MWD
METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

Report

October 24, 2008
Chief Financial Officer

Financial Market Update

Summary

Over the past three weeks, the financial markets continued to be very volatile. The long-term municipal bond market continued to be challenging, with yields on long-term debt initially rising to over six percent, and then falling by .15 to .20 percent by the end of the week. The short-term variable rate municipal bond market continued to improve over the past week, resulting in decreasing rates for Metropolitan's variable rate debt.

Detailed Report

Highlights:

Since our last report, the following events occurred in the financial markets:

- The Fed will provide up to $540 Billion to aid money market funds.
- The flight to quality continued as the price of Treasuries rose, pushing the yield on the 30-year bond down to its lowest level since regular issuance of the securities began in 1977 at 3.87% today.
- Bloomberg News estimates that $10 trillion of worldwide stock market losses occurred over the past month.
- Rates on the highest-ranked 30-day commercial paper dropped 1.46 percentage points, the most on record, to 1.92 percent.
- The Canadian government committed to guarantee its banks borrowing.
- The Standard and Poor's 500 Index dropped to 896.78, its lowest level since April 2003 on concerns that a global economic slump will hurt profits.
- The California Public Employees' Retirement System, the largest U.S. public pension fund, lost more than 20 percent (almost $70 billion) of its value since July 1, 2008. This may result in higher employer payments in fiscal year 2010/11.
- Macquarie Group Ltd., Australia's largest securities firm, and Citadel Investment Group LLC received a license to insure municipal and infrastructure debt.
- The State of California closed its $5 billion RANS deal at a weighted average interest rate of 4.13 percent for notes maturing in May and June 2009.
- The DOW closed at 8,379, a loss of 473 points since October 17, 2008.

INVESTMENT PORTFOLIO:

Metropolitan's investment portfolio declined from $797.3 million to $781.8 million due to payments for operating and construction expenditures. Table 1 shows a summary of the investment portfolio. Changes in market value for select credits are shown in Table 2.

Table 1. Investment Portfolio
(Book Value in Thousands)

Securities	Week Ending 10/16/2008 Book Value	Week Ending 10/23/2008 Book Value	Increase (Decrease)
Treasuries	$ 114,139	$ 114,600	$ 461
Agencies	$ 171,207	$ 173,601	$ 2,394
Corporates	$ 138,638	$ 139,621	$ 983
Municipals	$ 186,415	$ 186,470	$ 55
Asset & Mortgage Backed Securities	$ 68,520	$ 68,486	$ (34)
Commercial Paper	$ 57,556	$ 48,153	$ (9,403)
Certificates of Deposit	$ 40,002	$ 40,002	$ -
Bankers' Acceptances	$ 18,893	$ 9,976	$ (8,917)
Shares of Beneficial Interest	$ 1,969	$ 899	$ (1,070)
LAIF	$ -	$ -	$ -
Total Portfolio	$ 797,339	$ 781,808	$ (15,531)

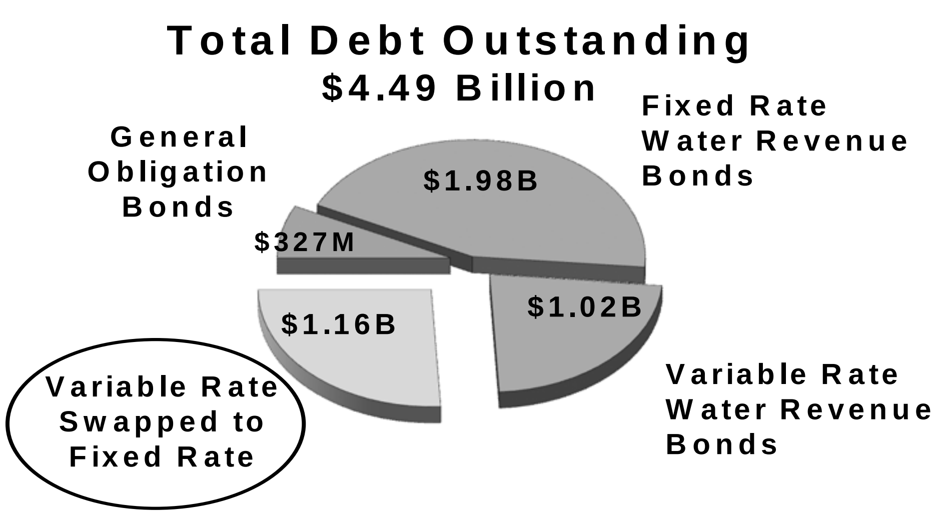
Investment Actions/Issues:

- The credit rating for Depfa commercial paper was lowered to A2. Metropolitan owned $7.5 million of Depfa commercial paper that matured at full value on October 23, 2008.
- The credit rating for the following corporate notes held on behalf of Metropolitan in the long-term portfolio managed by Reams Asset Management portfolio were downgraded by Moody's:
  - Allstate Life Global Funding was lowered from Aa2 to Aa3.
  - American Express Credit Company was lowered from Aa3 to A1.

Table 2. Credit Challenged Investments
($ In Thousands)

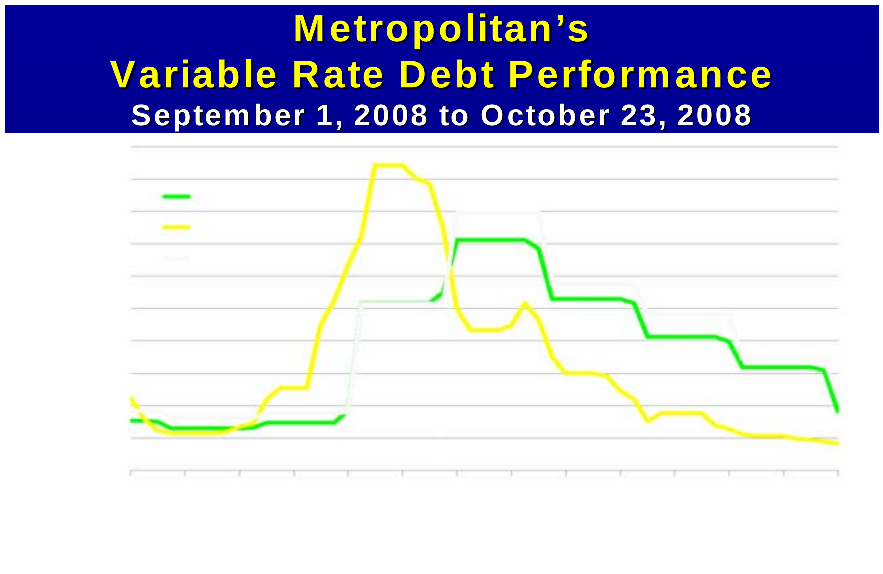
Ratings: Moody's	Ratings: Standard & Poors	Description	Book Value	Week Ending 10/16/2008 Market Value	Week Ending 10/23/2008 Market Value	Increase (Decrease)
		Corporate Bonds				
D	D	Lehman Brothers	$5,279	$524	$606	$82
A3	BBB+	First Tennessee Bank	$430	$424	$421	($3)
Baa1	A-	International Lease Finance	$855	$574	$574	$0
Baa1	BBB	American General Finance	$956	$462	$394	($68)
				Total Change		$11

DEBT AND SWAP PORTFOLIO



Short-Term Municipal Market

During the past week, investors returned to the short-term municipal bond market and weekly variable rate bonds began trading at levels that were 500 to 600 basis points lower than just a month ago. The following graphic illustrates the sudden increase, then dramatic decrease in the cost of Metropolitan's variable rate debt, as well as changes in the overall short-term market (SIFMA) over the past month and a half:



Metropolitan's weekly variable rate debt averaged 3.18 percent over the last week, down from 3.95 percent the prior week. The daily rates averaged 1.03 percent, down from 1.62 percent the prior week.

Actions / Issues:

- Dexia Credit Local

As reported last week, Dexia, the largest provider of local government financing in the world, was downgraded by S&P from AA- to A. Dexia provides liquidity support for $466 million of Metropolitan's variable rate bonds. The Belgian, French and Luxembourg governments have supplied $8.8 billion of capital to Dexia over the past two weeks in an effort to shore up the bank, in addition to guaranteeing new borrowing by the bank. Even with these efforts, Metropolitan's variable rate debt that is backed by the Dexia lines of credit is currently trading between .65 and 2.0 percentage points higher than non-Dexia supported variable rate debt.

- New Money Bond Sale

Metropolitan is working with its finance team to be prepared to issue $150 million to $200 million of bonds in early December 2008 to finance the capital investment program. Stone and Youngberg will be the senior manager on the transaction, and Siebert Brandford Shank & Co. will be co-senior.