MWD
METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

Date:	January 10, 2011
To:	Finance and Insurance Committee
From:	Brian G. Thomas, Assistant General Manager/Chief Financial Officer
Subject:	Quarterly Asset Liability Summary Report, December 2010

This letter transmits a summary report of Metropolitan's asset/liability position as of the quarter ending December 31, 2010.

Assets (Investment Portfolio)

Market Value of Short Term Portfolio:	$720 million
Short -Term Portfolio Effective Rate of Return:	0.84%
Short -Term Portfolio Average Days to Maturity:	82 days

Liabilities (Variable Rate Exposure)

	Amount Outstanding	Weighted Average Cost	Weighted Average Time to Maturity
Variable Rate Debt Exposure	$ 579 million	0.76% (1)	Daily/Weekly

(1) Last re-set during the month plus debt management costs for liquidity and remarketing fees. Variable rate exposure is 13% of total outstanding revenue bond debt.

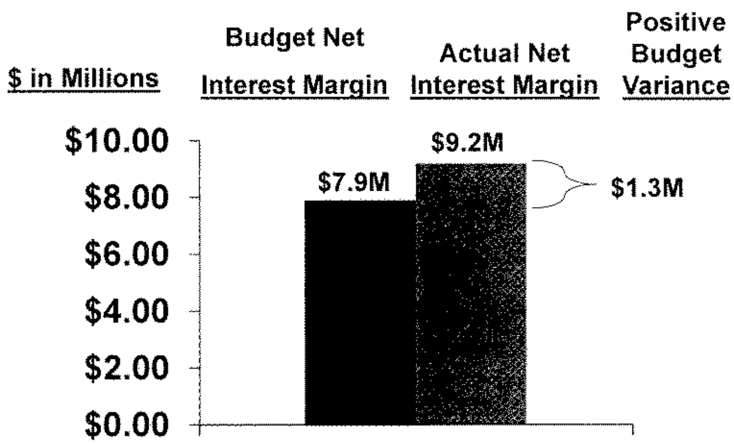
Actual net interest margin from July 1, 2010 to December 31, 2010 was approximately $9.2 million, which was $1.3 million better-than budget. Actual investment income was lower than budget by $4.8 million, which was offset by year-to-date interest expense which was $6.1 million lower than budget. Attachment 1 provides a graph of the fiscal year to date net interest margin through December 2010 and details each component of the differential.

Brian G. Thomas

Attachment

Attachment 1

December 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 December 2010.

July 2010 to December 2010

• *Budgeted Average Investment Income:*	*$15.1 million*
• Actual Investment Income:	$10.3 million
• *Budgeted VRD & Basis Expense:*	*$7.2 million*
• Actual VRD & Basis Expense:	$1.1 million
• *Budgeted Net Interest Margin:*	*$ 7.9 million*
• Actual Net Interest Margin:	$ 9.2 million
• Positive Variance -Net Interest Margin:	$ 1.3 million