

DEMONSTRATION
INFLATION FACTOR CALCULATION

The Demonstration Inflation Factor was calculated using the most recent 12 months of data available from the Boeckh Index prior to the Board Meeting. The actual inflation factor applied on 12/31/2000 will be calculated using the most recent data available at that time.

$$\begin{array}{r} \text{(September 31, 1999)} \quad \text{(September 31, 2000)} \\ \hline 2017.6 \quad - \quad 1973.1 \quad \times \quad 100 = 2.26\% \text{ Demonstration Inflation Factor} \\ 1973.1 \end{array}$$

COMMONWEALTH OF PENNSYLVANIA
Department of Environmental Protection
Bureau of Mining and Reclamation
December 31, 1999
717-787-5103

SUBJECT: Boeckh Cost Index Numbers

TO: MSI Board Members

FROM: Roderick A. Fletcher, P.E.
Director
Bureau of Mining and Reclamation
and
Chairman, MSI Board

As directed by the MSI Board, the most recent 12 months of Boeckh Index building cost numbers have been used to calculate the MSI coverage inflation factor that will be provided to MSI policyholders in the year 2000.

The Boeckh Cost Index for October 31, 1999 is 1973.1. This is the final index available in 1999. The index on October 31, 1998 was 1895.4.

Based upon those indices, an inflation factor of 4.1% will be offered to MSI Policyholders for calendar year 2000. The calculation used to determine the inflation factor is as follows:

$$\frac{1973.1 - 1895.4}{1895.4} \times 100 = 4.099 \text{ or } 4.1\%$$

The inflation index of 4.1% in 2000 is slightly higher than the current overall inflation rate and is a significant increase over the index of 1.8% offered in 1999. It is most likely attributable to the heavy demand for building materials for new housing and the extensive repair work resulting from damage caused by the hurricanes in 1999.