

Albemarle County Service Authority Board of Directors

The Board of Directors of the Albemarle County Service Authority (ACSA) met in a regular session on December 19, 2024, at 9:00 a.m. at the Administration and Operations Center at 168 Spotnap Road in Charlottesville, Virginia.

Members Present: Ms. Lizbeth Palmer; Mr. John Parcels; Mr. Clarence Roberts; Ms. Kimberly Swanson; Mr. Charles Tolbert, Vice-Chair.

Members Absent: Mr. Richard Armstrong.

Staff Present: Jennifer Bryant, Mike Derdeyn, Tonya Foster, Deboarh Herr, Jeffrey Herr, Tanya Johnson, Quin Lunsford, Jeremy Lynn, Alex Morrison, Emily Roach, Sabrina Seay, Danielle Trent, Theresa Whiting.

Staff Absent: April Walker.

Public Present: Scott Fleming, PFM Asset Management.

1. Call to Order and Establish a Quorum – Statement of Board Chair

The Chair called the meeting to order. He then read the opening Board Chair statement (Attached as Page _____), and a quorum was established.

2. Recognitions – Jennifer Bryant, 25 Years of Service; Jeffrey Herr Retirement – 33 Years of Service

Mr. Lunsford stated that Jennifer Bryant recently celebrated her 25th anniversary with the Albemarle County Service Authority. He stated that for the first 15 years, Ms. Bryant serves as a Customer Service Representative, working closely with the ACSA's external customers. He stated that 10 years ago, Ms. Bryant made a transition to the accounting group of the ACSA's Finance department to work as the Payroll/ Revenue Specialist. He noted that she has done an incredible job in that role and is, unofficially, the ACSA's most popular employee as she ensures everyone receives their pay on time. He stated that Ms. Bryant is dedicated to serving internal and external customers extremely well, always up to the challenge, and always in good spirits.

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Mr. Tolbert read the recognition resolution for Ms. Bryant (Attached as Page_____).

Ms. Palmer moved to approve the recognition resolution; seconded by Ms. Swanson. All members voted aye.

Jeremy Lynn came forward to present the recognition for Jeffrey Herr. He stated that Mr. Herr began his career with the ACSA on September 3, 1991. He noted a few highlights from that year including, but not limited to, the fall of the Soviet Union and end of the Cold War, the debut of Seinfeld on NBC, MC Hammer began the hammer pants fashion trend, Johnny Carson retired from The Tonight Show, and postage stamps increased from .25 to .29 cents.

Mr. Lynn stated that over the next 33 years, Mr. Herr would faithfully serve the ACSA in a variety of capacities. He stated that Mr. Herr was a utility worker from 1991 to 1994, a meter technician from 1994 to 2006, after which time he transitioned to the Engineering department. He stated that Mr. Herr was a utility location technician until 2008 when he became a construction inspector.

Mr. Lynn stated that Mr. Herr was involved with a number of CIP projects during his time. He stated that Mr. Herr helped bring public sewer to the Oak Hill subdivision, as he was involved with both phases of that project. He stated that Mr. Herr also worked on the St. George Avenue and Buck Road Water Main Replacement project, Orchard Acres Water Main Replacement project, the Scottsville Phase 3 Water Main Replacement project and, most recently, the Crozet Phase 4 Water Main Replacement project.

Mr. Lynn stated that Mr. Herr was recently named the ACSA's Employee of the Month. He stated that one of the comments from the nomination was that Mr. Herr's "dedication to his work aligns with ACSA objectives... he is committed to seeing the work through to completion and strives to learn new technology." He mentioned that one of the questions

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on the nomination form asks the nominator what stands out to them about the nominee. He stated that Mr. Herr's form mentioned loyalty and dedication. He stated that Mr. Herr delayed his retirement to help the ACSA at a time when the inspector group was understaffed and overworked.

Mr. Lynn stated that Mr. Herr has dutifully worked nights and weekends and has continually demonstrated a positive attitude throughout his years of service. He stated that the ACSA wishes Mr. Herr the very best in his retirement and his coworkers are thankful for the opportunity to have served alongside him for the past 33 years.

Mr. Tolbert read the recognition resolution for Mr. Herr (Attached as Page_____).

Mr. Parcels moved to approve the recognition resolution; seconded by Ms. Palmer. All members voted aye.

3. Approve Minutes of November 21, 2024

Mr. Parcels stated that he had a small correction. He stated that on page 10, line 21, the word should be "does."

Ms. Palmer stated that she emailed her correction to the clerk yesterday. She stated that it was one of those situations where she was not sure if she was not clear or if her comments were misinterpreted in the minutes. She stated that her correction was in reference to her concerns about the Mechums River Pump Station on page 12. She stated that, in brief, there is a lot of concrete structure within the riverbed, creating the slew and constricting the water down, which has caused a lot of erosion downstream. She stated that her concern is the aerial crossing of the Sugar Hollow pipeline which was blown out at the beginning of October.

Ms. Swanson stated that on page 17, line 17, the word "Board" should be lowercased.

Mr. Parcels moved to approve the minutes of November 21, 2024; seconded by Ms. Palmer. All members voted aye.

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4. Matters from the Public

There were no matters from the public.

5. Response to Public Comment

There was no response to public comment.

6. Consent Agenda

a. **Monthly Financial Reports –**

b. **Monthly Capital Improvement Program (CIP) Report –**

c. **CIP Authorizations** – Ms. Swanson stated that she appreciates the effort to perform a facility condition assessment, following the events at RWSA's pump station. She stated that she feels it is well worth taking a look at the ACSA's pump stations and how they are configured.

d. **Monthly Maintenance Update –**

e. **IT Monthly Update** – Ms. Swanson stated that the Utility Network update mentions water data errors, and she is curious about what those are. Mr. Lunsford replied that unfortunately, April Walker is not present at the meeting. He stated that they would follow up with the whole Board, as he is not exactly sure what they are. Mr. Parcels stated that on the one hand, the IT information is amazing and appreciated but he does not expect that it will be a monthly item. Mr. Lunsford replied that the intent is for it to be included every month. Mr. Parcels stated that if it is going to be a monthly update, he would appreciate more elaboration on some of the topics.

Mr. Roberts asked if the amount of information the Board is receiving in the IT update compromised security at all. Mr. Lunsford replied that it does not.

Ms. Swanson asked what the use would be for the electric van that was purchased. Mr. Lunsford replied that the van would be used by the SCADA and IT Technicians for their regular maintenance and facility

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visits. He stated that they currently work out of a Ford Explorer, so this new van will give them more space for the different equipment they use. Dr. Palmer stated that it obviously is mobile because it is a van and asked what kind of places it would go to. Mr. Lunsford replied that it would go to different pump stations and ACSA facilities.

- f. Rivanna Water and Sewer Authority (RWSA) Monthly Update** – Ms. Palmer stated that RWSA is performing a study to identify flood mitigation measures at several pump stations and facilities. She stated that she is curious as to how much detail will be included in the study. Mr. Lunsford stated that he will get more information from RWSA. He noted that the RWSA Board recently approved an authorization for RWSA staff to use consultants to perform assessments of their physical and IT structures, similar to what the ACSA is doing. He stated that he would follow up on Ms. Palmer's specific request.

Ms. Swanson asked if this could potentially impact RWSA's CIP projects with respect to prioritization. Mr. Lunsford replied that he does not know if prioritization of a project will come out of the study, but the intent is to mitigate the likelihood of a situation similar to the RWSA pump station occurring.

Mr. Parcels asked if they use a particular format or software to assist with the study. Mr. Lunsford replied that he did not know. Mr. Parcels stated that his former employer used a system called Hazard Operability Study (HAZOP) and they would ask a bunch of "what if" questions. He asked if the ACSA uses anything like this. Mr. Lynn replied that they do and would probably be bringing a new evaluation for all ACSA facilities before the Board next month. He noted that the current facilities condition assessment could very well lead to some CIP projects.

Mr. Parcels stated that in terms of RWSA, there is apparently a relatively new project to look at long-range planning for water and wastewater services and asked if the ACSA would be collaborating

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with them on that project. Mr. Lunsford replied that as a member of the RWSA Board, he absolutely would be. He stated that he was certain the ACSA would be an integral part of the process as well, as they have demand information that will certainly be used in RWSA's projections. He mentioned that he does not know if there has been a lot of detailed conversation yet. Mr. Lynn added that usually, these long-range planning projects pull in Albemarle County and UVA staff for growth projections, and the ACSA will be heavily involved in that as well.

Mr. Parcels asked if this was connected to the State requirement for water planning. Mr. Lynn replied that he does not know if they are necessarily connected yet. He stated that the ACSA has not started meeting with the regional planning group.

g. ACSA Board Policy Future Issues Agenda 2024 –

h. 2025 ACSA Board of Directors Meeting Schedule –

i. 2025 ACSA Holiday Schedule –

Ms. Swanson moved to approve the consent agenda, seconded by Ms. Palmer. All members voted aye.

7. ACSA Annual Investments Report

Mr. Lunsford stated that Scott Fleming with PFM Asset Management would be providing the Board with an overview presentation of the ACSA's investment portfolio performance, as well as a general economic update from the State and national perspective (Attached as Pages_____).

Mr. Fleming stated that he would be providing the Board with a quick economic update and using that as a backdrop to discuss the ACSA's investment performance. He stated that PFM began managing the ACSA's funds in 2020, which was a very rough time for the country and globally. He stated that as they look at performance today, the Board will see that

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the ACSA has attempted to dig itself out of the hole that was a result of starting at that point.

Mr. Fleming moved to the first slide to discuss current market themes. He stated that when he was before the Board 12 months ago, he was talking about a labor market that continued to produce a lot of jobs and inflation that was getting closer to the Federal Reserve's target of 2%. He stated that there was strong growth in the country and all of that has, thankfully, not changed. He mentioned that there was a little weakening in the labor market but overall, it is moving along in a solid manner. He noted that what has changed is that 12 months ago, he was talking about when the Federal Reserve (Fed) was going to start cutting rates and now he is talking about when they will stop cutting rates. He stated that they cut rates in September, after the presidential election, and again yesterday. He stated that the Fed has cut rates one full percentage point, and they have a dual mandate to ensure there is maximum employment, which is around 4%-5% unemployment rate, and that inflation remains in check. He added that they were seeing more labor weakness, thus they began cutting rates now that inflation is coming down.

Mr. Fleming mentioned that there has also been a presidential election since the last time he spoke to the Board, which has created a lot of uncertainty. He stated that tariffs, taxes, immigration, and deregulation are all things that will impact the financial markets and the ACSA's investment portfolio going forward. He mentioned that last year at this time, the focus was on what the Fed was doing, but now they must also keep an eye on what is going on in Washington, D.C.

Mr. Fleming stated that the next slide shows the overall inflation trend on the graph of the Personal Consumption Expenditures (PCE) Index, which is the Fed's preferred index to look at. He noted that the graph shows inflation moving back down towards the Fed's 2% target. He mentioned, however, that the October 2024 numbers show a little bit of a bounce,

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which is a bit worrisome. He noted that the Fed is keeping track of this, as a reacceleration in inflation would be harmful to everyone.

Mr. Fleming stated that the biggest driver of inflation overall is the shelter component, as he moved to the next slide illustrating the FHFA House Price Index. He stated that housing prices have been the biggest contributor to the tune of 68% of inflation. He mentioned that he thought it would be interesting for the Board to see what is happening with housing prices at the local level. He noted that last year, housing prices in Virginia increased 6.3%, compared to 5.1% on the national level. He stated that around 2023 is when Virginia began to outpace the national average in terms of housing price increases.

Mr. Fleming stated that what is hopefully of interest to the Board is the amount of building permits that are being issued, both in the Commonwealth and across the country. He stated that the graph on the next slide shows a three-month average (August, September, October). He noted that the increase from the prior year's three-month average was a 6% increase, which is a good amount above the national average of 1%. He added that mid-year this year is when Virginia began to outpace the national average in terms of building permits issued.

Ms. Swanson asked what the implication is of these numbers. Mr. Fleming replied that the implication is that Virginia's economy is a little stronger than the national average. He stated that despite Virginia housing prices increasing quicker than the national average, there is still pent-up demand and money to be spent. Ms. Swanson stated that locally, it just means that housing prices are high and therefore people cannot afford to live here. Mr. Fleming replied that it is amazing to see that no matter how high prices are getting, people are still finding a way to pay them. Mr. Parcels added that the number of permits issued remains high, which means construction is still occurring. He mentioned that in terms of investing, however, it is just one component.

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Mr. Fleming moved to the next slide to look at the labor market. He stated that on the left-hand side of the slide is the three-month average. He noted that while the average in November 2024 is lower than that of 2023 and 2022, historically speaking it is still in good shape. He mentioned that the same is true with the unemployment rate illustrated on the right-hand side of the slide. He mentioned that the unemployment rate is currently at 4.2%, which is a bit higher than when he last presented to the Board in December 2023. He noted, however, that it is lower than the historical average which is closer to 6%.

Mr. Fleming stated that the next slide shows the average unemployment rate for Virginia, which has continually been on the correct side. He mentioned that it is now at 3%, while the national average is just over 4%. He noted that Virginia has the sixth lowest unemployment rate in the country. He added that South Dakota has the lowest rate at 1.9%, which means that Virginia is only 1% higher than the lowest rate in the country. Mr. Parcels added that, on the other hand, this makes for a tight job market which results in higher wages. Mr. Fleming concurred and stated that every action has an opposite reaction.

Mr. Fleming stated that looking at how that all plays into rates overall, he would point the Board to the two top graphs on the next slide illustrating U.S. Treasury yields. He stated that the three-month rate is important because part of the ACSA's investment portfolio, which is the part PFM does not manage, is in the Local Government Investment Pool (LGIP) which is run by the Virginia Treasury in Richmond. He noted that the three-month average is closer to the LGIP term or duration. He noted that the two-year average is closer to the term of the funds that PFM manages. He mentioned that the overall trend is that rates peaked and then started to come down. He added that the five and ten-year average rates at the bottom of the slide look more long-range in terms of inflation and growth across the country.

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Mr. Fleming stated that the next slide is a heat map of factors to consider over the next 6-12 months, in terms of how PFM manages assets on the ACSA's behalf. He stated that he likes to look at the slide in columns, pairing up global monetary policy with U.S. financial conditions and so on. He mentioned that the Fed has lowered rates which means the monetary policy is easier, which should eventually lower mortgage and car loan rates, and make financial conditions easier. He noted that they do not see a change in that over the next 6-12 months.

Mr. Fleming stated that the outlook on global economic growth reflected on the slide is as of the end of September. He stated that a lot has happened between then and now, thus the dot would probably be more in the neutral category currently. He stated that there are some systemic issues in other countries like Europe and Asia that are going to impact the overall economic growth. He stated that that consumer spending in the U.S. continues to be strong, but the graph shows it in the neutral category for the next 6-12 months because there needs to be some moderation in the pace of overall spending.

Mr. Fleming stated that inflation in the U.S. is moving downward. He stated that it is not quite 2%, but it is headed in the right direction. He added that labor markets are moderating as well.

Mr. Parcels stated that the Briggs Group and other nations are attempting to come up with a different world currency. He asked if PFM could dial into any of that as a factor when investing. Mr. Fleming replied that it has been in the works for a long time and has been in the back of their minds, but it is such a globally systemic change that the implications would be enormous across the curve. He stated that as far as near-term changes, they do not see that happening, so it is not figured into their investment strategies.

Ms. Palmer asked why the mortgage rates for homes have not responded as much to lower interest rates as one would expect. Mr. Fleming replied that there are a lot of things that come into play when looking ahead 10

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years such as long-term growth and inflation. He stated that what might be coming with regard to policy in Washington, D.C. such as tariffs, could cause additional inflation. He stated that there are also additional risks when holding a U.S. Treasury for 10 years, thus investors want compensation for that additional risk.

Ms. Palmer stated that she suspects they will see commercial rentals factoring in higher inflation. Mr. Fleming concurred. He stated that the chief worry for all managing assets is that inflation goes back up. He stated that it erodes purchasing power, yields, etc. He mentioned that looking forward, an additional amount of inflation will have to be built into rates.

Mr. Fleming stated that the next slide moves into the ACSA's investment program update. He stated that on the right-hand side of the slide is a simple pie chart that shows the mix of funds PFM manages and the funds that are managed through the Virginia LGIP, totaling about \$53.7 million. He mentioned that PFM began managing funds for the ACSA in 2020, using a relative value management style. He stated that the ACSA has 14 investment types under the investment policy. He noted that PFM looks at all of them together and determines the best relative value within that product type, and then invests according to the ACSA's objectives of safety, liquidity, and yield. He added that there is a performance benchmark with an average duration of under 16 months.

Mr. Fleming moved to the next slide showing a 3rd quarter managed portfolio snapshot. He stated that the upper lefthand corner lists the portfolio statistics, which shows the portfolio and benchmark duration at just over a year. He mentioned that with all the potential changes coming, it does not make a lot of sense to extend or shorten that duration. He noted that the yield on the portfolio is 4.4%, and the credit quality rating is AA. He stated that the portfolio is well- diversified both in terms of credit quality and the types of investments.

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Mr. Parcels shared a graph that he created with the Board. He noted that the orange line was the ICE benchmark, which is from a graph that they provide on annual performance. He stated that there was a dip in 2020, as Mr. Fleming mentioned earlier. He noted to PFM's credit, however, the ACSA performed way better. He noted in the subsequent year, the ACSA did not do as well as the ICE which rebounded rather smartly, and even into 2023. Mr. Fleming replied that Mr. Parcels is looking at yield versus total return, which is a bit different.

Mr. Tolbert asked if the benchmark is a national benchmark. Mr. Fleming replied that the benchmark is one that PFM has chosen, which is a standard U.S. Treasury benchmark. Mr. Tolbert stated that the ACSA's portfolio that PFM manages has a 4.4% yield, but it would be interesting to know what the LGIP yield is. Mr. Fleming stated that the LGIP yield is higher at 5.25% as of September but there is a reason for that. He stated that there is something called an inverted yield curve. He stated that overnight, one week, and one-month securities have been yielding much higher than one, two, and three-year securities over the last couple of years. He noted that this is a phenomenon that usually only takes place when going into or coming out of a recession. He stated that the old saying "cash is king," has been true over the past few years in that the funds invested in the LGIP have been earning higher. He noted, however, that they are about to enter a different scenario. He stated that as the Fed lowers rates, the LGIP yield will go down very quickly because the average term of that fund is only 1-2 months. He added that the longer-term investments will hold up better during this scenario.

Ms. Swanson stated that she has come to understand that the LGIP is a "set and forget" situation. She stated that there is not a lot of looking for better returns, which is what PFM provides in figuring out how to best navigate markets or investments that might have more volatility. She asked if, in a year's time, it would still be a good choice to have some of the ACSA's investments in the LGIP. Mr. Fleming replied that

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diversification is key, so they always want to have some investments in the LGIP. He stated that there is risk with the LGIP, but it is AAA rated. He stated that if Ms. Swanson is asking if the ACSA should change that mix, he would say no. He noted that with the 60/40 split, the ACSA gets the liquidity and extra yield from the LGIP but also has the long-term portfolio for those funds that will not be touched for a long period of time.

Ms. Swanson stated that she is worried about the implications of cryptocurrencies making their way into certain portfolios as a strategy. She asked where cryptocurrencies fit into all of this. Mr. Fleming replied that, except for Florida, it is not currently permissible to invest in cryptocurrencies. Ms. Palmer added that they can also invest in the general stock market in Florida. Mr. Fleming concurred and noted that it is permissible in Virginia as well, but only with certain funds such as pension. He noted that the Virginia Code is very specific when it comes to investments. He stated that when the ACSA set its investment policy, they first looked at the Virginia Code, then the ACSA had the authority to restrict investment types even further.

Mr. Parcels stated that being able to include the supranationals in the portfolio was a good thing. Mr. Fleming concurred. He stated that supranationals are higher rated than U.S. Treasuries and there is also an increase in yield above U.S. Treasuries.

Mr. Fleming moved to the next slide to look at the portfolio value. He stated that the graph starts from inception and provides a transparent view of the ACSA's portfolio value up until now. He noted that in 2020 rates were near zero and there is a bit of a flat line. He stated that this make sense as there was not a lot in the way of yield. He mentioned the dip in 2022 and noted that when rates go up as they did in 2022-2023, the value of securities typically go in the opposite direction. He stated that, however, they stayed the course and now the value of the portfolio is increasing. He added that as of the end of November, the portfolio has a value of \$32 million.

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Mr. Fleming moved on to the PFMAM portfolio performance review on the last slide. He stated that the top graph on the slide shows the portfolio yield, which was 4.47% as of September. He stated that this is different than total return, which is shown on the lower graph. He stated that total return takes into account the amount of income the ACSA is earning, but it also takes into account the market value changes of the portfolio. He noted that in the 3rd quarter, the value of securities went up and there was income being earned on those securities. He noted that the value went up 6.6% in those three months. He stated that, to Mr. Tolbert's point earlier, PFM takes a benchmark and compare it to see if they are adding value to the portfolio. He stated that the average has been to beat the benchmark by about 35 basis points per quarter.

Ms. Palmer asked if the net total return includes PFM's fees. Mr. Fleming replied yes. He stated that it is a sliding scale, but they are charging about 11 basis points, which is stripped out of the total return.

Mr. Parcels stated that he had one more small point. He stated that the presentation shows a portfolio value of \$32,275,000 but the investment number in the Board's month-end report was \$32,180,000. He stated that he was curious as to what the difference is. Mr. Fleming replied that the only thing he can think of is he has included accrued interest and cash in the total market value, thus there may be a subset of numbers that the Board is not seeing.

Mr. Parcels stated that a corollary then would be the accrued interest which fluctuates as opposed to increasing month by month. Mr. Fleming replied that it is a matter of different securities paying off within a month. He stated that at any given point, there is accrued interest building in some securities and others paying off, so the accrued interest goes away.

Ms. Palmer noted the slide in the presentation titled "Learn With Us," and asked if there were any free webinars that the Board can watch. Mr. Fleming replied yes. He noted that PFM has monthly market updates and

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other educational webinars. He stated that they can add the Board to the distribution list.

Mr. Parcels asked if the ACSA had sufficient additional reserves that they can add to the portfolio. Mr. Lunsford replied that the ACSA recently transferred \$3 million from the LGIP to its operating cash account. He stated that CIP projects are coming to fruition, with the Crozet Phase 4 Water Main Replacement project being a great example, and RWSA costs are substantially higher this year. He stated that they are beginning to use some of the reserves as planned. He added that the ACSA is not in the stage of funding those investments, as they are currently using some of those investments. Mr. Fleming added that when it comes to the managed funds, those are funds that typically will not be touched for 1-2 years.

Ms. Swanson asked if RWSA has a portfolio manager. Mr. Lunsford replied that he knows they are in the LGIP, he thinks they are in the Virginia Investment Pool (VIP), and he believes they also hold some U.S. Treasuries, but he is not sure who manages that aspect for them.

Mr. Parcels asked if the ACSA was unique as a utility in terms of using PFM to manage money. Mr. Fleming replied no. He stated that they deal with a lot of authorities across the Commonwealth. He stated that in terms of the split, some are more skewed towards funds with PFM, and some are more skewed towards the LGIP. Ms. Swanson added that she recalls during the interview process before the ACSA hired PFM, there were stories about utilities attempting to internally manage funds and getting way in over their heads, so she thinks having PFM manage their funds is a good thing.

8. FY 2026 Budget Guidelines and Schedule

Mr. Parcels asked if Mr. Lunsford could mention the compensation study. Mr. Lunsford replied that the staff is in the process of reviewing initial

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reports. He stated that he believes there is more work to be done, but they expect to have recommendations for the Board by late winter or early spring, to incorporate into the budget.

Mr. Lunsford stated that the largest driver of the budget will be charges from RWSA. He stated that there was an initial meeting to review their 5-year CIP program and estimates on operating costs, and they are substantial.

Ms. Palmer moved to approve the Fiscal Year 2026 ACSA Budget and Rate schedule, seconded by Mr. Parcels. The Chair asked for a roll-call vote: Mr. Parcels, aye; Ms. Palmer, aye; Mr. Tolbert, aye; Mr. Roberts, aye; Ms. Swanson, aye.

9. Items Not on the Agenda

Mr. Lunsford stated that the ACSA had a wonderful employee luncheon last Friday, and he thanked Ms. Swanson and Mr. Parcels for joining. He noted that the ACSA offices are closed through Monday-Wednesday of next week and will re-open on the 26th, and then closed again January 1st. Ms. Palmer stated that she was sorry she was not able to make the luncheon but heard it was a very nice affair.

10. Adjourn

There being no further business, Ms. Palmer moved that the meeting be adjourned, seconded by Mr. Parcels. All members voted aye.

Quin Lunsford, Secretary-Treasurer