



**MWD**  
METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

**Date:** October 10, 2011  
**To:** Finance and Insurance Committee  
**From:** Gary M. Breaux, Assistant General Manager/Chief Financial Officer  
**Subject:** Quarterly Asset Liability Summary Report, September 2011

This letter transmits a summary report of Metropolitan's asset/liability position as of the quarter ending September 30, 2011.

Assets (Investment Portfolio)

Market Value of Short Term Portfolio:	\$567 million
Short -Term Portfolio Effective Rate of Return:	1.11%
Short -Term Portfolio Average Days to Maturity:	86 days

Liabilities (Variable Rate Exposure)

	<u>Amount</u> <u>Outstanding</u>	<u>Weighted</u> <u>Average Cost</u>	<u>Weighted Average</u> <u>Time to Maturity</u>
Variable Rate Debt Exposure	\$ 514 million	0.72% (1)	Daily/Weekly

(1) Last re-set during the month plus debt management costs for liquidity and remarketing fees. Variable rate exposure is 11% of total outstanding revenue bond debt.

Actual net interest margin from July 1, 2011 to September 30, 2011 was approximately \$5.0 million, which was \$2.7 million below budget. Actual investment income was lower than budget by \$3.3 million, while year-to-date interest expense was \$0.6 million lower than budget. Attachment 1 provides a graph of the fiscal year to date net interest margin through September 2011 and details each component of the differential.

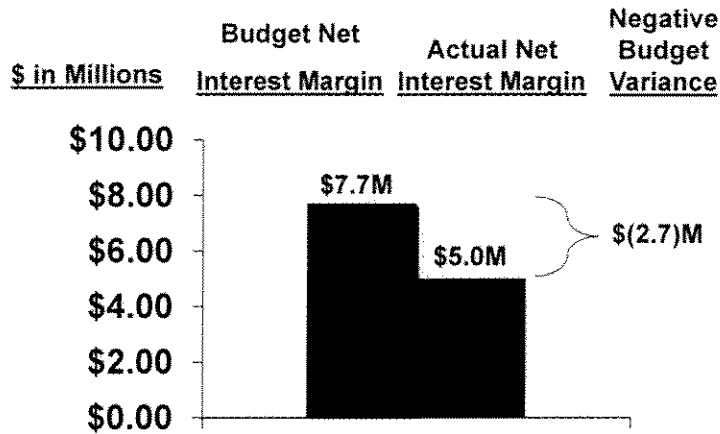
Gary M. Breaux

Attachment

# Attachment 1

## September 2011

### 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 September 2011.

**July 2011 to September 2011**

- *Budgeted Average Investment Income:* \$8.4 million
- *Actual Investment Income:* \$5.1 million
  
- *Budgeted VRD & Basis Expense:* \$0.7 million
- *Actual VRD & Basis Expense:* \$0.1 million
  
- *Budgeted Net Interest Margin:* \$7.7 million
- *Actual Net Interest Margin:* \$5.0 million
- *Negative Variance -Net Interest Margin:* \$(2.7) million