



# Keith Downey, former Minnesota Republican Party Chair

Reduce taxes, cut state government, offer complete school choice

A Civic Caucus Gubernatorial Candidate Interview

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## Present

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## Summary

According to gubernatorial candidate Keith Downey, Minnesota must:

1. Focus on the private-sector economy . To improve Minnesota's business climate and make Minnesota more competitive with surrounding states, Downey believes the state must reduce the tax burden and fix the regulatory environment.
2. Constrain the size and growth of government . He pledges to reduce state government by 15 percent in his first term as governor.
3. Address the failure in the urban schools and beyond . He says we must fix the achievement gap, largely by using complete school choice programs (allowing parents to choose either public or, if their children are in failing schools, private schools for their children) and by refocusing on technical training in high schools. He opposes state-funded universal preschool for four-year-olds and agrees with the idea of making the role of teachers central and diminishing the roles of superintendents and principals.

In the area of transportation, Downey says he would focus on funding roads and bridges and favors using some of the general fund to do that, rather than relying exclusively on user fees. He believes the Twin Cities area does not have the population density for light-rail or heavy-rail transit. He says the state spends way too much money on health care and human services and not enough on core infrastructure.

When discussing the current legislative process, Downey says the governor should use the power to veto as a way of pushing the Legislature to abide by the Minnesota Constitutional mandate that bills be limited to a single subject.

## Biography

Keith Downey is a Republican candidate for governor of Minnesota. He is an independent management consultant and, since May 1, 2017, has worked on a consulting project for an investor considering expanding a business into Minnesota.

Downey is former chair of the Minnesota Republican Party, which he led from 2013 until April 2017. Previously, he served two terms (2009 to 2013) in the Minnesota House of Representatives in District 41A in Edina. He served on the House Ways and Means Committee, of which he was vice chair; the House K-12 Education Finance Committee and Policy and Oversight Committee; the Tax Committee; the Finance Subcommittee for the Early Childhood Finance and Policy Division, on which he was the ranking minority party member; the Higher Education and Workforce Development Finance and Policy Division; and the State Government Finance Division.

Before entering politics, Downey was a partner with Virchow Krause Consulting and had also worked for Unisys and Epic Systems. He was a management consultant to business, as well as to state and local government. From 2004 to 2007, he served the Minneapolis Regional Chamber of Commerce as a board member, executive committee member, public-policy committee chair and representative to the Hennepin County Southwest Transportation Corridor Policy Advisory Committee from 2006 to 2008. In 2008, Governor Tim Pawlenty appointed him to the board of the Minnesota Academic Excellence Foundation.

He received his Bachelor of Business Administration degree in Management Information Systems in 1983 from the University of Wisconsin in Eau Claire.

## Background

Continuing its focus on Minnesota's competitiveness, since September 2015, the Civic Caucus has been undertaking a review of the quality of Minnesota's public-policy process for anticipating, defining and resolving major community problems. On November 27, 2016, the Caucus issued a report based on that review,  [Looking Back, Thinking Ahead: Strengthening Minnesota's Public-Policy Process](#). As part of its review of Minnesota's public-policy process, the Civic Caucus interviewed Keith Downey in the first of a series of interviews with major announced candidates for the office of governor of Minnesota.

## Discussion

### 1. Opening remarks

**As a management consultant in Wisconsin and in Minnesota, Keith Downey gradually began to do more public-sector projects for state and local governments.** He worked on three very large projects implementing the Help America Vote Act requirements in Wisconsin, Indiana and New

Jersey, with several smaller projects in other states, as well. In addition, he performed project work for a number of state and local governments in a variety of different areas.

"More and more, I began to see that government just wasn't working," he said. "When you look behind the curtain at the government, you realize how tough it is to get anything done, much less carry out its mission. I felt like I needed to get more involved."

**In 2008, Downey ran for the Minnesota House seat then occupied by Rep. Ron Erhard (R-Edina).** He defeated Erhard for the Republican endorsement and went on to win the general election. He served two terms in the Minnesota House, from 2009 to 2013.

"That was when we had the big budget deficits," Downey said. "Most of my time in the Legislature was spent on business and tax policy and how you actually reform state government. I was very much a reformer and very much opposed, even some within my own party, and outside, especially by the public-sector unions."

In 2012, Downey lost his bid for election to a redistricted open Senate seat in the southwestern suburbs. He became chair of the state Republican Party in 2013 and served until April 2017. He said he was able to improve the finances, operations and public reputation of the party, so it is much more credible today.

"My entire career has been about fixing things," he said. "Even though I held a highly political position for the last four years, I'm much more of a policy wonk. That guides me in this race."

**The theme of Downey's gubernatorial campaign is "Make Minnesota work for everyone."** He said the theme stands for what he wants to do and where we need Minnesota to go. Even though he's had great opportunities and success in Minnesota, there are lots of frightening trend lines, he said, including job growth, the economy and the pockets of people who really don't see their opportunity in the state. "Government is coming at people and not from them," he said.

#### **Downey's campaign has three key policy pillars:**

1. Focus on the private-sector economy. Tax and regulatory burdens are key there, Downey said.
2. Constrain the size and growth of government. He said we must shrink state government in order to be able to provide the private sector economy room to grow and to be able to offer tax cuts. He pledges to reduce state government by 15 percent in his first term as governor.
3. Address the failure in the urban schools and beyond. "The achievement gap is just killing us," he said. "It's just a cancer. We cannot leave that many kids behind in our urban core and expect our state to be healthy."

Downey said he was on all the education committees in the House. "We keep pouring more money in and even throwing more money at failing schools," he said. "I think we're upside down in that." He said we must fix the achievement gap, largely by using school choice programs and refocusing on technical training in the high schools.

**The electorate is not in the mood for policy.** Downey said there is a loss of trust in government, along with a loss of confidence in institutions in general. "We're losing our Minnesota ethic a bit," he said. "There's a spiritual undertone to a lot of this. So many people have kind of lost hope."

"I can talk about the budget and the business climate and education till the cows come home," he continued. "But what really connects with people is when I tell them I believe in them and that I trust Minnesotans and not a bigger government, and that we actually have a chance to reinvigorate that good old Minnesota ethic. When you talk to people like that, all of a sudden, the political equation changes fundamentally. Connecting with people at that more visceral, human level is the essence of the campaign this year. There's a loss of confidence in the American dream and our opportunity here. That's who I want to be in this campaign—the person who connects with people at that level."

## **2. Business Climate.**

### **What needs to be done to ensure new investments and support small businesses and entrepreneurship in Minnesota, whether in mom-and-pop shops or in the largest corporations?**

An interviewer asked that question and Downey responded that Minnesota must reduce the tax burden and fix the regulatory environment to the point where Minnesota is more competitive with our surrounding states. "Will Minnesota choose to participate in federal tax reform?" Downey asked. "Or will Minnesota continue to live in the past?" He said those are the easy political questions.

"To get down to brass tacks on policy, we must look at the economic engine that starts with entrepreneurship," Downey said. "The micro-businesses, like those up and down Lake Street in Minneapolis are crushed by the maze of regulations, reviews and inspections and the contradictory requirements at the county to municipal levels."

To support the startup phase of businesses, he worked as a House member in a bipartisan fashion and also with then-Governor Tim Pawlenty to address the need for angel investment capital with the [Angel Investment Tax Credit](#). The program, which has currently allocated all its available resources, provides a 25-percent tax credit to investors or investment funds

that put money into startup companies focused on high technology, new proprietary technology, or a new proprietary product, process or service in specified fields.

Downey said after the angel investor stage, it's very difficult in Minnesota when new companies get to the stage of needing venture capital. "Venture capital has almost dried up in this state," he said.

"There used to be a very vibrant venture capital community 10 to 15 years ago. Now, there's virtually nothing."

He said when companies get into the stage of institutional investment rounds and scaling up, they often move to other states, because the cost of doing business in Minnesota is high. "With a depleted base of startups and early-stage-growth companies in Minnesota, we're now left with growing, midmarket companies and the legacy Fortune 500 companies, which aren't growing here," he said, noting that the state has gone from 27 headquarters companies to 17. "They're diminishing and we're not rejuvenating from the bottom up."

**Rather than asking whether taxes are too high or too low, we should be asking whether we're getting what we're paying for.** An interviewer made that comment and asked what Downey means when he talks about the state being competitive. Downey replied that competitiveness can be measured by GDP, income, the quality of the workforce, the quality of life and return on investment potential, all relative to the surrounding states and region.

"In the grand scheme of things that make us competitive, the one thing that is killing us is return on investment," he said. "Site-selection people for businesses looking at Minnesota say if the cost of doing business here is too high, companies won't do a deal here. Over the last couple of decades, we've started to lose on that." He said it'd be impossible to recover from that if we don't act on it now.

**The demographic reality in Minnesota is that fewer people are coming into the workforce than are leaving it; we have lots of jobs and not enough people.** An interviewer made that remark and asked Downey how he would address that demographic reality as governor. Downey responded that Minnesota is a net out-migration state, with its population growth coming almost entirely from immigration and refugee resettlement.

The Center of the American Experiment looked at job growth in Minnesota, Downey said, "and, shockingly, 34 percent of our job growth is in social services and education. So one-third of the job growth here has come largely from government-funded sectors."

"This is a tough conversation, but we need to have it," he said. "We say we're so short on workers, but we just left a generation behind in Minneapolis and Saint Paul who aren't equipped. We've totally ripped vocational-technical training out of the high schools." He believes we should incentivize charter school formation around vocational-technical training.

**Are concessions to a company like Amazon worth it?** An interviewer asked that question and asked what kind of investments we need to make.

Downey replied that to attract business to the state, we need to make investments in the fundamentals and not use incentives. We need to support public infrastructure—roads, sewers, water—under private investment. "I'm glad to partner with people on that," he said. "But when you are reduced to throwing money and incentives at people, it's not good. Sure, we might get Amazon to come here, but what's the long-term cost? Then Target and Best Buy are wondering why they don't get the incentives."

"I would love to be in the position of being governor and going out and selling this state to business," he continued. "I would present to them why this is an awesome place to be. I don't think one-off tax breaks and little gimmicks are going to be part of that."

"We have some fundamental business-climate issues we have to change here. The more underlying, fundamental things in Minnesota are positive, but the more near-term, 10 to 20 years of deterioration in our business climate, aren't. We have to address them. I'm not sure public policy is the answer to all of them, but it's an answer to a lot of them."

### **3. Transportation.**

**How should we look at transportation funding?** An interviewer asked that question and commented on the current struggle over transportation funding. He said we have relied on user fees for roads and bridges and have relied on the general fund to cover transit-operating deficits. We've now decided to get more transit money from users through fare increases. And costs are soaring for transportation for the elderly and the disabled.

Downey replied that transportation is a core mission of government. "A lot of what we fund is not," he said. He said we have pretty solid funding for water and wastewater projects through different funding streams at the state. "But we haven't spent enough on roads and bridges," he said. "I would have a bias towards funding roads and bridges and agree with using some of our general fund for that." Transportation needs to compete with education and health and human services for funding. Otherwise, we don't make a prioritization decision, he said.

We don't have the population density for light rail, Downey said, and he's never believed that the North Star commuter rail made sense. "We're just not the East Coast," he said. "I don't know why all of that happened. We have to put a pause on that and see where all that fits."

Looking at the future of transportation, Downey noted that a recent McKinsey study showed that the use of autonomous vehicles for business deliveries between 10 p.m. and 5 a.m. could maximize the use of our current road and bridge infrastructure.

He mentioned ride-sharing and autonomous vehicles as consumer-directed and personalized opportunities and said he is not in favor of forcing people to comply with fixed-rail systems. "I'm not favorable to all these rail investments," he said. "I will support the highest value, most cost-effective congestion-relief projects. I think it's a hard sell for rail investments, but I'll be open-minded as the governor."

An interviewer asked Downey why he's more favorable to using general fund revenue for transportation, rather than user fees. Downey responded that it's hard to peg the user fees because of changes in auto technology, such as electric vehicles and more fuel-efficient vehicles. "The gas tax then becomes a suspect vehicle for funding transportation," he said. "How does public policy keep pace with the changes in the market?"

He said we spend way too much money on health care and human services and not enough on the core infrastructure. "I would like transportation to more fairly compete with other areas of spending," he said.

#### **4. Education.**

**Complete school choice and reinvigorating vocational-technical training could improve K-12 education.** Downey made that remark and explained his two specific proposals for improving K-12 education:

1. He would offer complete school choice for families whose kids are in a failing school. Complete school choice, he said, would allow those families to pick their children's schools, including private

and parochial schools. In answer to people asking what the definition is of a failing school, Downey says 50 percent of the 10th graders now in Minneapolis district public schools will not graduate. Among students of color, 75 percent of the 10th graders won't graduate.

"I think that's a pretty fair definition of a failing school," he said. "For the kids who are going to have their opportunity in life deprived them because the school isn't functioning, how can you defend not allowing them to go to the parochial school down the street where they can have that opportunity?"

He said he hears the counter argument that we already have lots of school choice. "Yes," he said, "but it forces you to send your kid from Minneapolis out to Minnetonka and you have to get them to the district border so they can get transportation. Everything is within the context of the public-school monopoly. If we offered vouchers, my sense is you'd see parochial schools expand in those neighborhoods."

He said that, given the success of charter public schools with families in North Minneapolis, someday there might be no Minneapolis School District schools in that part of the city.

2. Downey also proposes reinvigorating vocational-technical education and building that back into the high school curriculum in both district and charter public schools.

**We need to empower people to go into their local communities and train people for real jobs.** Downey made that remark and said when he was chair of the Minnesota Republican Party, he met with leaders of five minority-based workforce-training programs. They represented the Native American, Hispanic, Southeast Asian and African American communities. Their programs were focused on training people for real jobs, paying \$25,000, \$35,000 or \$45,000 a year, with benefits.

Downey said the leaders complained that they couldn't get any money from the state, because the state plows all its workforce-training funds into its own state workforce centers. The leaders complained that the state centers focus on teaching people how to write a resume and apply for a job. They also get people signed up for health and human service programs. "It's almost like a recruitment program for welfare and other social service programs," Downey said. He believes the community-based workforce programs would do a better job.

**Downey does not support universal preschool for four-year-olds.** "I don't support pushing the public school system down to four-year-olds," Downey said. Instead, he supports scholarships at the early-education level, so parents can choose preschool programs for their children. "It pushes parents to ask why they don't have that same choice and option and parent control when the kids go to kindergarten," he said.

He said, though, that he's skeptical about the returns claimed for early education. A Head Start review from five years ago, he said, showed that any kind of advantage shown in kindergarten for kids who'd been in Head Start had been smoothed out by third grade. He said early education is not a panacea. And in Minneapolis, he said, universal preschool for four-year-olds would be "just a way to get kids in failing schools one or two years earlier."

**Some people believe the way to make change in K-12 education is to make the role of teachers central and to diminish the role of superintendents and principals.** An interviewer made that

statement and asked for Downey's reaction. "Amen," Downey said. "The independent school district system that produced such awesome results for Minnesota has been lost. The Minnesota Miracle is showing serious cracks. The profession of teaching has been lost."

## **5. The Policymaking Process in Minnesota.**

**The Civic Caucus is looking at the issue of the policymaking process and its impact on Minnesota's ability to be competitive.** Civic Caucus Chair Paul Ostrow introduced the topic of the policymaking process with that remark.

Another interviewer said she's concerned with the current lack of enforcement of the single-subject bill requirement in the Legislature. (That requirement, part of the Minnesota Constitution, mandates that legislative bills be restricted to a single subject and that the title of the bill reflect that subject. Many critics of the Legislature maintain that the use of multi-subject Omnibus bills violates this Constitutional requirement. In September 2017, the Civic Caucus joined a Minnesota American Civil Liberties Union *amicus* brief on a lawsuit now before the Minnesota Supreme Court seeking enforcement of the single-subject requirement. See [Civic Caucus news release about the \*amicus\* brief](#).)

The interviewer asked Downey what the role of the governor should be in enforcing that requirement and improving the legislative process. Downey responded that the governor's role is "huge." He said that, unfortunately, up to this point, the Supreme Court has ruled that Omnibus bills meet the single-subject requirement. But, he said, the governor has the ability to veto such bills. "If you have a commitment to a good legislative process, you have a commitment to veto big packaged-up bills with all kinds of junk in them intended to buy votes," he said. "You have a real opportunity to change what's going on in that regard."

When Tim Pawlenty was governor during Downey's first term in the Legislature, Downey said Pawlenty's state-agency commissioners and gubernatorial staff were down in the committees with legislators offering first drafts of bills, staking out their positions and writing letters to legislators about various bills.

"He was engaged," Downey said, even though the House was under DFL leadership during Downey's first term. "Pawlenty worked very effectively with DFL committee chairs. During the legislative session, we passed bill after bill after bill two or three weeks before the end of the session." When human services, taxes, and education legislation was left towards the end of the session, Downey said Pawlenty and the DFL Senate and House leadership "hammered it out."

**Republicans have never brought their case to the people of Minnesota very effectively.** Downey made that remark and said that Republican legislators merely reacting to and criticizing Gov. Mark Dayton's budget is not leadership. "Leadership is taking your ideas out to the public and selling them," Downey said. "If you have the people behind you, you have a really strong negotiating position."

**What's the role of the governor in tamping down the state's growing rural/urban divide?** An interviewer asked that question. Downey replied that when the DFL had single-party control of state government six years ago, they kind of "jammed" Greater Minnesota. Republicans then exploited that rural/metro divide, and won a majority in the Minnesota House and Senate. "It's now who can pit

people against each other enough and get enough seats," he said. "Both sides are guilty in having played that."

Downey said the progressive, left version of the DFL is really starting to lose people, especially in Greater Minnesota. "I fear what I see happening in the urban core, with proposals to get rid of the police and establish a \$15 minimum wage, which just guts the lower end of the economic ladder," Downey said. The immigrant businesses can't afford it.

"On principle, I will fight very hard against things that are anathema to who we are as people—ideas coming out of the progressive, far-left of the DFL party," he said. "I would stand against those things where I thought they were really wrong. There's some stuff that I think we have to stand up to."

## **6. Closing remarks.**

**People realize that this is an awesome state, but there are bunch of things we need to fix.**

Downey made that remark and said he has started asking people at various events three questions:

1. Are you concerned that your kids might not stay in Minnesota?
2. Are you concerned that your parents might not stay in Minnesota?
3. Do you ever think you might not stay in Minnesota?

Downey said people think about those questions and realize there are many things that need to be fixed. He said we must fix the private-sector economy and failing schools, and find a way to rein in state government. He senses among people in Minnesota and the whole country that things are out of control and need to be restored. "It's public policy, it's cultural and it's spiritual," he said.

"As a candidate, there's an opportunity and an obligation to speak to the public that way," Downey said. "And, if I am governor, I will have run on a strong, bold agenda, focused on the people and on making Minnesota work for everyone. And I can actually look at the people of Minnesota when I'm giving my State of the State address in 2019 and say that I will deliver on everything I've talked about."

Downey said if he is elected governor, he will come back for another Civic Caucus interview.