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A collection of brief topics relevant to people and businesses that operate within the construction sector,

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Just like any business, a construction company needs a succession plan, employee benefits and ways to attract and retain motivated workers. Believe it or not, an employee stock ownership plan (ESOP) can accomplish all these objectives in one fell swoop. This article explains how ESOPs work and what advantages they offer. It also notes the downsides to be aware of. A sidebar points out some specific things that construction business owners need to know about ESOPs before establishing one.

Need an exit strategy? Consider an ESOP

Construction business owners today face a variety of challenges, including shrinking profit margins, labor shortages, supply-chain issues and rising costs. On top of that, contractors with an eye on retirement — either in the near or distant future — may have concerns about an optimal exit strategy.

Many construction business owners want to leave the company to the next generation of their families. However, this may not be an option if: 1) there are no suitable heirs to take the reins, or 2) the owner needs to "cash out" for retirement. Others might hope to sell the company to their management team or a third party, but management may lack the financial resources for the purchase and the pool of acceptable third-party buyers may be decidedly shallow.

If all this sounds familiar, an alternative exit strategy worth considering is an employee stock ownership plan (ESOP).

How does one work?

Under IRS rules, an ESOP is a qualified retirement plan that's similar in many respects to a 401(k). However, instead of investing in the stock market, an ESOP invests primarily in the stock of the company sponsoring the plan.

That business can contribute new shares of stock to the ESOP or contribute funds to buy existing shares — including owners' shares. Any shares contributed to the plan are allocated among employees' accounts based on compensation and typically subject to a vesting schedule.

Once employees become eligible for distributions of vested shares, which is usually when they retire or leave the company, those distributions may be made in stock or cash. Employees of nonpublic companies who receive stock have a "put" option — that is, the right to sell it back to the business at fair market value.
Generally, ESOPs are subject to the same rules as other qualified plans, including minimum coverage requirements, nondiscrimination requirements and contribution limits. They also require an annual stock valuation by an independent appraiser.

Bear in mind that ESOPs are available only to corporations. If your construction company is organized as a limited liability company, partnership or sole proprietorship, you'll need to convert it to a corporation to establish an ESOP. The conversion process raises various financial and tax issues that you should discuss with your professional advisors, including your CPA, before making the move.

What are the benefits?

ESOPs offer several benefits to companies, owners and employees. These include:

A way out of the business. An ESOP makes it possible to transition ownership of the business gradually or immediately. Owners can even cash out while retaining control of the company for several years. When the ESOP buys an owner's shares, the stock is held in a trust for future distribution to employees. Until that time, the trustees — who may include officers, shareholders or other insiders — have authority over most business matters.

Tax benefits. Because an ESOP transaction involves the sale of stock, owners avoid depreciation recapture taxes often associated with asset sales. Plus, if certain requirements are met, owners who sell their stock to an ESOP may defer the tax on their capital gains. This benefit is available if:

- The company is a C corporation,
- The ESOP owns at least 30% of the company's stock,
- The owners have held their stock for at least three years, and
- The owners reinvest the sale proceeds, typically within one year, in securities of other domestic corporations.

The company itself also enjoys significant tax benefits. ESOP contributions, as well as certain dividends paid on plan-owned stock, are tax deductible. And if the ESOP is leveraged — that is, the plan borrows money to buy stock and the company makes contributions to cover the loan payments — the business can essentially deduct both the interest and principal. Ordinarily, only interest on a loan is deductible. What's more, the portion of the contributions attributable to interest payments doesn't count toward the company's contribution limit.

Note that many of these benefits are unavailable to S corporations. Owners of these entities can't defer their taxes. In addition, interest payments count toward contribution limits and dividends are nondeductible. On the other hand, because an ESOP is tax-exempt, income allocated to the ESOP's stock avoids federal (and, in some cases, state) taxes. S corporations contemplating an ESOP should weigh the relative tax advantages and disadvantages of S versus C status.

Recruiting benefits. An ESOP is a valuable retirement benefit that allows employees to enjoy tax-deferred growth and may give the company a competitive advantage when recruiting and retaining employees. And by providing participants with equity, the plan aligns the interests of the business, management and employees in maintaining and increasing the value of the company.

Right for you?

An ESOP isn't right for every company. They're costly to set up and maintain — you'll need to have sufficient profits and payroll to cover administrative costs, plan contributions and the eventual repurchase of employees' shares. Plus, staff must possess the desire and skills to take ownership of the company. Nonetheless, ESOPs are an idea worth considering.

Special ESOP considerations for construction companies

It's critical for contractors considering an employee stock ownership plan (ESOP) to consider the potential impact on their financial statements. Establishing an ESOP can affect a company's net worth, working capital and cash flow. In particular, a leveraged ESOP (see main article) can have a negative impact on the balance sheet, potentially jeopardizing the business's compliance with bonding requirements and some states' licensing requirements.

To avoid business disruptions, be sure to work closely with your professional advisors and surety to fully understand an ESOP before attempting to establish one. Properly set up and administered, these plans do offer business continuity and employee retention benefits that often outweigh the negative impact on a company's financial statements.

Having sound financial reporting practices can help a construction business win over investors, obtain outside financing and get the surety bonds required to work on certain types of projects. One often-overlooked way that contractors can enhance their financial statements is to use a classified balance sheet rather than a conventional one. This article explores some of the details of a classified balance sheet.

Upgrading financial statements to a classified balance sheet

The three major parts of a company's financial statements are generally regarded to be the balance sheet, the income statement and the statement of cash flows. One way a construction business can improve its financial reporting is to upgrade its balance sheet from a conventional one to a *classified* balance sheet.

Current vs. noncurrent

Unlike a typical balance sheet, a classified balance sheet distinguishes current assets and current liabilities from other — that is, noncurrent — assets and liabilities. This approach is particularly well-suited to construction companies because of the project-by-project nature of their operations.

The general criteria for separating current and noncurrent items are, first, a company's operating cycle. This is traditionally defined as the time needed to convert cash into materials and services, and then into products, which are then sold to create receivables. Finally, these receivables are converted through collections back into cash. A construction company's operating cycle may work a little differently at first from other types of businesses, but it generally ends up in the same place.

Another important criterion for separating current items from noncurrent ones is current assets. These are cash and other items that are reasonably expected to be realized in cash or sold or consumed during one year or within the company's normal operating cycle if it's longer than a year. Current liabilities are a factor as well. These are obligations whose liquidation is reasonably expected to require the use of current assets or the creation of other current liabilities.

Although construction companies often have contracts of varying duration, the normal operating cycle is measured by the average time between the inception of a contract and its completion. When determining a normal operating cycle, using estimated time remaining to complete contracts is typically inaccurate.

Why to classify

The contracts of most small construction businesses can generally be completed in one year or less. Although a company such as this may present an unclassified balance sheet, a classified one will give financial statement users, such as lenders and sureties, a much more detailed and clearer picture of the business. For example, if some assets and liabilities are classified as noncurrent because the related contracts have terms of greater than one year, information about their realization and maturity can be disclosed.

In most other industries, an unclassified balance sheet is preferable when the operating cycle exceeds one year. Certain construction companies may use this approach, but the preferable practice is to classify contract-related assets and liabilities as current based on the operating cycle concept and to classify other assets and liabilities as noncurrent. (Amounts expected to be realized or liquidated during the year would still be classified as current.)

Major transformation

For construction companies, contracts represent a primary source of assets and liabilities. Accounting for these two elements changed significantly when the Financial Accounting Standards Board rolled out Accounting Standards Codification Topic 606 (ASC 606), *Revenue from Contracts with Customers*.

According to ASC 606, a *contract* asset is defined as an entity's right to consideration in exchange for goods or services transferred to a customer when that right is conditioned on something other than the passage of time. Meanwhile, a contract liability is defined as an entity's obligation to transfer goods or services to a customer for which the entity has received consideration (or the amount is due) from the customer.

For instance, unbilled contract receivables that are conditioned on a basis other than the passage of time are now considered contract assets. The same holds true for costs and estimated earnings in excess of billings.

Transparency and thoroughness

Although it's a little more work, a classified balance sheet reflects well on the transparency and thoroughness of a construction company. For help setting up and maintaining a classified balance sheet, contact your CPA.

Construction businesses have been struggling with a skilled labor shortage for many years. One way to ease the pain is to consider hiring from population groups that have been historically overlooked by the industry. Case in point: women. This article explores the results of a recent survey indicating that adding female workers in various roles can improve project outcomes.

Recent report champions women in construction

Construction is an industry historically dominated by men and currently grappling with a severe shortage of skilled labor. Meanwhile, women represent less than 11% of the construction workforce, according to the U.S. Bureau of Labor Statistics.

A recent white paper by the National Center for Construction Education and Research (NCCER) found that women offer a fresh perspective on how things are done and possess qualities that can help enhance a construction company's performance. It's something worth considering as your business looks to maintain or expand its workforce.

Improved outcomes

The NCCER report identified several qualities women bring to the jobsite that can improve project outcomes:
Focus on teamwork. Women tend to be less focused on individual achievement and more focused on "making sure that the entire team is functioning at a high level," says the report.

Attention to detail. According to project management teams that participated in focus groups led by the paper's authors, "women are much more focused on following the prescribed work process as designed instead of relying on experience and physical strength."

Attentiveness to jobsite cleanliness and organization. OSHA guidelines recognize "housekeeping" — that is, keeping a clean and organized jobsite — as a factor in project productivity and safety performance. According to the white paper, women are "more attentive to continually maintaining a clean and organized jobsite than their male colleagues."

Recruiting tips

To take advantage of the benefits women can offer, hiring them isn't enough. You've got to create a welcoming work environment. Per recommendations made in the NCCER report, construction businesses should:

Evaluate company culture. Openly and proactively address discrimination and sexual harassment. Set the right tone at the top. Establish behavior standards that are clearly communicated and uniformly enforced. Ensure that women are treated equally in the office as well as on the jobsite. Offer them the same advancement opportunities as men. Provide training on sensitivity; unconscious bias; and diversity, equity and inclusion.

Offer child-care support. According to the NCCER, among the biggest obstacles faced by women in the construction industry is a lack of flexibility to care for their families. Scheduling issues have a much bigger impact on women working on the jobsite than on women working in the office. To the extent possible, set flexible, predictable schedules. Also be sure your construction business is competitive regarding paid time off and other benefits designed to accommodate parents.

Provide training opportunities. Training is a key factor in recruiting and retaining workers — especially craftspeople. Because women tend to receive less exposure to construction skills at a young age than men, training opportunities are particularly important for women when choosing where to work.

Create a career path to leadership. This can serve as a powerful recruitment and retention tool. It can also enhance company performance. As noted above, women tend to be detail-oriented and put team success above individual performance — valuable traits for a leader.

The sooner, the better

The shortage of construction workers is expected to persist, and women will likely play a key role in closing the labor gap. However, it'll take time for many construction businesses to build a company culture that truly supports women and allows them to thrive. The sooner you start laying the foundation, the better.

Artificial intelligence (AI) is affecting every major industry. Indeed, many construction businesses may already be using AI in some ways and many more functions are likely in the pipeline. This article points out five ways that this technology can improve a construction company's performance… or soon will.

Contractors, keep an eye on where AI is headed

Artificial intelligence (AI) has been receiving plenty of press coverage lately, much of it negative. Like many technological innovations, AI is certainly susceptible to abuse and it's far from infallible. However, AI has the potential to transform the way contractors do business — both in the office and on the jobsite. That's why forward-looking contractors should keep an eye on where it is and where it's headed.

5 ways it can help

Generally, AI involves using computers or other machines to perform tasks that typically require human intelligence. Here are five ways that this technology can be used — or will soon be used — in the construction industry:

1. Improving worker safety. AI can improve safety in two ways: 1) by employing machines, such as drones or robots, to complete dangerous tasks historically performed by people, and 2) by monitoring the jobsite — for example using AI-powered cameras — and alerting personnel to hazardous conditions, unauthorized access or unsafe practices.

2. Enhancing productivity and efficiency. Technologies such as robotic process automation can automate tasks such as generating invoices, managing documents, processing vendors' bills and responding to customer requests. Completing these tasks using AI-driven technology reduces labor costs, prevents human errors and frees up people to do more valuable work.

3. Generating more accurate estimates. One specific area of construction that holds particular promise is estimating. AI's ability to quickly process large amounts of data — including measurements, cost of materials and labor requirements — can help construction companies prepare more accurate estimates in a fraction of the time. This can not only boost efficiency, but also prevent cost overruns and maximize profitability.

4. Managing projects more smoothly and cost-effectively. AI can help construction companies keep track of complex projects and schedules. It can also enable you to optimize delivery and allocation of labor and materials.

5. Creating more accurate forecasts. AI-powered forecasting software allows construction businesses to better predict the impact of many of the factors that can delay or even completely derail a project. These include weather, economic conditions and your company's own cash flow. Having timely, accurate AI-delivered data can enable you to adjust bids, budgets, staffing levels and other mission-critical items accordingly.

An evolving technology

These are just a few examples of the many ways AI may be able to help construction companies become more productive, efficient and safe — either right now or in the near future. However, as

mentioned, the technology is still very much evolving and there have been concerns about how AI may negatively affect hiring and performance management. So, exercise caution and due diligence before buying AI software and adjusting your business processes.

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