To: Cash Management Policy Board

From: Jennifer Appel, Kevin Leonard, Jonovan Sackey

Date: October 8, 2026

Subject: Delaware Budget Stabilization Account Reserve Analysis

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## 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 2027 is $471,800,000, which is an increase of $2,500,000 from the Fiscal Year 2026 level of $469,300,000. The analysis from Fiscal Year 2026 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 raised interest rates by 25 basis points to a range of 3.75%-4.00%, signaling above-target inflation levels. Market expectations suggest another rate hike of 25 basis points at the end of 2026, with the potential for tighter policy to continue in 2027.

This analysis considers two separate measures to develop a recommendation. The first measure utilizes NEPC's Capital Market Assumptions to frame 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 September 30, 2026 Capital Market Assumptions given the impact of current interest rate levels that support higher reinvestment yields that offset expected price volatility. However, based on the interest rate shock analysis, the liquidity portfolio could incur losses ranging from approximately $3,000,000 to $12,500,000.

## Summary & Recommendation

State of Delaware
Budget Stabilization Account
Data as of September 30, 2026

Required Balance: $471,800,000
Duration: 0.70

| | Return | Volatility | Decline with a 1 SD Event | 2 SD Event | 3 SD Event |
|---|---|---|---|---|---|
| NEPC Capital Market Assumptions | 4.55% | 1.05% | $ 62,434,630 | $ 43,704,241 | $ 24,973,852 |
| | | | 25 bps increase | 50 bps increase | 100 bps increase |
| Interest Rate Shock Results | | | $ (3,121,731) | $ (6,243,463) | $ (12,486,926) |

Based on the results of these analyses and acknowledging potential for further adjustments to 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 $471,800,000.

We look forward to discussing this recommendation with the Board.