To: Cash Management Policy Board

From: Jennifer Appel, Kevin Leonard, Jonovan Sackey

Date: October 22, 2025

Subject: Delaware Budget Stabilization Account Reserve Analysis

Background

NEPC was asked to prepare an analysis for the Delaware Budget Stabilization Reserve Account (the Account) 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 Stabilization Reserve Account for Fiscal Year 2026 is $469,300,000, which is an increase of $100,000 from the Fiscal Year 2025 level of $469,200,000. The analysis from Fiscal Year 2025 indicated that a reserve cushion was not required.

Analysis

Our analysis was conducted on the Liquidity Portfolio in total, a dual manager arrangement, whereby two high quality cash-like portfolios demonstrate a cash plus risk and return profile. In September, the Federal Reserve lowered interest rates by 25 basis points to a range of 4.00%-4.25%, signaling support of a slowing labor market. Market expectations suggest two more rate cuts of 25 basis points each in 2025, with the possibility of further cuts extending into 2026.

This analysis considers two separate measures to develop a recommendation. The first measure utilizes NEPC's Capital Market Assumptions to determine expected volatility and confidence intervals. The second measure accounts for the impact of interest rate increases of 0.25%, 0.50%, and 1.00%.

The analysis, presented below, indicates that a reserve cushion would not be needed when relying on NEPC's most recent Capital Market Assumptions given the impact of reinvestment at higher interest rate levels that would offset expected price volatility. However, based on the interest rate shock analysis, the liquidity portfolio could incur losses ranging from approximately $950,000 to $3,800,000.

Summary & Recommendation

State of Delaware
Budget Stabilization Account
Data as of September 30, 2025

Required Balance: $469,300,000
Duration: 0.81

	Return	Volatility	Decline with a 1 SD Event	Decline with a 2 SD Event	Decline with a 3 SD Event
NEPC Capital Market Assumptions	3.82%	1.11%	$ 12,713,537	$ 7,488,081	$ 2,262,626
			25 bps increase	50 bps increase	100 bps increase
Interest Rate Shock Results			$ (950,333)	$ (1,900,665)	$ (3,801,330)

Based on the results of these analyses and acknowledging potential for reduced short-term interest rates by the Federal Reserve, NEPC recommends no changes to the reserve amount be made to the Delaware Budget Stabilization Account's minimum required level of $469,300,000.

We look forward to discussing this recommendation with the Board.