applicable	Amount Payable after Inflation Adjustment	
Apr. 2011	\$1,000	1.145	\$1,145
May 2011	\$1,000	1.145	\$1,145
Jun. 2011	\$1,000	1.145	\$1,145
Jul. 2011	\$1,000	1.145	\$1,145
Aug. 2011	\$1,000	1.145	\$1,145
Sep. 2011	\$1,000	1.145	\$1,145
Oct. 2011	\$1,000	1.145	\$1,145
Nov. 2011	\$1,000	1.145	\$1,145
Dec. 2011	\$1,000	1.145	\$1,145
Jan. 2012	\$1,000	1.145	\$1,145
Feb. 2012	\$1,000	1.145	\$1,145
Mar. 2012	\$1,000	1.145	\$1,145