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## Granholt: Sales tax on services needed to bolster education

*MARK HORNBECK**Detroit News Lansing Bureau*

Lansing — Gov. Jennifer Granholm defended her proposal to extend the sales tax to services on a cable TV news show this morning, saying Michigan "has to invest in education" to convert from a manufacturing to a knowledge-based economy.

The governor said on MSNBC that Michigan has "a big, hairy audacious goal of doubling our number of college graduates." In order to do that, she said the state has to stop cutting education spending, which it did this year by \$165 per student.

Since public school aid is funded primarily with sales taxes, the state needs to update and stabilize its sales levy by expanding it to include most services, Granholm said. In the past century, about 60 percent of consumer purchases were made on goods and today about two-thirds is spent on services, she said.

Asked whether such a tax would cause people to spend less on services or drive some service businesses out of the state, Granholm said: "Disposable income spent on services is more high end."

She said a mom buying a coat for her child is a necessity purchase, but "do you have to get that manicure? If you do, perhaps you have a little more money to spend."

When it was pointed out the governor's favorability numbers are plunging in polls, the term-limited Granholm said: "It doesn't matter. I'm not running again. ... This is the right thing for Michigan."

Granholm's proposal to drop the sales tax from 6 percent to 5.5 percent and extend it to most services hasn't made much headway in the Legislature. Her plan would raise \$554 million for education in the budget year that starts Oct. 1 and make school aid cuts unnecessary this year. She has said she won't sign a budget that further reduces school spending.

Republicans have said they don't intend to increase taxes because citizens struggling through the recession can't afford to pay more. House Speaker Andy Dillon, D-Redford Township, has said he wants to deal with the budget and tax restructuring separately.

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## Voters may decide school aid

House Democrat says plans in works to reform spending, raise money for Mich. districts

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*East Lansing* -- Reform school spending first, then ask voters this summer to pay more for public education, if necessary, a leading House Democrat proposed Wednesday.

House Education Committee Chairman Tim Melton, D-Auburn Hills, said at an education town hall meeting that plans are in the works to tie spending reforms in areas such as school employee retirement and health care to a ballot initiative in the August primary for a sales tax on services, a reduction in business tax breaks or other revenue measures.

"Let the voters decide," Melton said at an education forum sponsored by the Center for Michigan.

He said if voters turn down a request for more money, budget cuts would take effect.

Schools are facing a cut of about \$400 per student starting next fall -- due to a school aid fund shortfall and increased retirement costs -- if the Legislature does nothing. That's on top of \$165 per pupil in cuts this year.

Republican leaders have opposed tax hikes, saying cuts and reforms can solve the problem.

"We have to ask, 'What if we do every reform and it's not enough?' " Melton said.

Voters won't be willing to pay more for schools if spending reforms aren't put in place first, he said. But he added some changes that will lead to long-term savings will cost money up front. He said, for example, shifting teachers from the existing pension setup to a 401(k) plan will cost \$140 million but the return could be hundreds of millions of dollars in future years.

Gov. Jennifer Granholm has proposed dropping the sales tax from 6 percent to 5.5 percent and extending it to services to generate \$554 million for school aid in the budget year that starts Oct. 1. The additional revenue also would be used to ratchet down business taxes.

Asked for specifics on his proposal and who's supporting it, Melton said: "There's a lot of negotiating to do."

Matt Marsden, spokesman for Senate Majority Leader Mike Bishop of Rochester, said of the ballot plan: "In concept, it may be an idea we could look at. But I don't know whether time is available to get this ready to put on the August ballot."

State schools Superintendent Mike Flanagan said: "I'm for whatever moves the ball forward. If the Legislature can't get this done and we need to go to the ballot, that's one option."

State Board of Education President Kathleen Straus said the Legislature should resolve the school aid deficit rather than leaving it to voters. The board will unveil its school finance recommendations in April.