

## SCHEDULE "9"

### ANNUAL ADJUSTMENT PROCESS

#### 1. DEFINITIONS

1.1 In this Schedule, unless the context otherwise requires:

- (a) **"Annual Average"** means a 12 month average of a series for an Index Year;
- (b) **"Base Year"** means the Index Year immediately preceding the current Index Year
- (c) **"Changes to Pavement Marking Services"** means, in respect of a Contract Year:
  - (i) an amount equivalent to the value of the changes to Pavement Marking Services for the immediately preceding Contract Year which would have resulted (calculated in accordance with provisions of section 7.3 of this Agreement) based on the assumptions that
    - (A) any changes to the Pavement Marking Services made by the Minister during that immediately preceding Contract Year under section 7.2 of this Agreement were made on the first day of that immediately preceding Contract Year, and
    - (B) no adjustment in the Annual Price applicable to that immediately preceding Contract Year was made pursuant to Article 6 of this Agreement
- (d) **"Changes to Line Inventory"** means, in respect of a Contract Year:
  - (i) an amount equivalent to the value of the changes to the Routine Line Inventory and Quantified Line Inventory for the immediately preceding Contract Year which would have resulted, calculated in accordance with the provisions of Schedule 8 (Cost for Changes to Line Inventory) based on the assumptions that:
    - (A) any changes to the Routine or Quantified Line Inventory made by the Province during that immediately preceding Contract Year under section 6.1 of this Agreement were

made on the first day of that immediately preceding Contract Year,

(B) no adjustment in the Annual Price applicable to that immediately preceding Contract Year was made pursuant to Article 7 of this Agreement.

- (e) **“Current Year”** means the most recent Index Year;
- (f) **“Draw Date”** means the day on which Statistics Canada’s Catalogues and Tables and US Bureau of Labor Statistics series identified in subsection 1.1(h) of this Schedule become available for the purpose of computing the Price Adjustment Factor;
- (g) **“Index Year”** means a contiguous 12 month time period beginning January 1 and ending December 31;
- (h) **“Price Adjustment Factor”** means, in respect of an Index Year, the aggregate of
  - (i) **40% for the paint** component (the portion of the Annual Price assumed to represent paint costs):

**Series:** (1) Paint and coating manufacturing, special purpose coatings including all marine coating and traffic marking paints  
(2) Annual Average Exchange Rates - US \$ Close, Statistics Canada;

**Source:** (1) PCU32551032551072 – available from the US Bureau of Labor Statistics, Producer Price Index – Industries, Paint and Coatings Manufacturing, special purpose coatings including marine coating and traffic marking paints, available electronically at the following site: <http://data.bls.gov/pdq/querytool.jsp?survey=pc>

(2) Monthly Average Exchange Rates – Table # 176-0049; Statistics Canada; available electronically at the following site: <http://www5.statcan.gc.ca/cansim/home-accueil?lang=eng&p2=50&HPA>

**Timing:** The April release of series PCU32551032551072. The April edition includes revised data for the last month of the previous year.

**Calculation:** The paint component of the Price Adjustment Factor is calculated as follows:

The annual rate of change in the special purpose coatings index is calculated first by using the Annual Average of the index for the

Current Year minus the Annual Average of the index from the Base Year divided by the Annual Average from the Base Year. The annual rate of change in the paint index is then adjusted for changes in purchasing power by dividing 1 by the average annual US\$/C\$ exchange rates for each of the Base Year and Current Year. The purchasing power ratio is then applied to the percentage change in the special purpose coatings index.

- (ii) **35% for the labour** component (the portion of the Annual Price assumed to represent labour costs):

**Series:** Fixed weighted index of average hourly earnings for all employees (SEPH), excluding overtime, unadjusted for seasonal variation, for selected industries classified using the North American Industry Classification System (NAICS), monthly; British Columbia; excluding unclassified businesses.

**Source:** Table 281-0039, Statistics Canada, Employment Earnings and Hours, available at the following site:  
<http://www.statcan.gc.ca/start-debut-eng.html>  
(enter table 281-0039)

**Timing:** Each spring (usually April), Statistics Canada will provide the Province with a letter to indicate the revised official statistics for Table 281-0039. The provided data will take into account the historical revision. The data will include the previous 2 years of monthly data.

**Calculation:** The labour component of the Price Adjustment Factor is calculated as follows:

The Annual Average of the labour index for the Current Year minus the Annual Average of the labour index for the Base Year divided by the Annual Average of the labour index for the Base Year.

- (iii) **12% for the accommodation** component (the portion of the Annual Price assumed to represent accommodation costs):

**Series:** Traveller Accommodation Services, British Columbia, Business Clients;

**Source:** Table 326-0013, industry price index, services, Traveller Accommodation Services, British Columbia, Business Clients, available electronically as a Summary Table at the following site:  
<http://www40.statcan.ca/l01/cst01/> , Summary Table 326-0013;

**Timing:** The April edition of Statistics Canada Table 326-0013 will be used to calculate the year over year percentage change for the accommodation component of the Price Adjustment Factor. The April edition includes finalized data for the previous year.

**Calculation:** The accommodation component of the Price Adjustment Factor is calculated as follows:

The Annual Average of the accommodation index for the Current Year minus the Annual Average of the accommodation index for the Base Year divided by the Annual Average of the accommodation index for the Base Year;

and

**(iv) 5% for the fuel** component (the portion of the Annual Price assumed to represent fuel costs):

**Series:** Industry price index for non-metallic mineral products and petroleum and coal products, the annual average of the British Columbia, diesel fuel;

**Source:** Statistics Canada, Table 2-19, industry price index for non-metallic mineral products and petroleum and coal products, the annual average of the British Columbia, diesel fuel, Catalogue 62-011-XIE, No. 2, available electronically at the following site:

<http://www5.statcan.gc.ca/bsolc/olc-cel/olc-cel?catno=62-011-X&CHROPG=1&lang=eng>

**Timing:** The April edition of Statistics Canada Catalogue 62-011-XIE will be used to calculate the year over year percentage change for the fuel component of the Price Adjustment Factor. The April edition includes revised data for the last four months of the previous year.

**Calculation:** The fuel component of the Price Adjustment Factor is calculated as follows:

The Annual Average of the fuel index for the Current Year minus the Annual Average of the fuel index for the Base Year divided by the Annual Average of the fuel index for the Base Year.

## **2. CALCULATION OF PRICE ADJUSTMENT FACTOR**

- 2.1** The Minister will, no later than April 30, or as soon as reasonably practicable after production of the statistical series referenced in subsection 1.1(h) of this Schedule:
- (a)** calculate the Price Adjustment Factor for the calendar year; and
  - (b)** provide to the Contractor copies of the calculations.
- 2.2** Two sample Price Adjustment Factor calculations are set out in Appendix B attached to this Schedule.
- 2.3** In the event that any index referenced in the definition of Price Adjustment Factor is not available, then another similar index may be selected by the Minister after consultation with the pavement marking contractors.

## **3. OTHER CALCULATIONS**

- 3.1** Commencing at the end of each Contract Year, the Minister will, no later than April 30, or as soon as reasonably practicable:
- (a)** calculate the Changes to Line Inventory and the Changes to Pavement Marking Services for the Contract Year;
  - (b)** calculate the Adjusted Annual Price for the Contract Year in accordance with the formula set out in Appendix A to this Schedule;
  - (c)** calculate the Inventory Adjustment Unit Price for the Contract Year by adjusting the Inventory Adjustment Unit Price in effect at the beginning of the immediately preceding Contract Year by the Price Adjustment Factor; and
  - (d)** calculate the Additional Pavement Marking Services Unit Prices for the Contract Year by adjusting the Additional Pavement Marking Services Unit Prices in effect at the beginning of the immediately preceding Contract Year by the Price Adjustment Factor.

## **4. PROVISION OF CALCULATIONS AND NOTICE OF FEES ADJUSTMENTS**

- 4.1** The Minister will provide to the Contractor copies of the calculations described in sections 2 and 3 of this Schedule forthwith upon the completion of the calculations.

## **5. CALCULATION DISAGREEMENTS**

- 5.1** If the Contractor should disagree with any of the calculations referenced in sections 2 and 3 of this Schedule, the Contractor may, within 30 days of receipt of the calculations, notify the Province in writing of its disagreement, specifying the reasons therefore; and
- 5.2** If the parties are unable to resolve a disagreement referenced in section 5.1 of this Schedule within 30 days of notification, then the disagreement may be referred by either party directly to arbitration pursuant to section 18.5 and 18.6 of this Agreement.

## **6. CALCULATIONS FINAL AND BINDING**

- 6.1** Subject to section 5 of this Schedule, the calculations of the Minister described in sections 2 and 3 of this Schedule will be final and binding on the parties.

## **7. DELIVERY OF REVISED SCHEDULES AND TABLES**

- 7.1** As soon as reasonably practicable after the calculations described in section 4 of this Schedule become final and binding pursuant to section 6.1 of this Schedule or Article 18 of this Agreement, the Minister will prepare and deliver to the Contractor, a revised Schedule 4 (Routine and Quantified Pavement Marking Services), Appendix A to Schedule 5 (Additional Pavement Marking Services), Appendix A to Schedule 7 (Fees) and Schedule 8 (Cost for Changes to Line Inventory) reflecting those calculations and adjusted fees, as applicable.

## **8. ROUNDING**

- 8.1** The numbers:
- (a)** used in any of the calculations made in accordance with this Schedule and the numbers resulting from the calculations made under subsection 2.1(a) of this Schedule will be rounded, as necessary, to four decimal places;
  - (b)** resulting from the calculations made under subsections 3.1 (b), (c) and (d) of this Schedule will be rounded, as necessary, to two decimal places; or
  - (c)** resulting from the calculations made under subsection 3.1(a) of this Schedule will be rounded, as necessary, to the nearest Line Kilometre.

## APPENDIX "A" (SCHEDULE "9")

### Adjusted Annual Price Formula

1. The formula for calculating the Adjusted Annual Price for a Contract Year under subsection 3.1(b) of this Schedule is:

$$[A + B + C] \times D$$

where the capital letters in this formula have the following meanings:

- "A" equals the Annual Price for the immediately preceding Contract Year prior to the making of any adjustments during that immediately preceding Contract Year pursuant to Articles 6 or 7 of this Agreement;
  - "B" equals the value of the Changes to Line Inventory for the Contract Year;
  - "C" equals the value of the Changes to Pavement Marking Services for the Contract Year;
  - "D" equals one plus the Price Adjustment Factor for the Current Year.
2. A sample calculation of the Adjusted Annual Price is set out in Appendix C attached to this Schedule.

## APPENDIX “B” (SCHEDULE “9”)

### Sample Price Adjustment Factor Calculation

The Price Adjustment Factor is an annual adjustment for variable costs only. The Province estimates that the variable costs are 92% of the total costs. These variable costs are outside the direct control of the Contractor and specifically exclude fixed costs which take the form of overhead and profit.

#### SAMPLE 1

| Component   | Base Year<br>Average<br>Annual | Current Year<br>Average<br>Annual | <i>Calculation</i> | % Change |            | %<br>Weighting | Inflation      |
|---|--------------------------------|-----------------------------------|--------------------|----------|------------|----------------|----------------|
|   | (E)                            | (F)                               |                    |          |            |                |                |
| <b>US Special Purpose Coatings Index</b>                  | 100.00                         | 103.84                            | $(F-E)/E$          | 3.8397%  | <b>(G)</b> |                |                |
| <b>Exchange Rate</b><br><i>(Canadian cents per US\$)</i>  | 0.9994                         | 1.0196                            |                    |          |            |                |                |
| <b>Purchasing Power Ratio</b><br><i>(1/Exchange Rate)</i> | 1.0006                         | 0.9808                            | $(F-E)/E$          | -1.9812% | <b>(H)</b> |                |                |
| <b>Net Paint Adjusted for Purchasing Power</b>            |                                |                                   | $G-(G*H)$          | 3.9158%  |            | 40%            | 1.5663%        |
| <b>Labour</b>   | 129.95                         | 134.77                            | $(F-E)/E$          | 3.7112%  |            | 35%            | 1.2989%        |
| <b>Accommodation</b>                                      | 113.06                         | 111.69                            | $(F-E)/E$          | -1.2109% |            | 12%            | -0.1453%       |
| <b>Fuel</b>   | 228.6                          | 233.38                            | $(F-E)/E$          | 2.0896%  |            | 5%             | 0.1045%        |
| <b>Aggregate</b>  |                                |                                   |                    |          |            |                | <b>2.8244%</b> |
| <b>Price Adjustment Factor (1+Aggregate)</b>              |                                |                                   |                    |          |            |                | <b>1.0282</b>  |

**NOTE: The numbers used in this sample calculation are for illustrative purposes only**



**APPENDIX “B” (SCHEDULE 9) Con’t.**

**Sample Price Adjustment Factor Calculation**

**SAMPLE 2**

| <b>Component</b>  | <b>Base Year<br/>Average<br/>Annual</b> | <b>Current<br/>Year<br/>Average<br/>Annual</b> | <i>Calculations</i> | <b>%<br/>Change</b> |            | <b>%<br/>Weighting</b> | <b>Inflation</b> |
|---|---|--|---------------------|---------------------|------------|------------------------|------------------|
|   | <b>(E)</b>                              | <b>(F)</b>                                     |                     |                     |            |                        |                  |
| <b>US Special Purpose Coatings Index</b>                  | 101.68                                  | 104.99   | $(F-E)/E$           | 3.2561%             | <b>(G)</b> |                        |                  |
| <b>Exchange Rate</b><br><i>(Canadian cents per US\$)</i>  | 1.0175                                  | 0.9927   |                     |                     |            |                        |                  |
| <b>Purchasing Power Ratio</b><br><i>(1/Exchange Rate)</i> | 0.9828                                  | 1.0074   | $(F-E)/E$           | 2.4982%             | <b>(H)</b> |                        |                  |
|   |   |  |                     |                     |            |                        |                  |
| <b>Net Paint Adjusted for Purchasing Power</b>            |   |  | $G-(G*H)$           | 3.1747%             |            | 40%                    | 1.2699%          |
| <b>Labour</b>   | 133.68                                  | 134.25   | $(F-E)/E$           | 0.4264%             |            | 35%                    | 0.1492%          |
| <b>Accommodation</b>                                      | 112.25                                  | 113.47   | $(F-E)/E$           | 1.0869%             |            | 12%                    | 0.1304%          |
| <b>Fuel</b>   | 229.87                                  | 232.69   | $(F-E)/E$           | 1.2268%             |            | 5%                     | 0.0613%          |
| <b>Aggregate</b>  |   |  |                     |                     |            |                        | <b>1.6109%</b>   |
| <b>Price Adjustment Factor (1+Aggregate)</b>              |   |  |                     |                     |            |                        | <b>1.0161</b>    |

**NOTE: The numbers used in this sample calculation are for illustrative purposes only**

**APPENDIX “C” (SCHEDULE “9”)**

**Sample Adjusted Annual Price Calculation**

|  |     |                       |     |
|--|-----|-----------------------|-----|
| Annual Price of \$1,200,000 for immediately preceding Contract Year (Contract Year 1)  |     | \$1,200,000.00        | (A) |
| The value of the Changes to Line Inventory for the immediately preceding Contract Year in accordance with section 6.1 of this Agreement                    | +/- | \$10,000.00           | (B) |
| The value of the Changes to Pavement Marking Services for the immediately preceding Contract Year in accordance with sections 7.1 to 7.4 of this Agreement | +/- | (\$5,000.00)          | (C) |
|  |     | <hr/>                 |     |
| <b>SUB-TOTAL</b>   |     | <b>\$1,205,000.00</b> |     |
| Price Adjustment Factor (from Sample #1 of Appendix B to this Schedule) rounded to 4 decimal points as per subsection 8.1(a) of this Schedule              | x   | <u>1.0282</u>         | (D) |
| <b>ADJUSTED ANNUAL PRICE FOR CONTRACT YEAR 2</b>   |     | <b>\$1,238,981.00</b> |     |

**NOTE: The numbers used in this sample calculation are for illustrative purposes only.**