

**Note to the Coalitions****THE PRESIDENT'S FY2014 BUDGET  
AND THE NORTHEAST-MIDWEST REGION**

The President's FY2014 budget charts the Administration's course for national economic recovery and improvement. Yet any national recovery can only be as robust as that of the nation's long-term economic "rainmaker," the Northeast-Midwest (NEMW) region. In 2011, almost 50 percent of the top 25 states for real Gross Domestic Product (GDP) were NEMW states. The NEMW region contributed disproportionately to U.S. GDP for manufacturing (39% of U.S. total in sector), educational services (53%), and health care and social assistance (44%).<sup>1</sup> Moreover, the only four donor states in 2009<sup>2</sup> (states receiving fewer federal dollars than they pay in income and other taxes) were NEMW states.

Still, aging infrastructure, environmental degradation, unemployment, and a manufacturing sector diminished by global competition increasingly challenge the NEMW region's productivity. That is, the NEMW region could be a more effective national rainmaker with appropriate federal policy responses to these issues, a critical consideration given our nation's struggling economy.

This Northeast-Midwest Institute (NEMWI) *Note to the Coalitions* explores components of the President's FY2014 budget that touch on federal policy priorities of the NEMW region. These priorities are: 1) Keeping the Region's Lights On (energy efficiency and assistance, and grid modernization); 2) Building the Region's House of Bricks (pre-disaster planning and mitigation); 3) Moving the Region's People and Goods Reliably and Efficiently (transportation infrastructure); 4) Growing Strong Communities and Economies in the Region (community development, manufacturing growth, and social security); 5) Securing the Region's Clean Potable Water Supplies (drinking and waste water infrastructure, safe shale development, effective water quality monitoring); and 6) Maintaining the Region's Great Waters for Future Generations (natural resource protection and restoration).

The analysis concludes that the President's FY2014 budget is a mixed bag for the region. It provides new support for energy efficiency and grid modernization, transportation infrastructure investment, innovations in technology and manufacturing, safe shale development, overall water quality monitoring, and certain Great Water restoration programs. On the downside, the President's FY2014 budget reduces support for low income residents to meet home energy needs, does not seize the post-Sandy opportunity to advance state and local pre-disaster resiliency and mitigation plans, cuts funding for Community Development Block Grants, and reduces support for the Clean Water State Revolving Loan Fund. Lastly, the budget alters the formula for social security cost-of-living increases, which would disproportionately affect the senior-rich NEMW states. NEMWI will issue more exhaustive analyses of regional implications for a wider array of federal programs over time and maintain up-to-date appropriations information on its [website](#).

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<sup>1</sup> U.S. Bureau of Economic Analysis, 2011.

<sup>2</sup> The most recent year for which data are available; NEMWI, "Getting to the Bottom of Federal Spending and Taxation in the Northeast-Midwest Region," 2011.

## ***Keeping the Region's Lights On*** **Energy Efficiency and Assistance, and Grid Modernization**

Industry and dense residential development in a wintry region makes energy efficiency, reliability, and affordability a high priority for the NEMW region. The President's FY2014 budget contains new support for energy efficiency and grid modernization, but scales back federal support to low income residents' home energy needs.

### *Race to the Top for Energy Efficiency and Grid Modernization, Department of Energy* *President's FY2014 Request = \$200 million*

Combined heat and power systems are especially appropriate additions or retrofits for many older industrial cities in the NEMW region, due to: population density, which fuels demand for a highly reliable energy supply; building density, which provides an ideal context for cost-effective sharing of energy resources; and high demand for cost-savings and economic benefits, such as lower fuel and energy operating costs.<sup>3</sup> The FY2014 request includes one-time funding of \$200 million for a Race to the Top program to encourage state governments to implement policies to increase energy productivity and modernize the grid. Key opportunities could include modernizing utility regulations to encourage investments in efficiency, like combined heat and power.

### *Grid Modernization, Department of Energy* *President's FY2014 Request = \$233 million*

The early development of the NEMW region's electrical grid helped it become the nation's economic powerhouse, but the grid is showing signs of decay and unreliability. The Office of Electricity Delivery and Energy Reliability requests \$153 million for research and development to modernize electricity delivery through a smarter grid. The funding would support development of real-time situational awareness, analysis, and decision support, improving grid operations and security. Additionally, \$80 million through the Office of Energy Efficiency and Renewable Energy would support technologies and tools to improve clean energy integration into the grid.

### *Low Income Home Energy Assistance Program, Department of Health and Human Services* *President's FY2014 Request = \$3.02 billion*

The Low Income Home Energy Assistance Program (LIHEAP) helps low income residents in the wintry NEMW region pay for heating and cooling, among other energy uses; NEMW residents receive nearly 60% of the total funding allocated for this program.<sup>4</sup> The President's FY2014 budget requests \$3.02 billion, the same as last year's request, but below levels appropriated for the program since FY2008, sequestration years notwithstanding. Of the limited amount proposed for FY2014, the President makes \$50 million available for new, competitive grants to assist low-income households in reducing household energy burdens, and for conducting a national evaluation of such grants. The budget also calls for \$2.37 billion (below the current level of \$2.95 billion) of the total to be distributed according to the LIHEAP formula that tends to be more beneficial to NEMW states than others.

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<sup>3</sup> NEMWI, "New Energy for Older Cities: District Energy and Combined Heat and Power," 2012.

<sup>4</sup> NEMWI analysis of USA spending.gov data, 2012.

## ***Building the Region's House of Bricks***

### **Pre-Disaster Planning and Mitigation**

The two most costly natural disasters of 2012 were the Midwest drought (\$35 billion) and Hurricane Sandy (\$65 billion).<sup>5</sup> Some of the losses were preventable; in 2011, Hurricane Irene exposed the East Coast's vulnerability to flooding, and energy and transportation infrastructure failure.<sup>6</sup> State and local initiatives are critical to rebuilding with greater resiliency: Chicago requires new parking lots to be made with permeable pavement; Iowa limits development in flood plains; and Maryland encourages the planting of coastal marshland over flood walls to mitigate flooding.<sup>7</sup> Such efforts often require federal planning resources to succeed, but no funding is allocated to this important task in the President's FY2014 budget.

*Federal Emergency Management Agency, Department of Homeland Security*

*President's FY2014 Request = \$0.0*

The Pre-Disaster Mitigation Program (PDM) supports local and state level disaster resiliency planning. Under the Disaster Mitigation Act of 2000, all states and localities must have hazard mitigation plans; PDM has paid for 20% of those plans to date. Studies show every \$1 spent on disaster mitigation yields \$4 in benefits.<sup>8</sup> For the second fiscal year in a row, the Administration recommends eliminating PDM. The President's budget allocates \$6.2 billion to the FEMA Disaster Relief Fund; however, that funding is for response to a disaster that has already occurred, not preparation for the next one.

## ***Moving the Region's People and Goods Reliably and Efficiently***

### **Transportation Infrastructure**

The NEMW region's transportation infrastructure and transit systems are aging *and* heavily subscribed. The Northeast Rail Corridor is the busiest passenger line in the U.S. by ridership and service frequency; in 2011, 16 of the 25 busiest Amtrak stations were located in the NEMW region.<sup>9</sup> The FY2014 budget offers new opportunities for the region to make vital improvements in its transportation infrastructure.

*Infrastructure Investments, Department of Transportation*

*President's FY2014 Request = \$50 billion*

The President's FY2014 budget invests \$50 billion in transportation infrastructure, including \$40 billion in "Fix-it-First" investment and \$10 billion in state and local transportation infrastructure investment covering \$1.98 billion for the New Starts, Small Starts Program. Additionally, the President's budget dedicates \$6.635 billion to the Federal Railroad Administration, a 270% increase from the \$1.793 billion estimated for FY2013. Most of the increase goes to the newly proposed National High Performance Rail System. Those funds (\$6.415 billion) will come from the Rail Account of the Transportation Trust Fund for: Current Passenger Rail Service (\$2.7 billion); Railroad Research, Development, & Technology (\$55 million); and Rail Service Improvement Program (\$3.66 billion for both passenger rail and freight).

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<sup>5</sup> *USA Today*, "Hurricane Sandy, drought cost U.S. \$100 billion," January 25, 2013.

<sup>6</sup> Joseph Steinberg, *Forbes* "Stop Blaming Hurricane Sandy for our own failings," November 8, 2012.

<sup>7</sup> *New York Times* "New York is lagging as seas and risk rise critics warn," September 10, 2012.

<sup>8</sup> Multi-Hazard Mitigation Council, "[Natural Hazard Mitigation Saves](#)," 2005.

<sup>9</sup> Bureau of Transportation Statistics, U.S. Department of Transportation. "[Transportation Statistics Annual Report](#)" (2005-11); Amtrak, "Top 25 Busiest Amtrak Stations in 2011."

## ***Growing Strong Communities and Economies in the Region*** **Community Development, Manufacturing Growth, and Social Security**

Strong communities and economies in the NEMW region mean a stronger middle class, including more jobs in the manufacturing sector, among others, and opportunities to age in place. The President's budget prioritizes innovations in technology and manufacturing, but cuts Community Development Block Grants to 1976 levels (when there were half as many grantees). More, the NEMW region houses the largest concentration of seniors age 65 and older.<sup>10</sup> As a result, the budget's reduction in social security cost-of-living increases would slow a significant source of federal funds to NEMW communities.

### *Manufacturing Extension Partnership, Department of Commerce*

*President's FY2014 Request = \$153.1 million*

The Manufacturing Extension Partnership (MEP) helps to support small and mid-sized manufacturers through a network of centers and services and to assist them in the adoption of new technologies. In FY2012, NEMW states received 48% of total MEP funding.<sup>11</sup> The FY2014 request of \$153.1 million reflects an approximately \$25 million increase from the FY2013 request and FY2012 enacted level.

### *Community Development Block Grant Program, Department of Housing and Urban Development*

*President's FY2014 Request = \$2.798 billion*

The Community Development Block Grant (CDBG) program aims to revitalize urban communities by providing decent housing, a suitable living environment, and expanding economic opportunities for persons of low and moderate income. Recipient communities may undertake a wide range of community-based activities directed toward neighborhood revitalization, economic development, and community services, facilities, and improvements. The Administration's FY2014 request for CDBG is \$2.798 billion, \$150 million below last year's request, and \$280 million below FY2013 funding with the sequester. The Administration justifies the low level by stating dissatisfaction with the formula and increased priority to its Neighborhood Stabilization Initiative, which Congress has not funded.

### *Changes in Social Security Benefits, Social Security Administration*

*President's FY2014 Request = Linking benefits to the CPI*

The President's FY2014 budget proposes linking social security benefits, starting in 2015, to the Chained Consumer Price Index (CPI), rather than the current formula to calculate Cost-of-Living-Adjustments. The Chained CPI takes into account consumers replacing more expensive goods with less expensive alternatives, and thereby reduces the rate of increase in benefits over time by 0.3% relative to the current formula. The Administration projects overall benefits paid out will drop by \$130 billion over the next decade under this formula. With the NEMW region leading in concentration of seniors, those federal savings would come largely at the NEMW region's expense.

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<sup>10</sup> Brookings Institution, *State of Metropolitan America*, 2010; NEMWI analysis of American Community Survey 2011 3-year data.

<sup>11</sup> NEMWI analysis of USA Spending.gov data, 2012.

## ***Securing the Region's Clean Potable Water Supplies***

### **Drinking and Waste Water Infrastructure, Safe Shale Development, Effective Water Quality Monitoring**

The NEMW region's freshwater resources are unmatched, and vital to its livability and economic vitality. The President's FY2014 budget reduces Drinking Water and Clean Water State Revolving Loan Fund (SRF) support, with the latter cuts particularly relevant to the NEMW region; in FY2010, NEMW states received 51% of the Clean Water SRF,<sup>12</sup> though NEMW states account for 38% of the U.S. population.<sup>13</sup> On the upside, the FY2014 budget continues and increases support for multi-agency work in safe shale development, which is concentrated in the region, and for overall water quality monitoring.

#### *Drinking Water and Clean Water State Revolving Funds, Environmental Protection Agency*

*President's FY2014 Request = \$1.9 billion*

Shale plays in NEMW states account for 63% percent of estimated undeveloped, technically-recoverable shale gas resources in discovered shale plays as of January 1, 2009.<sup>14</sup> Many NEMW residents draw drinking water from aquifers and surface water near shale gas development, raising concerns over drinking water safety over time. The President's FY2014 budget cuts funds for Drinking Water and Clean Water State Revolving Funds by a combined \$472 million, while focusing assistance on small and underserved communities and the use of green infrastructure. The FY2014 request is for \$1.9 billion (\$1.1 billion CWSRF, \$817 million DWSRF) compared to the FY2012 enacted level of \$2.384 billion.

#### *Multi-Agency Collaboration on Unconventional Oil and Gas Research*

*President's FY2014 Request = \$38.6 million*

The President's FY2014 budget directs the Department of Energy (DOE), the Environmental Protection Agency, and the Department of the Interior to focus on minimizing the health, safety, and environmental effects of natural gas and oil production from hydraulic fracturing in shale and other geologic formations by advancing technology and methods to safely and responsibly develop America's natural gas resources. Specifically, the budget allots \$12 million to DOE; \$18.6 million for USGS (\$13.0 million over 2012); and \$8 million for EPA for a total of \$38.6 million to support this effort.

#### *US Geological Survey, Department of Interior*

*President's FY 2014 Request = Water Resources \$222.9 million; Natl Streamflow Info = \$36.2 million*

Water data describing the quality of NEMW water resources are critical to economic development in the context of environmental protection, a top priority of the water-rich and densely populated NEMW region. The President's FY2014 budget increases the USGS Water Resource Program funding by over \$13 million to \$222.9 million, including enough funding (\$7.2 million) for more than 400 active stream gages to track the state of water quantity and quality.

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<sup>12</sup> NEMWI analysis of EPA data, available at [http://water.epa.gov/grants\\_funding/cwsrf/upload/CWSRF-FY-2010-Final-Allotments-Federal-Funding-Levels.pdf](http://water.epa.gov/grants_funding/cwsrf/upload/CWSRF-FY-2010-Final-Allotments-Federal-Funding-Levels.pdf).

<sup>13</sup> Based on the 2007 Drinking Water Infrastructure Needs Survey which is used to allocate the Drinking Water State Revolving Fund ([EPA 2007](#)), NEMW states account for 39% of total drinking water infrastructure needs and 37% of total small system drinking water infrastructure needs (\$21.7 million out of \$59.4 million in 2007 dollars). In FY2010, NEMW states received 38% of DWSRF funding ([EPA 2010](#)).

<sup>14</sup> Energy Information Administration, "Review of Emerging Resources: US Shale Gas and Shale Oil Plays," July 2011.

## ***Maintaining the Region's Great Waters for Future Generations***

### **Natural Resource Protection and Restoration**

Restoration of the NEMW region's remarkable Great Waters (including the Chesapeake Bay and Great Lakes) is essential to sustaining and building the region's economic output. For example, the Brookings Institution estimates that fully implementing a comprehensive Great Lakes restoration strategy could generate \$50 billion in long-term economic benefits.<sup>15</sup> The President's FY2014 holds the line on the Great Lakes Restoration Initiative, and bolsters the Chesapeake Bay Program. It supports Land and Water Conservation Fund activities by proposing a shift to mandatory funding for that program.

#### *Great Lakes Restoration Initiative, Environmental Protection Agency*

*President's FY2014 Request = \$300 million*

The Great Lakes Restoration Initiative, an Obama Administration budget initiative since FY2010, has so far provided over \$1.35 billion to Great Lakes restoration efforts. The FY2014 budget continues the recent trend (FY2011-FY2013) and requests \$300 million for the Initiative.

#### *Chesapeake Bay Program, Environmental Protection Agency*

*President's FY2014 Request = \$73 million*

The Chesapeake Bay Program advances cooperative efforts to restore and protect the Chesapeake Bay watershed, while offering technical assistance and monitoring grants, data gathering and analysis, and computer modeling capabilities. The FY2014 budget requests a \$16 million increase over FY2012, bringing the total to \$73 million and near the level of funding in FY2011.

#### *Land and Water Conservation Fund, Departments of Agriculture and Interior*

*Presidents FY2014 Request = \$600 million of which \$200 million is mandatory*

The Land and Water Conservation Fund (LWCF), created in 1964, provides grants to states for recreation planning, acquiring lands and waters, and developing recreational facilities. Its funding mostly comes from fees paid for offshore oil and gas drilling. Though its collection has been mandatory, its spending has been subject to Congressional appropriations. The FY2014 budget proposes mandatory funding for \$200 million of a \$600 million LWCF request. Beginning in FY2015, the LWCF would include \$900 million of mandatory funding, which is equal to the amount of oil and gas receipts deposited each year.

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<sup>15</sup> Brookings Institution, "The Broad Benefits of Restoring the Great Lakes," 2007.

## ***Conclusion***

The President's FY2014 budget could help the NEMW region "keep the lights on" by providing new support for energy efficiency and grid modernization, and it offers new opportunities for the region to make vital improvements in its transportation infrastructure. The President's budget also prioritizes innovations in technology and manufacturing, particularly relevant because of the continued importance of manufacturing to the NEMW region. Further, it continues federal support for multi-agency work in safe shale development, also concentrated in the region, and for overall water quality monitoring. Finally, the budget maintains and increases support for certain Great Water restoration programs relevant to the NEMW region.

On the downside, the President's FY2014 budget would make it harder for the region's low income residents to meet their home energy needs. It also offers no support for state and local governments to plan for disaster resiliency and mitigation. Further, it decreases funding for Community Development Block Grants, and alters the formula for social security cost-of-living increases, which would disproportionately affect the senior-rich NEMW states. Lastly, the budget reduces Clean Water State Revolving Loan Fund support, which is particularly important to the NEMW region.

All in all, the President's FY2014 budget so far appears a mixed bag for the NEMW region. In the weeks ahead, NEMWI will issue more exhaustive analyses of regional implications for a wider array of federal programs and keep up-to-date appropriations information on its [website](#).