

PROPANE EDUCATION & RESEARCH COUNCIL **Budget Plan for Calendar Year 2019**

On July 20, 2018, the Propane Education and Research Council (PERC) published its 2019 budget plan document for public comment in accordance with the Propane Education and Research Act of 1996 (PERA; Public Law 104-284). That budget plan, according to the Act, included the probable costs of all programs, projects, and contracts as well as a recommended rate of assessment sufficient to cover such costs. There was one public comments received with no recommendations to change the 2019 Budget. This document represents the 2019 budget that PERC approved at its November 8-9, 2018 Council meeting.

PERC has submitted this budget plan to the Secretary of Energy and to Congress. The Act provides that the Secretary may recommend programs and activities the Secretary considers appropriate.

In accordance with PERA, this budget includes functions to develop programs and projects that will result in entering into contracts or agreements for implementing the Act, including programs to enhance consumer and employee safety and training, to provide for research and development of clean and efficient propane utilization equipment, to inform and educate the public about safety and other issues associated with the use of propane, and to provide for the payment of the costs thereof with funds collected pursuant to this Act. Furthermore, this budget complies with that part of the Act requiring that issues related to research and development, safety, education, and training be given priority by the Council in the development of its programs and projects.

All resources and expenditures outlined in this budget plan will be audited by a certified public accountant shortly after said resources and expenditures are realized for the 2019 calendar year.

EXECUTIVE SUMMARY

The development of the 2019 Budget was guided by four key strategic objectives. These objectives were to:

1. Develop a regionally based, integrated marketing campaign spanning the core propane markets
2. Enhance workforce training and development programs
3. Continue the push to achieve a comprehensive digital transformation
4. Rebuild reserves

Regionally driven campaigns

This is a paradigm shift from the “national-driven” approach where campaigns were developed and implemented at the national level. Campaigns will focus on the key priorities within specific regional / local areas of the country. This approach places an emphasis on methods that provide the flexibility to target messages to areas that are of the greatest relevance to the local audiences.

These efforts will be reinforced with business development efforts targeted to the key influencers in the sales channels with an emphasis toward building direct relationships with this invaluable group. The budget reflects this change in emphasis by reducing funds allocated to a multi-media, consumer-focused campaign and an increase in funding for business audience outreach and incentives.

Enhanced workforce training and development resources

In response to the growing needs of the marketers, 2019 will see an increased investment of both time and resources to ensure that new industry recruits are able to thrive in the industry throughout their careers, as well as tailored programs focused on core competencies needed to foster the development of our existing workforce.

Digital transformation

The digital transformation began in 2018. Over the past year, PERC has undertaken a systematic, organization-wide evaluation of all our owned infrastructure and supporting platforms with an eye to streamlining these, moving away from proprietary custom builds to more agile cloud-based systems that take advantage of existing, open-source technology. As we move to a subscription based, off-the-shelf model, our capital expenditures are reduced to minimal levels.

The most visible representation of this effort is through the redesign of our flagship website, propane.com, which will incorporate the 10 separate web properties into the hub that powers PERC. The digital optimization will provide visitors with more intuitive, curated information to support the messages they will hear from their local propane provider and through sustained interaction intended to drive that curious customer directly to their propane provider. This reformation also allows for a reduction in expenditures for paid search engine marketing through content built to optimize organic search engine visibility and seize the perceived credibility inherent in organic search.

Other elements of the digital transformation including Intacct (accounting system), HubSpot (CRM), Fluxx (Grants and Docket Management), will further allow staff to function in a more streamlined, responsive manner.

Rebuild reserves

By the end of 2016, PERC had significantly drawn down reserves to fund a national consumer campaign. Having achieved the objective of increasing consumer awareness we now propose to rebuild our operating reserves. The reserve objectives are divided into reserves to cover operating uncertainty based on weather volatility and reserves to provide an opportunity fund. In the nonprofit community, a recommended minimum reserve of 20 to 25 percent of operating expenses is a common objective. This provides three months (one quarter) coverage to accommodate risk to budgeted revenue variations.



If we deemed it prudent to also create an opportunity reserve to be prepared to fund emerging opportunities, we might add another 5 to 10 percent as an objective. This would provide another \$1.6 to \$3.3 million towards our reserve objective. The combination of the two reserve layers would provide a desired fund objective of \$6.6 million at the low end and \$11.6 million at the upper end.

While the implementation and structure of the proposed 2019 activities reflects an evolution of PERC as an organization, at its core are the imperatives and emphases of the 2017-2019 strategic plan, and fully embraces the updated aspiration statement for the organization, which emphasizes PERC's role in providing marketers with the resources and tools needed to effectively target consumers, reinforcing the benefits of propane in their home, their business, and their community.

PART I. ASSESSMENTS, INVESTMENT INCOME, AND OTHER RESOURCES

The federally authorized assessment on odorized propane is the principal source of funding for PERC. PERC collects late payment fees and interest on assessments that are paid after the due date. PERC receives income from the investment of assessment funds pending their disbursement. PERC also may receive grants and other funds from government agencies and private organizations, but such resources have not been planned in the 2019 budget.

Assessment Collections. Assessment revenues of \$41,042,478 are projected for 2019 based on an assessment rate of 0.5 cents per gallon.

Investment Income. Investment income in 2019 is estimated at \$150,000. Investment income is affected by market conditions as well as the timing of assessment collections and funds disbursed for operating expenses, grants, projects, and state rebates. All funds are invested in accordance with PERA.

Deobligations. Unused funds from projects and specifically funded activities completed in 2019 to be returned to the general treasury are estimated at \$500,000.

Estimated Beginning Fund Balance. Funds available from 2018 are projected to be \$10,398,802.

PART II. GENERAL EXPENDITURES AND CAPITAL INVESTMENTS

Administrative Expenses. Administrative expenses in 2019 are budgeted at \$2,476,128. Under PERA, administrative expenses may not exceed 10 percent of funds collected during the year. The proposed administrative expenses are estimated at 6 percent of assessment funds the Council expects to collect for 2019. In accordance with PERA, no funds are used to compensate members of the Council, who all serve as unpaid volunteers. Of the 21 members of the Council, only the three public members may be reimbursed for travel expenses and only for attendance at Council meetings.

Assessment and Collections. PERC estimates its assessment and collection expenses to be \$84,903 in 2019. These costs are primarily based on an allocation of a portion of the costs incurred under a contract with PERC's outsourced accounting service that manages assessment collections.

Depreciation Expenses. PERC has made and is planning to make capital expenditures. Depreciation on these expenditures is estimated to be \$79,900 in 2019.

Capital Investments. PERC is planning capital investments of \$50,000 in 2019. The 2019 Capital Budget primarily represents information technology (IT) program initiatives

PART III. STATE REBATES

By operation of the law and the rules adopted by the Council, 20 percent of assessment collections are rebated to the states. If the budgeted assessment collections are realized, the total expenditure for the state rebate program in 2019 is budgeted at \$8,208,496.

PART IV. PROGRAM AND PROJECT EXPENDITURES

PERA requires PERC to *"develop programs and projects and enter into contracts or agreements for implementing this Act, including programs to enhance consumer and employee safety and training, to provide for research and development of clean and efficient propane utilization equipment, to inform and educate the public about safety and other issues associated with the use of propane. ..."*

There is \$30.77 million budgeted in Program funding that includes \$25.7 planned for docketed projects and program activities, as well as \$5.07 million estimated for program salaries, benefit cost and IT support costs.

The projects and initiatives described in the following sections are based on a recommendation from PERC's Budget and Finance Committee in collaboration with PERC's Executive Committee, the staff, and other sources. On July 12, 2018, the Council approved the distribution of the proposed budget for the limited purpose of soliciting public comment. While the descriptions to follow provide insight into the overall program plans of PERC, actual funding will be considered on a docket-by-docket basis for 2019.

Other requirements under PERA included in the program budget initiatives are as follows:

- Not less than 5 percent of the funds collected through assessments pursuant to the Act will be used for programs and projects intended to benefit the agriculture industry in the United States. The Council will coordinate its activities in this regard with agriculture industry trade associations and other organizations representing the agriculture industry.
- The Council shall coordinate its activities with industry trade associations and others as appropriate to provide efficient delivery of services and to avoid unnecessary duplication of activities.

PROPOSED 2019 PROGRAM NARRATIVE

The 2019 Proposed Program budget fully embraces the updated aspiration statement for the organization, which emphasizes PERC's role in providing the resources that marketers need to be successful on the local level. Whether it's creative elements, completed advertisements, new training for marketers based on their feedback of what was needed, incentives to support work being done in the builder market, workforce development activities, or our redesigned digital properties, the program budget supports this strategic objective. All developed through close coordination with the Advisory Committee Members via working groups and project teams.

This structure complements the strategic approach to the development of elements and services, fully leveraging the content across propane.com, state sites, PR activities, and reinforces those messages with the environmental, economic, demographic, and market data that validate the positive benefits of propane, and the role the propane industry plays in the national energy conversation.

The real difference in this proposed approach will be in its execution. This begins with greater integration of staff activities. The staff realignments that have been made throughout 2018 have created an internal environment of candor and openness, and one of servant leadership in keeping with the values of PERC as an organization. The work that PERC does serves the purpose of complementing the work of marketers in the field, does not supplant or negate the need for marketers to be out there actively marketing and selling the products to generate growth. We have no intention to sit idle and expect marketers to carry our weight, we will be developing greater relationships and dialog with the influencers that are essential to growth across all markets to allow marketers to focus their efforts on the consumer/decision maker audiences, armed with the collateral and tools needed to emphasize how propane can improve their life, their business, and their community.

This approach and the integration of core activities, allows for PERC to be nimble and agile, able to respond to an overwhelming need or a promising opportunity, quickly and effectively. This approach allows us to customize the messages and services based on geographic region and audience; to actively participate in the national energy conversation; and support new product launches.

As part of PERC's digital transformation in 2018, we are leveraging off the shelf digital marketing technology that will provide a solid framework that we can build upon and respond as the rapidly developing digital landscape evolves all while providing both marketing content, training materials, safety information, and a quality user experience for consumers, influencers and propane marketers.

Ultimately, our main driver in this is to meet the future Propane users where they are, when they're apt to consider propane. If they're not actively making a decision at that time, provide them with the information in a compelling and engaging manner that resonates when they are ready to make the decision.

While we have made a shift in our approach away from a nationally driven, large scale television-based consumer campaign, we will not be abandoning the consumer residential audience. The newly redesigned propane.com will continue to serve as future-consumers' first interactions with propane and our industry. We will target them through less-costly, more meaningful and lasting tactics, less focused on branding and more driven toward an ongoing dialog about the benefits propane can bring to their home, business, and community. All of which hinges on a fully integrated approach. One that allows us to create, deploy, test, assess, and adjust appropriately; amplify what is working and reconsider tactics that are not having the intended impact; and build the capability to track measure, assess and redeploy as we see benefit from these activities.

What you will not see, is a full deployment of available funds, purposefully so. As we look to the horizon this budget reserves funding for opportunities we see in the future, the commercialization support of new technologies, funding the development of new propane products, or the flexibility to increase investment in exceptional initiatives that are making inroads in the markets. In addition to adequately insulating PERC from volatile weather situations, ample reserves allow for us to respond should weather-related issues require rapid action.

Integrated Communications and Business Development Activities

With an integrated approach, the communications are inextricably tied to the business development activities where the creative and collateral development are designed to leverage core messaging platforms that reinforce the benefits of propane in your business, your community, and in your home. In addition to the coordination of messaging across audiences within a single market, the messages, creative, and tools can be used across markets to create greater opportunities for propane sales and allow for PERC and propane marketers to leverage the good will gained through one market into propane solutions for adjacent markets as well.

Coupled with the integrated campaign and business development activities is a corporate-level public relations initiative to bring the positive propane messages, the solution propane offers, and to counteract claims made by competing fuels to thought leaders that influence all markets. The Thought Leadership program will position PERC as a credible resource not just for propane, but for alternative fuel sources and renewable fuels. Items produced for this initiative will echo and reinforce the content and messaging being used in the markets and provide additional resources to be leveraged back to the consumer and business audiences as well.

When it comes to business development specific activities, they follow a cycle where research and development generates new products and usable research, which leads to new product commercialization and effective consumer outreach, which leads to engagement with the sales channel and influencers to develop new projects that can drive propane demand in the markets we serve. With the ultimate aim of driving propane demand in the various markets by successfully executing in each of these areas.

These business development focused activities are complemented by smart, targeted marketing communications and outreach activities from an integrated campaign that provides the messages and tools needed to carry the propane story to the influencer audiences. The integrated communications activities provide a platform for increased engagement with sales channel partners and influencers as they evolve into established partners who see the value in propane for their markets and their businesses. In every market, these sales relationships are important in understanding the market and maintaining or growing a place for propane-powered equipment and appliances.

The need for technical research and product development can change based on market demands and recent developments in each market. Current market demands are primarily related to engine/appliance efficiency and environmental impact, so product development and research priorities are similar.

Industry support of the communications, business development, and product development activities is necessary for the success of any and all of these programs. To that end, industry outreach funding to support adoption of the programs is allocated in each area, above and beyond core industry outreach programs focusing on engagement, safety, training, and workforce development and recruitment activities. Additionally, in those markets where propane-powered products will be coming to market, commercialization support is considered for new product launches.

In this integrated approach, in all markets, success will be measured not solely by unit sales and gallons consumed, understanding that PERC does not sell gallons directly, but engages with and educates those

audiences that are influential in the purchasing decision. To that end, we will measure success based on numerous factors like:

- Marketer engagement opportunities – state meetings/conventions, tradeshow, focused events, webinars, and targeted communications.
- Marketer adoption of campaign and local level proliferation of market campaign information, participation in marketer training, and use of workforce safety and training materials.
- Manufacturer engagement and commitment to their propane offerings (OE and aftermarket)
- End user engagement opportunities – through meetings, tradeshow, technology demonstrations, webinars, and other tactics.
- Equipment dealer/distributor engagement – meetings, tradeshow, open houses, webinars, targeted communications, and trade-based lead resources like Dealer Point, as well as our ability to remain engaged with these key audiences long after the initial contact.
- Campaign extension activities – case studies, video testimonial, PR/editorial placements, and awards & events of recognition
- Organic allied market growth – expansion of propane technology into market opportunities with limited to no PERC investment.

As we developed the 2019 propose program budget, we did so with the knowledge that we look to be facing an economic landscape that favors propane over our main competitors in the engine markets, diesel and gasoline. It is critical that we seize this opportunity while fuel prices are less of a hurdle for adoption of propane technology in internal combustion engines. The agriculture, outdoor power equipment, autogas, and material handling markets all stand to benefit from the desirable situation.

Autogas

In the School Bus market, where Propane has made considerable gains, with over 15,200 Propane school buses on the road today, transporting approximately 928,000 students each day, in 840 school districts, fuel price fluctuations, the accelerated move to replace diesel engines with gasoline engines (especially class 5-7 vehicles), and the rapid adoption of EV's may negatively affect propane sales. To counter this, PERC will be executing a more sustained, year-round outreach initiative, to increase the engagement with dealers and school district fleet managers, as well as influencers, like parents, who have a vested interest in seeing their children are transported to school in safe, environmentally friendly, reliable buses, and the school business officials who can most directly see the value that propane brings to their school district.

In 2019, school transportation will once again be PERC's highest priority for propane autogas marketing, outreach and communications efforts. Our primary objective is to continue capitalizing on the substantial opportunity for growth in this market and leverage opportunities to demonstrate that investments in propane provide the best return on that investment for emissions reduction and benefit to the end user/community and continue to further market growth. Tactics will include exhibiting, speaking, sponsoring events where school transportation mangers and decision makers are present both nationally and on a state basis, earned media, paid media and bus dealer training, education and support activities.

PERC will also focus on other Autogas vertical segments, including transit/paratransit, beverage, bakery, pick-up & delivery, police and propane industry through continued education, training, support and engagement of the sales channel to increase awareness of the advantages propane autogas provides to fleets both public and private through earned and paid media, tradeshow and events, dealer engagement, training, including technician training through our affiliation with NAFTC, and targeted outreach to key associations and stakeholders.

A key focus in 2019, will be communicating to the propane industry the autogas market opportunity and providing the propane industry with the tools and materials needed to successfully incorporate autogas customers into their business strategy and plan. The benefits of adopting propane autogas powered vehicles when compared to the costs associated with maintaining a diesel-powered fleet that we promote to other fleet audiences, are equally relevant to the propane industry fleet.



In the fleet market, the competition is equally aggressive but the effect of the favorable pricing environment will increase the benefits of propane adoption of existing technology. In this market we will be promoting the existing technologies, prime the audience for products in development, like the high-efficiency, heavy duty engine, and have a long vision toward the future with the availability to fund initial investments in hybrid autogas technology, necessary to remain relevant in the market.

Outdoor Power Equipment

The rising gasoline and diesel prices are beginning to negatively affect contractor productivity and profitability, which has many searching for lower-cost and easily implemented solutions – propane is the obvious choice in virtually all small engine applications including commercial mowing, light duty construction, and utility products.

While gasoline prices were low, many contractors reverted to higher horsepower carbureted engines that consume more fuel. This could represent a major opportunity for aftermarket conversions as those same contractors begin looking for alternatives when their “thirsty” engines become too much of a fuel expense burden with the rising gas prices.

Generally speaking, propane equipment costs remain higher than comparable gasoline units in all OPE markets. While this is a function of lower demand than gasoline, it’s also continues to be a barrier to entrance for many newcomers to propane and alternative fuels in general. However, OE manufacturer level of commitment to propane has been slow to rebound after the prolonged period (4-5 years) of lower-than-average gasoline and diesel fuel prices.

In addition to market-based factors, propane marketer support of the OPE market is a barrier we will be directly addressing in 2019. While the small engine market represents a promising market for propane, the general preference of the propane industry is toward short-term success tied to gallon growth. Unfortunately, in a newer market, like OPE, sustainable market growth takes time, consistent commitment, and a realistic expectation of market growth. We will engage in outreach, training, and leverage market analysis to present the picture of the promise and opportunity within OPE.

The OPE market strategy will build upon the groundwork laid in previous years; targeting end users, first and foremost, with propane messaging highlighting total cost of ownership, emissions reduction, and reliable productivity, focusing more heavily than past years on aftermarket conversions, as they present a natural entry point when gasoline prices are rising. We will engage equipment dealers with sales, opportunities, “why propane” messaging, and safety training; dedicate outreach to the true “sales” and “service” components of the sales channel; and continue to expand the network of dealers and distributors engaged and offering or, at least, promoting conversion options for end users.

We will continue to engage manufacturing partners (new and old) to strengthen relationships, refine products, sales tactics, and ongoing product development. Regional equipment fleet sales, marketing, and conversion opportunities will see a much higher level of priority as the qualities that resonate most with the sales channel and end users are more regionally specific.

Commercial mowing will see the largest portion of overall attention within the OPE market sector; however, growing market segments like concrete finishing and utility vehicles will begin to see more traction within the overall marketing and branding efforts as new products and opportunities are scheduled to launch in late 2018 into 2019. PERC will also focus heavily on opportunities beyond the traditional contractor and begin targeted engagement of municipal, school district, campus (educational & corporate), and equipment fleets; fostering trial, adoption and, ultimately, growth across the entire OPE market sectors – commercial mowing, concrete finishing, light-duty construction, utility vehicles, and small engines.



Material Handling

Propane's market share within the factory order forklift market, where propane competes, has increased each year: from 71% in 2013 to 75% in 2017, while gasoline and diesel market share have seen declines over the same period. Electric forklift market share has remained stable at 17-18 percent.

To build on this positive momentum, core activities in the Material Handling market will focus on equipment dealer and distributor engagement and connecting marketers with equipment dealers with a greatly expanded marketing campaign increasing the reach of propane messaging. Targeted toward traditionally diesel-dominant heavy duty and rough terrain forklift and port applications, outreach efforts will focus on rebuilding brand awareness and equity through strategic marketing campaigns focused on telling the "propane" story, dispelling inaccurate perceptions, and directly comparing true emissions, operational costs, and the total cost of ownership.

To complement the outreach campaigns, we will undertake direct equipment dealer engagement efforts – including building of a dealer list and inclusion in Dealer Point; as well as targeted engagement of key forklift manufacturers for co-marketing, technology development, and product launch activities.

The threats to further growth in the Material Handling space are driven by the new and continuously improving battery technology, state regulations and legislation supporting electric-only operation indoors spreading to other regions/states. Additionally, the majority of new forklift sales are occurring in segments where internal combustion engines and, more specifically, propane have no products or technology answers at present. Therefore, we will continue to work with equipment manufacturers to design and develop efficient, clean and affordable propane solutions for tomorrow, and continue the development and commercialization support for the exhaust emissions controls and hybrid technology projects underway.

Critical to success in this market will also be straight-forward engagement with the propane industry. There is a lot at stake with regard to the market and their gallon volumes should we not dedicate time and attention to the material handling market. We will focus on communicating and supporting those activities that marketers can undertake to counteract the market factors and further engage the decision-makers in their area; allowing propane marketers to be more proactive to changes in the market.

Agriculture

The agriculture market is the third largest propane market in the United States, accounting for approximately one billion gallons or 10% of US propane demand. Agribusiness, Aquaculture, and Farms provide gallon growth, off-season gallons, higher margin-delivered per volume per interaction, and the wide array of innovative uses for propane equipment offering additional room for growth.

There are a variety of applications for propane in agriculture and the types of operations that use propane vary greatly. These include grains, oilseeds, fruits, vegetables, vineyards, greenhouses, and animal operations. It is our goal to communicate the value proposition of propane's use in agriculture application to these disparate segments as effectively and efficiently as possible.

In 2017, PERC launched an ag market campaign using "Propane Can Do That" as the call to action, which will be adopted across all markets in 2019. This campaign allows us to highlight the versatility and benefits of using propane and propane-powered equipment across the various ag applications and various ag operations without continually developing new content or campaigns for each situation. To complement the communications campaign, targeted influencer outreach initiatives will highlight the benefits of propane's use in agriculture to equipment manufacturers, distributors, dealers, and other market influencers including ag extension agents and ag cooperatives. Our goal is to educate these influencers so they can better represent our fuel to their customers and ideally create champions for propane in agriculture. Utilizing communication channels, like the Ag Propane SalesLink, we will continue to actively engage with influencers to educate them on propane's uses in ag and how PERC can support their efforts.



Equipment manufacturers continue to show interest in fueling their equipment with propane, and we will continue to explore opportunities to develop new technologies for the agriculture market, with an industry-wide view to identify opportunities to leverage our ag product development investments to benefit our agricultural customers while also benefiting other engine-driven markets as well. To support greater adoption of agricultural equipment in the marketplace, we will continue to offer incentives through the Farm Incentive Program.

Residential & Commercial

Market drivers in the residential and commercial markets vary regionally, largely due to geographic competition from other fuel sources and differing climate. These trends are accounted for as we formulate our approach to these core markets in 2019. In a slight departure from prior strategies in the residential and commercial markets, construction professional and consumer outreach will be regionally specific, focusing on top priorities across climate zones identified by research and analysis, and propane industry members. Therefore, messaging for the various priority areas are intended to highly resonate within the key climate zones and address solutions based on needs for our intended audiences. The shift also includes narrowing our focus, and targeting spending across fewer priority areas to maximize impact.

In another fundamental shift, residential and commercial outreach will not center around a costly, stand-alone homeowner campaign, as it has in the recent past. Instead, messages to construction professionals and homeowners will be integrated so each audience is receiving digitally dominant messaging and similar value propositions tailored to each unique audience. Integrating the homeowner outreach campaign and residential and commercial programming to better complement each other and increasing the reach and frequency of the messaging throughout the sales and supporting ecosystem is a key focus.

To further support a regionally specific approach, intelligence built into the redesigned propane.com, which consolidated the 10 PERC web properties into one, will allow for tailoring of content to the visitor based on their geographic location. This will allow for the most relevant messages to be delivered to the relevant audience. This underlying geo-tagging and segmentation function will be deployed across all markets PERC serves.

The residential and commercial markets will continue to see modest improvements over the next three years as the overall economy stabilizes and buyer confidence increases. In 2019, the US will see nearly 1.35M housing starts, according to Real Estate Economics. This is somewhat of a slower pace than previous predicted, and with that pace, housing demand will continue to exceed supply through 2022. This will lead to significantly higher remodeling activity with quarter over quarter improvements throughout 2019 and beyond. Additional factors that will positively impact this segment include availability of land for development outside of natural gas distribution lines, a normalization of mortgage rates, decreased unemployment rates (3.9 percent as of June 2019), and increased consumer confidence. As one of the largest consumer segments, millennials will dominate renovation activity, while being generally priced out of the new construction market, they will be heavily engaged in the re-sale and remodeling market. So, targeting these influencers is critical.

Propane space heated households are beginning to rebound from the declines experienced from 2006 to 2012, where propane space heated homes slipped from 6.46 mm to 5.54 mm. The Northeast has the highest market share of propane space heating due to the large number of isolated rural communities and extreme winter weather. Both New England and Middle Atlantic regions are seeing growth in propane heated homes due to fuel oil conversions and new construction. While total propane space heating households have increased slowly since 2012, propane heated homes have not kept pace with new construction growth, where electric has been dominant.



Propane lost market share of the overall new housing construction market due to increased construction in the South Atlantic, which represented 30.2 percent of all US housing starts. Propane's share in the South Atlantic declined from 2.7 percent to 0.65 percent. Electricity is dominant in new construction in the South Atlantic where its market share increased. East North Central, West North Central, Mountain and Pacific have experienced stable or rising market share since 2012. However, in the South Atlantic, East South Central, and West South Central, the downward trend started in 2006 has continued.

Propane water heating increased from 4.2 mm to 4.6 mm households, a market share increase from 3.6 percent in 2005 to 3.9 percent in 2015. However, this growth is largely confined to two regions, the Northeast and the Midwest. The Northeast has experienced the largest growth, increasing from 300,000 to 1 mm households, and the Midwest, where propane waterheated households number 1.5 mm and represent the highest market share of any region, with 5.7 percent of households in 2015 (up from 5 percent in 2009).

The commercial market sector represents about 20 percent of all propane demand on an annual basis. Commercial demand is less affected by weather than residential sector, which helps explain why market share has remained somewhat stable during warm and cold winters alike.

There were over 9.6 million commercial buildings in the U.S. in 2012, which is a 14 percent increase from 2003. Overall commercial fuel consumption increased 7 percent from 2003 to 2012. Over that period, buildings using electricity saw a total fuel usage increase of 19 percent, where buildings using propane saw their total fuel usage decline by 12 percent over the same period. However, the number of commercial businesses that use propane increased by 17 percent in that same time frame.

The commercial market, with varying types of infrastructure and associated needs, tends to be more diverse in customer type and decision maker. Identifying the explicit needs of each building type and addressing the decision maker audiences, along with combatting the inclusion of electric systems in commercial buildings will remain a focus in 2019.

Given the overarching market trends in the residential and commercial markets, it is more important than ever to continue to target those individuals and organizations that are critical to the specification of propane and propane applications in homes, commercial facilities, and on jobsites. These individuals and organizations include builders, general contractors, architects, engineers, plumbers, and HVAC contractors, among others. The program plans to include targeted outreach regarding zero net energy (ZNE) and propane's value in green building, national builder engagement and the use of propane in the major appliance areas in new construction specific to developments and communities, regional and custom builders outreach, electric water heater replacement especially when there is already propane in the home, outdoor amenities in regions where extending the outdoor living season is reasonable, and regaining market share in manufactured and modular housing, along with other high-level priorities.

Safety & Technical Training

While safety-specific activities do not represent a considerable spend in the 2019 budget, that is not to say that PERC will not be investing resources in safety related outreach and the development of safety materials. Additionally, safety & the safe use of propane products is at the core of the messaging platforms for each market, while not specifically called out with a corresponding expenditure.

In many cases past investment in safety creative and messaging can still be leveraged today and will be disseminated through our existing channels, at no additional cost. The consumer safety videos, such as *How to Read a Tank Gauge*, developed in 2017, remain some of the most popularly downloaded pieces and most viewed through our social media, not to mention the favorable reviews that they've gotten from propane marketers. In 2019, we intend to create several more safety videos in this series, which will then be promoted through our digital outreach and messaging tied to the residential consumer audience.



Additionally, the safety minute videos, produced entirely in house will continue to deliver propane companies relevant content for those critically important discussions with their workforce. Additional safety messaging, such as preparation for winter and adverse weather occurrences, will continue to be sent to customers in a timely manner, via PERC, the state associations, foundations, and PERCs, and propane marketers. The messaging is still fresh and relevant for today's consumers.

Within the business markets, we will be updating safety materials focusing on material handling, where there have not been updates for some time. In 2019, we do not intend to create new technical training programs within the markets, but to further promote the current training programs the National Alternative Fuel Training Consortium Autogas training, and the Plumber HVAC program for the residential and commercial audiences.

Industry Relations & Workforce Training

The shift to a regional based approach can be best seen through the relationships between PERC and the state entities. We will continue the momentum gained through regional meetings, engaging in an open dialog with state executives and their leadership to discuss opportunities and needs in their regions across all core PERC functions, consumer education efforts, market development outreach, and safety and training programs.

The Partnership with States program will continue in 2019 to support state PERCs and foundations by providing matching funds to support consumer education, safety & training, and market development projects. However, the program budget will be reduced from \$1.5 million to \$1 million. The remaining funds will be reallocated to a state-level workforce recruitment pilot program, the details of which are still being developed.

In addition to increased direct investment for workforce recruitment, additional investment will be made to our core training programs, CETP and Marketer Sales Training, which are complimentary in building a pathway to sustained growth building both the foundational technical knowledge and strengthen the business acumen needed to go after new markets, service and maximize their existing customers, and grow along with the industry.

The Certified Employee Training Program will see increased investment in 2019, as we continue to pursue method to make that critical material accessible across many platforms, and more engaging for the learner. We will also acquire a Learning Management System that will grow along with the industry and the needs of an evolving workforce.

PART V. 2019 BUDGET SUMMARY

SOURCES OF FUNDS

REVENUES

Assessment Collections	\$41,042,478
Investment Income	\$150,000
TOTAL REVENUES	\$41,192,478

DEOBLIGATIONS

\$500,000

BEGINNING BALANCE

\$10,325,608

Total Sources of Funds

\$52,018,086

DISTRIBUTION OF FUNDS

ADMINISTRATIVE EXPENSES

\$2,476,128

OTHER EXPENSES:

Assessment and Collections	\$84,903
Depreciation Expenses	\$79,900

Total Other Expenses

\$164,803

STATE REBATES (20 Percent of Assessment Collections)

\$8,208,496

PROGRAMS:

Program Labor	\$3,893,445
Program Staff Benefits	\$591,352
IT Support	\$585,502
Operating Program funding	<u>\$25,699,558</u>

Total Program Funding

\$30,769,857

Total Distribution of Funds

\$41,619,284

FUND RESERVE FOR 2019

\$10,398,802

2019 CAPITAL EXPENDITURE Budget

\$50,000

2019 Proposed Program Budget Detail

Market	Activity Type	2018	2019	Variance
Agriculture		(\$751,483)	(\$758,216)	\$6,733
	Consumer Outreach	\$0	\$398,000	(\$398,000)
	Incentive Programs	\$450,000	\$400,000	\$50,000
	Industry Outreach	\$40,000	\$40,000	\$0
	Influencer Outreach	\$1,060,000	\$450,000	\$610,000
	Product Development	\$1,250,378	\$701,832	\$548,546
	Program Support	\$0	\$62,000	(\$62,000)
	Total		\$2,048,895	\$1,293,616
Autogas	Consumer Outreach	\$155,000	\$750,000	(\$595,000)
	Industry Outreach	\$62,000	\$50,000	\$12,000
	Influencer Outreach	\$806,000	\$725,000	\$81,000
	Market Research	\$120,000	\$75,000	\$45,000
	Product Development	\$1,515,216	\$1,820,942	(\$305,726)
	Program Support	\$10,000	\$0	\$10,000
	Safety & Technical Training	\$185,000	\$100,000	\$15,000
	Strategic Partnerships	\$150,000	\$100,000	\$50,000
Total		\$3,003,216	\$3,620,942	(\$617,726)
Business Development	Program Support	\$320,000	\$400,000	(\$80,000)
	Strategic Partnerships	\$50,000	\$50,000	\$0
	Technical Research	\$615,000	\$500,000	\$115,000
	Total		\$985,000	\$950,000
Corporate Communications	Consumer Outreach	\$460,000	\$300,000	\$160,000
	Incentive Programs	\$1,000,000	\$0	\$1,000,000
	Industry Outreach	\$200,000	\$200,000	\$0
	Influencer Outreach	\$500,000	\$500,000	\$0
	Program Support	\$400,000	\$400,000	\$0
	Total		\$2,560,000	\$1,400,000
Material Handling/Industrial	Consumer Outreach	\$25,000	\$350,000	(\$325,000)
	Incentive Programs	\$0	\$75,000	(\$75,000)
	Industry Outreach	\$0	\$50,000	(\$50,000)
	Influencer Outreach	\$215,000	\$600,000	(\$385,000)
	Market Research	\$30,000	\$30,000	\$0
	Product Development	\$920,000	\$370,000	\$550,000
	Safety & Technical Training	\$95,000	\$50,000	\$45,000
	Strategic Partnerships	\$30,000	\$30,000	\$0
Total		\$1,315,000	\$1,555,000	(\$240,000)
Outdoor Power Equipment	Consumer Outreach	\$0	\$175,000	(\$175,000)
	Incentive Programs	\$450,000	\$300,000	\$150,000
	Industry Outreach	\$70,000	\$50,000	\$20,000
	Influencer Outreach	\$805,000	\$875,000	(\$70,000)
	Market Research	\$80,000	\$30,000	\$50,000
	Product Development	\$100,000	\$50,000	\$50,000
	Safety & Technical Training	\$0	\$50,000	(\$50,000)
	Strategic Partnerships	\$70,000	\$70,000	\$0
Total		\$1,575,000	\$1,600,000	(\$25,000)
Presidential Discretionary	Presidential TBD	\$0	\$500,000	(\$500,000)
	Total	\$0	\$500,000	(\$500,000)

Market	Activity Type	2018	2019	Variance
Propane Industry	Industry Outreach	\$610,000	\$1,230,500	(\$620,500)
	Market Research	\$585,000	\$670,000	(\$85,000)
	Program Support	\$490,000	\$490,000	\$0
	Safety & Technical Training	\$1,105,000	\$1,850,000	(\$745,000)
	Strategic Partnerships	\$2,894,500	\$1,719,500	\$1,175,000
	Technical Research	\$100,000	\$600,000	(\$500,000)
	Workforce Development & Recruitment		\$800,000	(\$800,000)
	Total	\$5,784,500	\$7,360,000	(\$1,575,500)
Residential & Commercial	Consumer Outreach	\$5,334,209	\$3,000,000	\$2,334,209
	Incentive Programs	\$275,000	\$1,500,000	(\$1,225,000)
	Industry Outreach	\$22,500	\$0	\$22,500
	Influencer Outreach	\$1,128,000	\$1,970,000	(\$842,000)
	Market Research	\$290,000	\$225,000	\$65,000
	Product Development	\$200,000	\$400,000	(\$200,000)
	Program Support	\$134,000	\$125,000	\$9,000
	Safety & Technical Training	\$562,000	\$175,000	\$387,000
	Strategic Partnerships	\$25,000	\$25,000	\$0
	Total	\$7,970,709	\$7,420,000	\$550,709
Grand Total		\$25,242,320	\$25,699,558	(\$457,238)

**PROPANE EDUCATION & RESEARCH COUNCIL
2019 PROPOSED BUDGET
PROGRAM MATRIX**

Jul-18

Market	Activity Type												
	Consumer Outreach	Incentive Programs	Industry Outreach	Influencer Outreach	Market Research	Presidential Discretionary	Product Development	Program Support	Safety & Technical Training	Strategic Partnerships	Technical Research		Workforce Development & Recruitment
Agriculture	\$398,000	\$400,000	\$40,000	\$450,000			\$701,832	\$62,000					\$2,051,832
Autogas	\$750,000		\$50,000	\$725,000	\$75,000		\$1,820,942		\$100,000	\$100,000			\$3,620,942
Business Development								\$400,000		\$50,000	\$500,000		\$950,000
Corporate Communications	\$300,000		\$200,000	\$500,000				\$400,000					\$1,400,000
Material Handling/Industrial	\$350,000	\$75,000	\$50,000	\$600,000	\$30,000		\$370,000		\$50,000	\$30,000			\$1,555,000
Outdoor Power Equipment	\$175,000	\$300,000	\$50,000	\$875,000	\$30,000		\$50,000		\$50,000	\$70,000			\$1,600,000
Presidential Discretionary						\$500,000							\$500,000
Propane Industry			\$1,230,500		\$670,000			\$490,000	\$1,850,000	\$1,719,500	\$600,000	\$800,000	\$7,360,000
Residential & Commercial	\$3,000,000	\$1,500,000		\$1,970,000	\$225,000		\$400,000	\$125,000	\$175,000	\$25,000			\$7,420,000
Grand Total	\$4,973,000	\$2,275,000	\$1,620,500	\$5,120,000	\$1,030,000	\$500,000	\$3,342,774	\$1,477,000	\$2,225,000	\$1,994,500	\$1,100,000	\$800,000	\$26,457,774

Total includes Ag Carry Forward of \$758,216