

Minnesota Department of Natural Resources

500 Lafayette Road · Saint Paul, Minnesota · 55155-4037

Office of the Commissioner

651-259-5555



June 30, 2009

The Honorable Ellen Anderson
Env., Energy and N.R. Budget Division chair
75 Rev. Dr. Martin Luther King Jr. Blvd.
Capitol Building, Room 120
St. Paul, Minnesota 55155

The Honorable Jean Wagenius
Environment and N.R. Finance chair
449 State Office Building
100 Rev. Dr. Martin Luther King Jr. Blvd.
St. Paul, Minnesota 55155

Dear Senator Anderson and Representative Wagenius:

According to Minnesota Session Laws Chapter 368, Article 1, section 19, the Commissioner of the Department of Natural Resources (DNR) must provide quarterly forest management investment account (FMIA) fund statements, including a report on the methodology used in calculating the revenue forecasts.

Attached for your review are three documents:

1. A summary report outlining revenue forecast trends and methods, and
2. Timber Sales Revenue Forecast, and
3. The Forest Management Investment Account planning statement

Additional detail is available upon request.

Sincerely,

Laurie Martinson
Deputy Commissioner

Enclosures

c: Bob Meier, Assistant Commissioner
Denise Anderson, Chief Financial Officer, OMB
Dave Epperly, Director, Forestry
Mike Salzwedel, Executive Budget Officer, MMB

DATE: 06/30/09

LEGISLATIVE REPORT – Cost of Preparation

NAME OF LEGISLATIVE REPORT – Forest Management Investment Account Forecast Update

Based on: Laws of 2008, Chapter 368, Article 1, Section 19

Prepared by: Donald Deckard, Department of Natural Resources

Phone: 651-259-5287

E-Mail: Donald.Deckard@dnr.state.mn.us

Description of Cost	Further explanation if necessary	Amount
Staff Time	2 week staff time (multiple staff)	\$2,500
Duplication Cost (includes paper)	Negligible, most work done electronically	
Other:		
TOTAL TO PREPARE REPORT (Note: Right click on amount cell and choose update to complete)		\$2,500

Minnesota Department of Natural Resources

500 Lafayette Road • St. Paul, MN • 55155-40



June 2009 Timber Revenue Forecast - Executive Summary

Background

The quarterly timber sales forecast projects revenues from the sale of forest products from lands managed by the Minnesota Department of Natural Resources. As required by State law, [see 2008 Laws, Chapter 368, Article 1, Section 19], forecast updates are completed to provide the most current revenue estimates based on newly available information and changing expectations. The revenue forecast provides critical budget planning information for the Department and Division of Forestry. Timber revenues are distributed to management funds and beneficiaries as directed by statute.

This forecast covers fiscal years 2010 through 2012. Fiscal years for Minnesota State government begin on July 1 and end on June 30. For this forecast cycle, the point in time that designates the transition from actual values to forecast values (baseline date) is June 23, 2009. All values are expressed in nominal dollars without adjustments for inflation or deflation.

Basic Assumptions June 2009 Forecast

- The housing and financial crisis driven recession is expected to bottom out in CY 2009 and begin a slow sustained recovery by mid-CY 2010.
- The Division's ability to offer, sell, and administer timber sales will not be impaired by staff reductions due to fiscal cut backs.
- The statewide all-ownership timber harvest will be at least 2.4 million cords in FY 2010 with the expectation of incremental increases in FY 2011 and FY 2012.
- Invoicing gains in the accounts receivable balance were fully realized FY 2009.
- Internal initiatives in the areas of timber sale packaging, marketing, and increasing harvest operations flexibility will have a positive effect on removals volume over the forecast period.
- No additional blanket permit extensions will be made.

Summary

As of June 23rd, preliminary FY09 timber revenues were just over \$19.25 million, with an expectation of reaching \$19.35 million by the end of the fiscal year, as compared to the Apr09 MED forecast of \$19.55 million.

In FY09Q4, the risk adjusted average per-unit value of volume under contract decreased from \$22.50 per cord to \$20 per cord with a yearend inventory balance of 2.4 million cords as stumpage prices found a new bottom with 442,000 cords sold at an average \$17.58 per cord. FY09 is expected to close with 883,800 cords sold at an average \$19.15 per cord as compared to the Apr09 forecast of 820,000 cords sold at an average \$21 per cord. FY09 aspen sales totaled 389,443 cords at an average \$23.65 per cord as compared to FY08 aspen sales totaling 576,489 cords at an average \$25.90 per cord. In addition, Q4 sawtimber prices dropped to an average \$128.25 per thousand board feet (MBF) bringing the fiscal year total to 4.4 million board feet (MMBF) sold at an average \$153.09 per MBF as compared to the FY08 total 8.8 MMBF sold at an average \$200.08 per MBF.

For this update, both the FY10 and FY11 forecast MED revenues were reduced by \$2.3 million (12.6%) and (11.9%) respectively as compared to the April 2009 revenue forecast MED. The FY12 forecast MED revenue was added at \$16.9 million (Table 1).

Table 1. June 2009 Forecast Timber Sales Revenue Summary Table

Forecast	FY10	FY11	FY12
Jun09 MED	\$16,167,000	\$16,685,000	\$16,934,000
Apr09 MED	\$18,497,000	\$18,944,000	N/A
Change MED (\$)	(\$2,329,625)	(\$2,259,275)	N/A
Change MED (%)	(12.6%)	(11.9%)	N/A



Trends

Housing Markets - It has been three years since the housing downturn began and it finally seems to have reached the bottom with about 500,000 starts expected for CY 2009. Because the bottom is so low, full recovery to 1.5 million starts annually will require three to five years beginning in mid-CY 2010.

Paper Markets - Production and prices for most paper grades crashed in fourth quarter CY 2008 and further deteriorated in first quarter CY 2009 with production cuts of nearly 30% with an average price decrease of almost 40%. Demand and prices seem to have stabilized but, to the detriment industry production and profit margins.

Timber Removals - FY 2009 closed with ~700,000 cords harvested from DNR administered lands. While uncertainty prevails, there is an expectation that FY 2010 harvest volume will be 50,000 cords higher than FY 2009, driven by the FY09Q4 reduction in average value of volume under contract, reduced private timber supply due to low stumpage prices, and internal initiatives focused on facilitating harvest. However, purchasers control the volume and timing of harvest and could delay harvest beyond current permit expiration dates, particularly if economic recovery and wood market conditions are slower than anticipated.

Key Changes Since the June 2009 Forecast Update

- For FY09, the percentage of timber revenue earned from Con-Con lands was 19.4% as compared to the Apr09 allocation estimate of 22% with a \$2.25 million transfer payment. The effect was to reduce the value of the Con-Con transfer payment to FMIA to ~\$1.9 million (preliminary).
- A housing starts variable was added to the average per-unit price sales forecasting model.
- Line item comparisons to the previous forecast cycle were added in the detailed forecast tables.
- As compared to the Apr09 forecast, the FY10 forecast sales average per-unit price was reduced from \$21 per cord to \$19.75 per cord and the FY11 forecast sales average per-unit price was reduced from \$22 per cord to \$21 per cord.
- As compared to the Apr09 forecast, the FY10 forecast removals average per-unit price was reduced from \$22.50 per cord to \$20 per cord and the FY11 forecast removals average per-unit price was reduced from \$23 per cord to \$20 per cord.

Funds Allocation

Acquired Forestry and Con-Con dollars are allocated on a revenue basis while School/University Trust dollars are allocated on a cost basis. The current land class distribution of timber inventory by book value is similar to historical averages. However, annual removals may deviate from historical averages by as much as $\pm 5\%$ by fund. Hence, annual adjustments are necessary to compensate. FY10 fund allocations were estimated using the Jun09 FY10 MED revenue forecast (Table 3).

Table 3. Example FY10 MED Revenue Forecast (\$16,167,000) Funds Allocation.

Account	Allocation Factor	Allocation	FMIA Portion	FMIA Receipts and Transfers
Acquired Forestry	0.222	\$3,600,000	100%	\$3,600,000
Con-Con	0.241	\$3,896,000	50%	\$1,950,000
School / Univ. Trust ^b	---	certified cost	cost	certified cost

^aFY10 School / Univ. Trust certified costs transferred to the FY11 FMIA account balance. Actual values are subject to significant year-to-year variability.

Contact: Don Deckard, State Forest Economist
<mailto:donald.deckard@state.mn.us>, phone: (651) 259-5287

June 2009

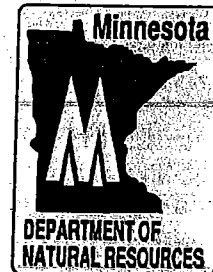
Timber Sales Revenue Forecast

For lands administered by the Department of Natural Resources

Fiscal Year 2009 - Fourth Quarter

Baseline Date: June 23, 2009

Prepared by
Don Deckard
State Forest Economist
DNR – Division of Forestry



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This forecast covers fiscal years 2010 through 2012. Fiscal years for Minnesota State government begin on July 1 and end on June 30. For this forecast cycle, the point in time that designates the transition from actual values to forecast values (baseline date) is June 23, 2009. All values are expressed in nominal dollars without adjustments for inflation or deflation.

The Division of Forestry manages 4.2 million acres of State owned forest land, provides forest management and cost share assistance to 140,000 family forest owners holding 5.7 million acres, and protects 45.5 million acres from wildfire. Confronted with declining timber revenue prospects, the Division implemented a fiscal strategy in early FY08 that successfully managed down \$5.4 million in FMIA expenditures through FY09. Cost cutting was accomplished by holding positions vacant and reduced efforts in: forest improvement, forest roads, ecological classification, forest re-inventory, private land management, and other programs. Additional FMIA spending reductions are planned for FY10-12 with targets of \$5 million in FY10 and \$6.1 million in FY11-12.

We strive to produce the most accurate and objective forecast possible within the limitations of available information and resources. However, actual timber revenues are determined by a combination of external market forces, physical site conditions, and DNR timber sale policies.

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Forecast Methods

The timber sales revenue forecast is a combination of four distinct forecast variables. An additional step is then required to estimate the portion of timber revenue allocated to the Division of Forestry budget. A portion of timber sales revenue is eventually available for Division budgeting while a significant amount is distributed to various accounts and entities including the School / University Trust accounts, General Fund, and Minnesota counties. Each component of the revenue forecast has its own unique set of metrics, range of variation, drivers, constraints, and inherent uncertainties. The four forecast variables and metrics are:

1. sales volume (volume offer "target" minus an estimate of no-bid sales),
2. sales average per-unit price (regression model utilizing monthly stumpage price, product price, and housing starts time-series data),
3. removals volume (5-year average adjusted for forecast offer and sales volume, permit expiration dates, market area wood use expectations, internal initiatives, and operational constraints), and
4. removals average per-unit price, (value of timber under contract by fiscal year expiration adjusted for current fiscal year sales price expectations and default risk).

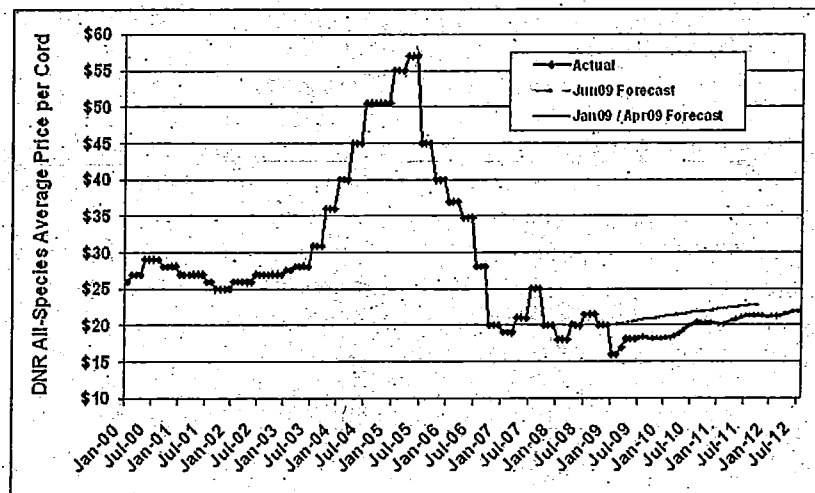
1. Forecast Sales Volume

FY10 and FY11 forecast sales volumes were adjusted to 900,000 and 950,000 cords respectively assuming 1,000,000 cords offered including re-offer volumes and sell rates of 90% and 95% respectively. The FY12 forecast sales volume was set at 902,000 cords assuming 950,000 cords offered and a 95% sell rate. An additional 8,000 cords of sawtimber sales were assumed for each fiscal year forecast.

2. Forecast Sales Average Per-Unit Price

The FY09Q4 all-species average per-unit cordwood sales price was \$17.58 per cord on 442,000 cords sold. Selling prices are expected to remain flat through most of FY10 and increase over FY11 and FY12 as the economy struggles to recover.

The forecast sales average per-unit price was developed using a factored autoregressive (AR) econometric model in the form AR (Lag 1) with a



weighted product price index (SLOP Lag 3) and housing starts (Lag 1) used as regression variables. The model was fit to monthly data from January 1995 through June 2009. All parameters were significant at $\geq 97\%$. The model root mean squared error (RMSE) = 1.7364 with an $R^2 = 0.967$ (Table 2).

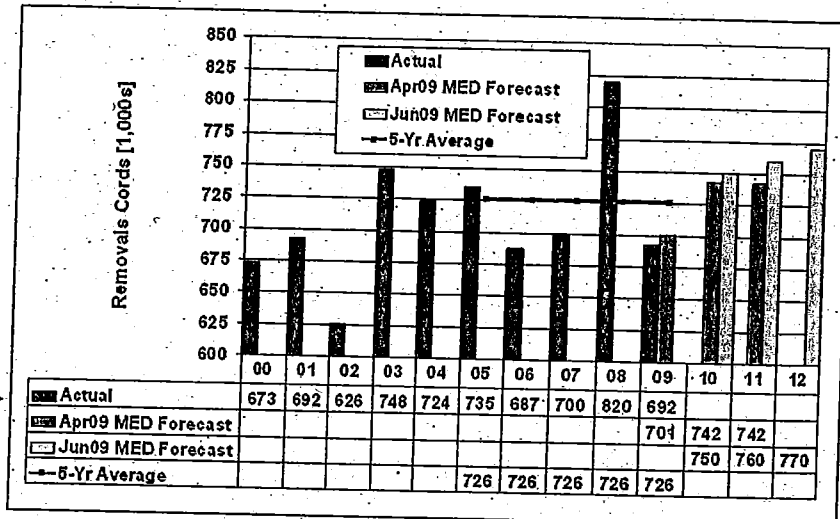
Table 2. Factored AR(1) Model Parameter Estimates.

Parameter	Estimate	Std. Error	t Value	Prob > t
Intercept	19.2118	5.2271	3.6754	0.0003
Autoregressive (Lag 1)	0.9787	0.0144	68.0129	<0.0001
4/5/1 SLOP (Lag 3)	0.0184	0.0084	2.2057	0.0288
Housing Starts (Lag 1)	0.0206	0.0095	2.1796	0.0307

Forecast sales average per-unit prices were adjusted as follows: FY10, from \$22 to \$19.75 per cord and FY11, from \$23 to \$21 per cord. The FY12 forecast sales average per-unit price was estimated to be \$22 per cord.

3. Forecast Removals Volume

Removals volume is highly variable and difficult to forecast as demonstrated by comparing the FY09 692,000 cord harvest to the FY08 820,000 cord harvest. While the number of winter logging days remain an important factor, wood availability from other sources (counties, federal, and private), industry wood consumption, stumpage prices, and internal policies have year-to-year impacts on removals volume.

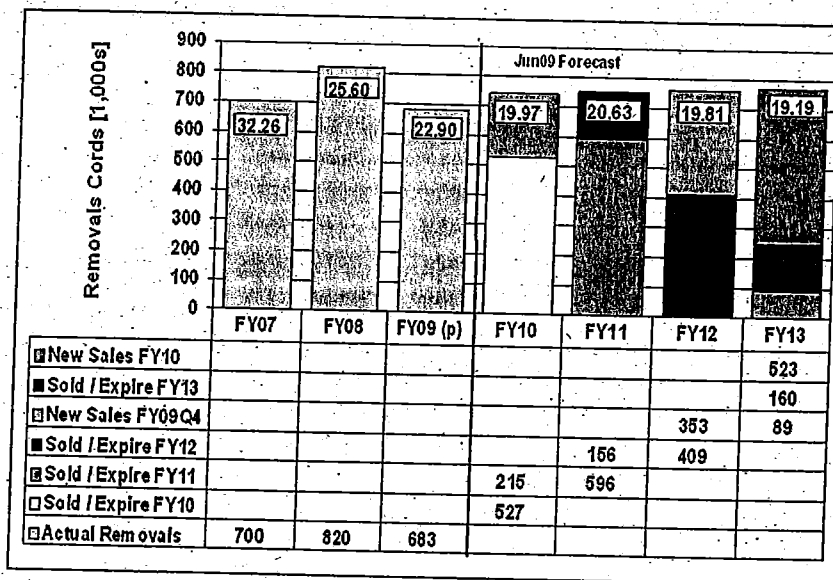


Assuming the economic "law of demand" still applies in the private sector, quantity demanded should increase as price decreases, holding other things equal. For the Jun09 forecast update, the FY09 fourth-quarter value reduction of \$2.50 per cord of inventory was used as partial justification for increasing FY10-11 removals volumes as compared to the Apr09 forecast. The FY10 forecast MED removals volume was increased to 742,000 cords plus 8,000 cords sawtimber and the FY11 forecast removals volume was increased to 752,000 cords plus 8,000 cords sawtimber. The FY12 forecast removals volume was set at 762,000 cords plus sawtimber.

4. Forecast Removals Average Per-Unit Price

FY09 closed with 883,800 cords sold at an average \$19.15 per cord as compared to the Apr09 forecast of 820,000 cords sold at an average \$21 per cord.

As a direct result of the decrease in average inventory value, forecast removals average per-unit prices were adjusted using the average cord value of inventory by permit expiration year for wood sold through FY09 and the Jun09 forecast sales average per-unit price for FY10 as follows: FY10, from \$22.50 to \$20 per cord and FY11, from \$23 to \$20 per cord. The FY12 forecast removals average per-unit price was set at \$20 per cord.



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School / Univ. Trust ^b	---	certified cost	cost	certified cost

^aFY10 School / Univ. Trust certified costs transferred to the FY11 FMIA account balance. Actual values are subject to significant year-to-year variability.

FY 2009 Timber Revenue Details

FY2009 TIMBER SALES REVENUE (Preliminary)				Apr09	June 23rd
	VOL CDS	TR	PORTION	TR Forecast	Preliminary
SOLD CORDS*	883780	\$17,233,710	\$2,585,057	\$2,583,000	
SOLD SAWTIMBER	8870	\$665,250	\$99,788	\$94,500	
SOLD OTHER		\$592,000	\$88,800	\$86,250	
REMOVALS CORDS	683500	\$15,652,150	\$13,304,328	\$13,528,600	
REMOVALS SAWTIMBER	8750	\$875,000	\$743,750	\$722,500	
REMOVALS OTHER		\$543,000	\$461,550	\$425,000	
ACCTS RECEIVABLE GAIN		\$2,000,000	\$2,000,000	\$2,000,000	
18J INT & PENALTY INC		\$65,000	\$65,000	\$110,000	
SUM ALL TS REVENUE			\$19,348,272	\$19,549,850	

TIMBER SOLD ALL SALES						
QTR	VOL CDS	VALUE CDS	AVG\$/CD	VOL MBF	VALUE MBF	AVG\$/MBF
FY09Q1 (actual)	111357	\$2,405,973	\$21.61	962	\$176,392	\$183.36
FY09Q2 (actual)	284993	\$6,028,307	\$21.15	1004	\$188,465	\$187.71
FY09Q3 (actual)	45388	\$716,933	\$15.80	64	\$5,645	\$88.20
FY09Q4 (preliminary)	442042	\$7,771,098	\$17.58	2404	\$308,313	\$128.25
SUM / wAVG	883780	\$16,922,311	\$19.15	4434	\$678,815	\$153.09

TIMBER SCALED (REMOVALS) ALL SALES						
QTR	VOL CDS	VALUE CDS	AVG\$/CD	VOL MBF	VALUE MBF	AVG\$/MBF
FY09Q1 (actual)	158148	\$4,139,345	\$26.17	719	\$106,782	\$148.51
FY09Q2 (actual)	146653	\$3,764,235	\$25.67	1710	\$391,585	\$229.00
FY09Q3 (actual)	335911	\$6,761,830	\$20.13	1577	\$320,736	\$203.38
FY09Q4 (preliminary)	43000	\$976,960	\$22.72	366	\$64,416	\$176.00
SUM / wAVG	683712	\$15,642,370	\$22.88	4372	\$883,519	\$202.09

FY 2010-12 Timber Revenue Forecast Details

FY2010 FORECAST TIMBER SALES REVENUE				Apr09	Jun09
	VOL CDS	TR	PORTION TR	Forecast	Forecast
SOLD CORDS*	900000	\$17,775,000	\$2,666,250	\$2,978,250	
SOLD SAWTIMBER	8000	\$600,000	\$90,000	\$135,000	
SOLD BIOMASS	30000	\$54,000	\$8,100	\$8,000	
SOLD OTHER		\$100,000	\$15,000	\$67,000	
REMOVALS CORDS	742000	\$14,840,000	\$12,614,000	\$14,018,625	
REMOVALS SAWTIMBER	8000	\$680,000	\$578,000	\$765,000	FY2010 REVENUE
REMOVALS BIOMASS	30000	\$54,000	\$45,900	\$40,000	LOW (-10%) \$14,550,525
REMOVALS OTHER		\$100,000	\$85,000	\$385,000	MED \$16,167,250
18J INT & PENALTY INC		\$65,000	\$65,000	\$100,000	HIGH (+10%) \$17,783,975
SUM (MED) FORECAST			\$16,167,250	\$18,496,875	

*Volume sold estimate based on 1,000,000 cords offered with a 90% sell rate; does not include biomass.

FY2011 FORECAST TIMBER SALES REVENUE				Apr09	Jun09
	VOL CDS	TR	PORTION TR	Forecast	Forecast
SOLD CORDS*	950000	\$19,950,000	\$2,992,500	\$3,113,625	
SOLD SAWTIMBER	8000	\$680,000	\$102,000	\$135,000	
SOLD BIOMASS	35000	\$63,000	\$9,450	\$8,000	
SOLD OTHER		\$100,000	\$15,000	\$67,000	
REMOVALS CORDS	752000	\$15,040,000	\$12,784,000	\$14,330,150	
REMOVALS SAWTIMBER	8000	\$680,000	\$578,000	\$765,000	FY2011 REVENUE
REMOVALS BIOMASS	35000	\$63,000	\$53,550	\$40,000	LOW (-10%) \$15,016,050
REMOVALS OTHER		\$100,000	\$85,000	\$385,000	MED \$16,684,500
18J INT & PENALTY INC		\$65,000	\$65,000	\$100,000	HIGH (+10%) \$18,352,950
SUM (MED) FORECAST			\$16,684,500	\$18,943,775	

*Volume sold estimate based on 1,000,000 cords offered with a 95% sell rate; does not include biomass.

FY2012 FORECAST TIMBER SALES REVENUE				Apr09	Jun09
	VOL CDS	TR	PORTION TR	Forecast	Forecast
SOLD CORDS	902000	\$19,844,000	\$2,976,600	N/A	
SOLD SAWTIMBER	8000	\$800,000	\$120,000	N/A	
SOLD BIOMASS	40000	\$72,000	\$10,800	N/A	
SOLD OTHER		\$100,000	\$15,000	N/A	
REMOVALS CORDS	762000	\$15,240,000	\$12,954,000	N/A	
REMOVALS SAWTIMBER	8000	\$760,000	\$646,000	N/A	FY2011 REVENUE
REMOVALS BIOMASS	40000	\$72,000	\$61,200	N/A	LOW (-10%) \$15,240,240
REMOVALS OTHER		\$100,000	\$85,000	N/A	MED \$16,933,600
18J INT & PENALTY INC			\$65,000	N/A	HIGH (+10%) \$18,626,960
SUM (MED) FORECAST			\$16,933,600	N/A	

*Volume sold estimate based on 950,000 cords offered with a 95% sell rate; does not include biomass.

FORECAST PARAMETERS and ASSUMPTIONS

Sawtimber converted to cords @ 2 cords per MBF.

FY09 SOLD cords wavg price = \$19.25/cd and REMOVALS cords wavg price = \$22.90/cd.

FY10 forecast SOLD cords wavg price = \$19.75/cd and REMOVALS cords wavg price = \$20/cd.

FY11 forecast SOLD cords wavg price = \$21/cd and REMOVALS cords wavg price = \$20/cd.

FY12 forecast SOLD cords wavg price = \$22/cd and REMOVALS cords wavg price = \$20/cd.

Timber sold * 0.15 = sold portion TR.

Timber removals * 0.85 = removals portion of TR.

SOLD / REMOVALS BIOMASS includes products sold at \$0.40 per 1,000 lb.

SOLD / REMOVALS OTHER includes products sold by piece and per acre.

**Department of Natural Resources
Natural Resources Planning Statement
June 2009 Forecast Update**

18J Forestry Management Investment Account Legal Citation: M.S. 89.039 Balance Forward In		FY 2007 Actual	FY 2008 Actual	FY 2009 Planning Est	FY 2010 Planning Est	FY 2011 Planning Est	FY 2012 Planning Est	FY 2013 Planning Est
Receipts								
Prior Year Adjustments		6,497,722	9,065,146	5,848,635	242,335	17,335	(735,065)	(1,503,065)
Adjusted Balance Forward		44,707	16,201	0	0	0	0	0
		6,542,429	9,081,347	5,848,635	242,335	17,335	(735,065)	(1,503,065)
Transfer In								
5348 Timber Sales (1)		5,893,701	5,297,011	4,295,700	3,600,000	3,670,600	3,725,000	3,960,000
5349 Timber sales interest and penalty		4,937	158,697	3,000	3,000	3,000	3,000	3,000
8000 Investment Income		348,047	202,041	62,000	62,000	62,000	62,000	62,000
8340 Credit Agreement Rebate			67	0	0	0	0	0
8360 Refunds of Prior Yr Expenditure		0	5	0	0	0	0	0
Subtotal Receipts		6,246,685	5,657,821	4,360,700	3,665,000	3,735,600	3,790,000	4,025,000
From Fund 200, CON. CON Areas Account (2)		2,428,469	3,070,133	1,877,000	1,950,000	2,002,000	2,032,000	2,160,000
From Fund 610, University Susp Account		31,898	30,743	40,000	35,000	35,000	35,000	35,000
From Fund 860, School Susp Account (3)		4,088,530	3,940,487	5,181,000	5,700,000	5,000,000	4,900,000	4,500,000
Total Transfer in		6,548,897	7,041,363	7,098,000	7,685,000	7,037,000	6,967,000	6,695,000
Total Receipts and Transfers In		12,795,583	12,699,183	11,458,700	11,350,000	10,772,600	10,757,000	10,720,000
Expenditures								
Land Records Management System		19,338,012	21,780,530	17,307,335	11,592,335	10,789,935	10,021,935	9,216,935
Forest Management		0	0	688,000	344,000	344,000	344,000	344,000
Enhance Sales FMIA (Appr. 302)		10,219,351	12,898,681	14,709,000	12,193,000	11,093,000	11,093,000	11,093,000
Forest Improvement FMIA (Appr. 303)		0	407,423	510,000	0	0	0	0
Forest Road Maintenance FMIA (Appr. 304)		0	596,567	424,000	0	0	0	0
Ecological classification FMIA (Appr. 301)		0	787,131	311,000	0	0	0	0
Invasive Species FMIA (Appr. 305)		0	104,430	216,000	0	0	0	0
Re-Inventory FMIA (Appr. 306)		0	87,198	143,000	0	0	0	0
Logger Refund - Relief Payments Timber		0	116,542	275,000	0	0	0	0
Minnesota Conservation Corps		0	851,122	1,000	0	0	0	0
Statewide Indirect Costs (Forestry)		25,000	25,000	25,000	25,000	25,000	25,000	25,000
Estimated reduction in expenditures (4)		28,515	57,802	63,000	63,000	63,000	63,000	63,000
Planned Agency Unallotment (5)			(300,000)		0	0	0	0
Total Expenditures		10,272,866	15,931,896	17,065,000	11,575,000	11,525,000	11,525,000	11,525,000
FUND BALANCE								
		9,065,146	5,848,635	242,335	17,335	(735,065)	(1,503,065)	(2,308,065)

- (1) FY10 acquired revenue estimated at 0.222 times total revenue, FY11+ estimated at 0.22 times total revenue.
 (2) FY10 con-con revenue estimated at 0.241 time total revenue, FY11+ estimated at 0.24 times total revenue.
 (3) FY10+ trust cost transfer estimated at 19% forest mgt expenses with a revenue cap.
 (4) Although the division is authorized to spend \$17,065,000, it is estimated the division will spend less and roll ~\$300,000 to FY10
 (5) In order to manage and certify costs in FY10, the division is expecting a planned agency unallotment of \$1,050,000 with the understanding that if revenues increase, the division may choose to allot funds back or transfer balance to FY11.