To:	Cash Management Policy Board
From:	Jennifer Appel, Kevin Leonard & Jonovan Sackey
Date:	October 22, 2025
Subject:	Delaware Budget Reserve Account Reserve Analysis

Background

NEPC was asked to update the Delaware Budget Reserve Account (Rainy Day Fund) analysis to ensure that an adequate reserve, or cushion, above the statutorily required amount was maintained. The minimum amount that must be maintained in the Budget Reserve Account for Fiscal Year 2026 is $366,545,000, which is an increase of $17,825,000 from the Fiscal Year 2025 level of $348,720,000. Based on the analysis from last year's Budget Reserve Account analysis, no additional reserve or cushion was needed for Fiscal Year 2025.

Consistent with previous reviews, JP Morgan and NEPC prepared analyses that considered increases in interest rates and other market shocks. The results of these separate analyses are presented in the subsequent section and result in a recommendation for consideration by the Cash Management Policy Board.

Analysis

JP Morgan prepared the following analysis of the reserve based upon interest rate increases of 0.25%, 0.50%, and 1.00%.

NEPC conducted a second analysis using NEPC's September 2025 Capital Market Assumptions to determine expected volatility and confidence intervals. The analysis, presented below, shows a "Gross Decline", which mirrors the JP Morgan analysis as it presents the immediate results of a market shock, and the "Net Decline", which presents the results (gain or loss) one-year forward – accounting for the yield accrued on the portfolio during that time.

State of Delaware
Budget Reserve Account "Rainy Day Fund"
Data as of September 30, 2025

Required Balance $366,545,000

			Gross Decline with a		
	Return	Volatility	1 SD Event	2 SD Event	3 SD Event
NEPC Capital Market Assumptions	4.45%	2.55%	$ (9,358,565)	$ (18,717,131)	$ (28,075,696)

			Net Decline with a		
	Return	Volatility	1 SD Event	2 SD Event	3 SD Event
NEPC Capital Market Assumptions	4.45%	2.55%	$ 4,460,181	$ (4,898,384)	$ (14,256,950)

Net Decline is a 1-year forward looking decline assuming the portfolio earns a 3.77% yield.

The table below summarizes the results of the two analyses. Historically JP Morgan's Interest Rate analysis (50 bps and 100 bps increase) and NEPC's Gross Decline (1 Standard Deviation and 2 Standard Deviation) results have been reasonably consistent. Similar to last year's analysis, the results deviate more significantly as NEPC's capital market assumptions incorporate expectations for future rate cuts to occur at a slower rate relative to expectations of the broader market.

State of Delaware
Budget Reserve Account "Rainy Day Fund"
Comparative Analysis

		25bps		50 bps		100 bps
JP Morgan Results	$	(1,592,541)	$	(3,185,083)	$	(6,370,166)
		1 SD Event		2 SD Event		3 SD Event
NEPC Gross Decline	$	(9,358,565)	$	(18,717,131)	$	(28,075,696)
NEPC Net Decline	$	4,460,181		$ (4,898,384)		$ (14,256,950)

The consensus outlook across the market is that further interest rate cuts will occur in the remainder of 2025, in addition to the 0.25% rate cut in September. Fed Funds expectations, reflecting the market's pricing for interest rates, forecast another two rate cuts of 25 basis points each by the end of 2025, with the possibility of additional rate cuts through 2026 in light of a slowing labor market.

Summary & Recommendation

Despite the possibility of lower interest rates moving forward, several factors continue to impact markets, including concerns around the current government shutdown, the fiscal backdrop, and trade policy. Due to this ongoing uncertainty, NEPC recommends adding a $5,000,000 cushion to the Budget Reserve Account for Fiscal Year 2026. This amount is sufficient to withstand a 2-standard deviation event and brings the total for Fiscal Year 2026 to $371,545,000.

We look forward to discussing the analysis with the full Board at the next meeting of the Cash Management Policy Board.