I.G. fails to properly include operating expenses and capital expenses in its valuation.

I.G. fails to use appropriate discount rate.
## Discount Rate Correction

### Risk Bands for Partnership Victoria Projects

<table>
<thead>
<tr>
<th>Risk Level</th>
<th>Category</th>
<th>Discount Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Very Low</td>
<td>Inspector General Assumption</td>
<td>7.00%²</td>
</tr>
<tr>
<td>Low</td>
<td>Water, transport and energy</td>
<td>8.26%</td>
</tr>
<tr>
<td>Medium</td>
<td>Parking</td>
<td>10.40%</td>
</tr>
</tbody>
</table>

1. **Inspector General Assumption**
   - Discount rate = 7.00%
   - 2 Technical note calls for a discount rate of 7.06%, I.G. rounded down to 7.00%

2. **Water, transport and energy**
   - Discount rate = 8.26%

3. **Parking**
   - Discount rate = 10.40%

- The Inspector General’s Report failed to follow the methodology it sourced regarding the appropriate discount rate
  - Partnerships Victoria is a division of the Commercial Division in the Department of Treasury and Finance for the State of Victoria (Australia)
  - Technical Note regarding the use of discount rates in July 2003, updated January 2005
- The implication of placing the Parking Meter System in the Very Low risk category is that demand for water is more elastic than demand for on-street parking
- The Partnerships Victoria analysis identifies several factors that can drive a project to the next risk category, several of which apply to the Parking Meter System
  - Project value in excess of $500 million
  - Unique system risks
  - Demand risk is fully transferred
- Other approaches produce a discount rate range of 10% to 14%

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