



COMMONWEALTH of VIRGINIA
Department of Planning and Budget

Richard D. Brown
Director

1111 E. Broad St., Room 5040
Richmond, VA. 23219

November 15, 2006

The Honorable John H. Chichester
Chairman, Senate Finance Committee
Post Office Box 904
Fredericksburg, Virginia 22404-0904

The Honorable Vincent F. Callahan, Jr.
Chairman, House Appropriations Committee
Post Office Box 1173
McLean, Virginia 22101

Dear Messrs. Chairmen:

In accordance with Chapter 3 of the 2006 Acts of Assembly, I have enclosed the report providing an update on Standards of Quality expenditures based upon the most current data available.

This report details an adjustment to the Lottery estimate for fiscal year 2007 and fiscal year 2008 to account for a decrease in the projected revenue. The adjustment decreases the Lottery estimate by \$20.7 million in each year of the biennium. The result of this change is an increase in the state share of basic aid of \$12.7 million and an increase to localities of \$8.0 million to compensate for the reduction in Lottery proceeds.

This report does not include the impact of updates to fall membership, average daily membership, and participation rates for incentive and categorical programs for the 2006-2008 biennium. The Department of Education has not yet completed its work in collecting, analyzing, and verifying data submissions for these components and determining the impact on the cost of the Standards of Quality.

Sincerely,

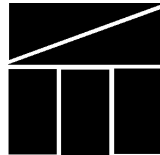
A handwritten signature in cursive script that reads "Richard D. Brown".

Richard D. Brown

Enclosure

c: Robert Vaughn, Staff Director, House Appropriations Committee
Betsey Daley, Staff Director, Senate Finance Committee

*Annual Report
to the General Assembly on the
Updates to the Standards of Quality*



**Virginia Department of Planning and Budget
November 15, 2006**

Overview

In accordance with Chapter 3 of the 2006 Acts of Assembly, the Department of Planning and Budget (DPB) in coordination with the Department of Education (DOE) has prepared the annual report on the update to the Standards of Quality (SOQ), based upon the most current data available. This update does not include a rebenchmarking of the SOQ model, which is done at the beginning of each biennium.

This report contains one known update to projected state costs for the Standards of Quality in the 2006-2008 biennium:

- An adjustment to the Lottery estimate that decreases the projected revenues for both FY 2007 and FY 2008; and

The following table details the expenditure impact of the Lottery update to the Standards of Quality:

Projected Additional State Costs vs. Chapter 3		
	FY 2007	FY 2008
Update Lottery proceeds for Public Education	\$12,709,800	\$12,709,800

Details

On October 18, 2006, the Virginia Lottery informed the Governor and Chairmen of the Senate Finance and House Appropriations Committees that Lottery estimates for FY 2007 and FY 2008 had been revised. It is now projected that the Lottery will generate a net income of \$405.4 million in fiscal year 2007 and \$405.4 million in fiscal year 2008. This revised Lottery estimate reflects a decrease of \$20.7 million compared to the estimate found in Chapter 3 for both years. The result of this change is an increase in the state share of basic aid of \$12.7 million and an increase to localities of \$8.0 million to compensate for the reduction in Lottery proceeds. The Virginia Lottery primarily attributes the decrease in revenue projections to the impact of the North Carolina Education Lottery, which began in 2005.