THE METROPOLITAN WATER DISTRICT
OF SOUTHERN CALIFORNIA

**Date:** July 12, 2010

**To:** Business and Finance Committee

**From:** Brian G. Thomas, Assistant General Manager/Chief Financial Officer

**Subject:** Quarterly Asset Liability Summary Report, June 2010

This memo transmits a summary report of Metropolitan's asset/liability position as of the quarter ending June 30, 2010.

Assets (Investment Portfolio)

| | |
|---|---|
| Market Value of Short Term Portfolio: | $657 million |
| Short -Term Portfolio Effective Rate of Return: | 0.72% |
| Short -Term Portfolio Average Days to Maturity: | 103 days |

Liabilities (Variable Rate Exposure)

| | Amount Outstanding | Weighted Average Cost | Weighted Average Time to Maturity |
|---|---|---|---|
| Variable Rate Debt Exposure | $ 683 million | 0.64% (1) | Daily/Weekly |

(1) Last re-set during the month plus debt management costs for liquidity and remarketing fees. Variable rate exposure is 15% of total outstanding revenue bond debt.

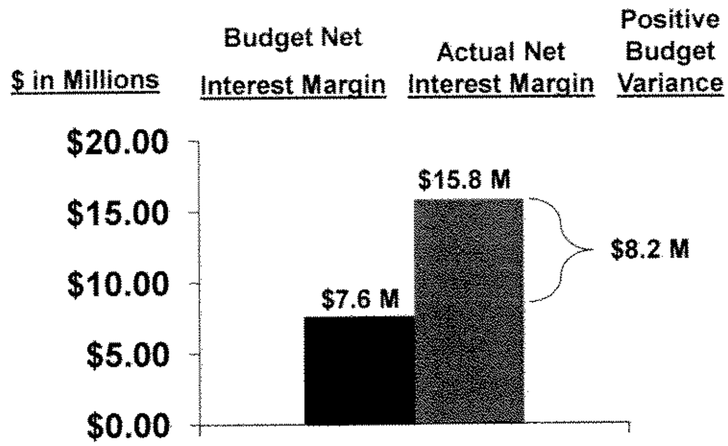
Actual net interest margin from July 1, 2009 to June 30, 2010 was approximately $15.8 million, which was $8.2 million better-than budget. Actual investment income was lower than budget by $15.6 million, which offset year-to-date interest expense which was $23.8 million lower than budget. Attachment 1 provides a graph of the fiscal year to date net interest margin through June 2010 and details each component of the differential.

Brian G. Thomas

Attachment

# Attachment 1

## June 2010
## Net Interest Margin





**Summary**

In a rising interest rate environment, Metropolitan will incur additional interest payments for its variable rate debt (VRD). In addition, differences on the variable rate debt payments and receipts from interest rate swaps (basis risk) may also increase interest expense. However, the dollar impact to Metropolitan will be mitigated to a degree by the additional income that will be generated by Metropolitan's investment portfolio. The additional investment income may not perfectly hedge the additional interest expense as the duration of the investment portfolio is somewhat longer than the daily and weekly interest rate re-sets for the variable rate debt. The difference between investment income and interest expense on VRD, and any basis gains or losses on swap transactions, determines the net interest margin. The above graphic is a representation of the fiscal year to-date net interest margin through June 2010.


**July 2009 to June 2010**

| | |
|---|---|
| • *Budgeted Average Investment Income:* | $34.2 million |
| • Actual Investment Income: | $18.5 million |
| • *Budgeted VRD & Basis Expense:* | $26.6 million |
| • Actual VRD & Basis Expense: | $ 2.7 million |
| • *Budgeted Net Interest Margin:* | $ 7.6 million |
| • Actual Net Interest Margin: | $ 15.8 million |
| • Positive Variance -Net Interest Margin: | $ 8.2 million |