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When we distributed the survey in early February, the epicenter of the novel coronavirus was in China, an important hub for steel production and general manufacturing, and that country’s subsequent economic shutdown had an immediate ripple effect on the U.S. construction industry that still persists. By mid-March, the World Health Organization declared the coronavirus (COVID-19) a global pandemic, and U.S. public officials issued restrictions that led to an economic shutdown on our shores, as well. With the exception of several regional markets hardest hit by the pandemic, where job sites were closed, most U.S. construction workers were deemed essential and have continued to work.

In alignment with these developments, positivity among survey respondents began to dip by mid-March. To provide the most meaningful commentary, we have divided respondents into two groups—those responding before and after March 15. For the purposes of this report, responses prior to March 15 are referred to as pre-pandemic; those from after March 15 are referred to as post-pandemic. Unsurprisingly, there are notable differences. For example, prior to the pandemic, respondents predicted a 39% chance of a recession over the next year. That number climbed to 69% post-pandemic. Although it wasn’t known at the time, the country did, in fact, enter a recession in February, just as our survey questionnaire entered the field; 69% of respondents referred to it as a recession.

Throughout this report, we provide commentary on the combined national results before dividing responses into pre- and post-pandemic categories. This provides a benchmark against which the split results can be measured. We hope you find our research findings helpful and welcome your feedback and questions.

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2020 MARCUM NATIONAL CONSTRUCTION SURVEY

EXECUTIVE SUMMARY

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FINANCING
Survey respondents report a stable and positive lending environment, with 90% of respondents reporting that their ability to receive financing has stayed the same or increased. It is interesting to note the shift between pre- and post-pandemic responses. While still very positive, 16% of post-pandemic respondents report that their ability to receive financing decreased, compared with only 6% of pre-pandemic respondents. Understandably, banks and sureties are rattled about the ability of contractors to complete jobs and begin new projects. However, best-in-class contractors have crisis management plans in place to prove they can overcome challenges, including supply chain diversification, labor issues, and contract deliverables. Having a plan enabled them to flip the switch to move into pandemic mode successfully, something creditors want to be assured of in determining risk. Contractors with plans will get work, and those who don’t will risk losing opportunities to their competitors.

BONDING
According to our survey results, 47% of respondents report bonding requirements on less than 20% of their jobs, and 15% of respondents report between 21% and 40% of their jobs. Looking ahead, 84% of pre-pandemic respondents expected their ability to obtain bonding to remain unchanged or become less difficult. Since COVID-19, however, there is an uptick among those expecting it to become more difficult to obtain bonding. Current contracts protect contractors for the work they have in progress, but new contracts will be affected by the COVID-19 economy, which can impact bonding requirements. See related article, “Factors Influencing Risk in the New Construction Environment” on page 6.

PROJECT BACKLOG
Project backlog is a good indicator of industry health. We asked survey respondents to compare their projected 2020 project backlog with their 2019 backlog. Almost 50% of all survey respondents expect an increased backlog year over year, with another 29% predicting it to remain the same. The effect of the pandemic is evident when we look at the two groups of respondents. In the pre-pandemic group, 82% of respondents projected either the same or higher backlog, while 67% of post-pandemic respondents made this prediction. Still, the number of respondents in both groups who projected higher backlogs in 2020 average 46%, a positive indicator for the industry. The number of post-pandemic respondents predicting a decreased backlog in 2020 was almost double pre-pandemic respondents – 33% versus 18%.

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Financial Snapshot

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What can contractors expect when it comes to underwriting new construction projects? From a surety perspective, there are still many unknowns. Several factors will affect the future state of construction contracts, such as the accommodations businesses have had to make for the COVID-19 pandemic and state budgets that have been decimated. Projects have been delayed or cancelled, work schedules have been adjusted to meet distancing requirements, and there are additional costs to obtain personal protective equipment (PPE).

Still, for the short-term, most contractors are fairly well positioned to have a good year, given the strong backlogs coming into 2020. Most states allowed work to continue, and the states that limited construction activity have started to ease restrictions. It is the long-term effect of the crisis that is the big question mark for the industry.

INFRASTRUCTURE FUNDING

Many states are planning for budget shortfalls. Extended tax deadlines, record unemployment, and decreased economic activity will likely contribute to a shortfall for future construction budgets. The pandemic has put tremendous pressure on already-stretched state and local budgets, with far-reaching effects on infrastructure. Capital budgets are essential for funding construction for infrastructure projects, such as bridges and roads.

While significant federal infrastructure funding has been discussed as part of coronavirus relief, there is uncertainty as to whether this could be passed by Congress. There does seem to be general consensus on both sides for some form of infrastructure spending, but with an election happening this fall it remains to be seen if the two sides can hammer out a deal.

SHIFT IN CONSTRUCTION WORK

In the short term, it’s foreseeable that private sector building activity may decrease, while a decline in tax revenues may lead to a similar reduction in state and municipal building activity, which represents the majority of public sector construction. There is a trend toward private contractors entering the public arena, similar to what occurred during the 2008 economic downturn. In some instances, margins on recent bids have started to decrease.

Most businesses are having success with their workforce operating remotely during the shutdown. Pre-pandemic, there was already a movement toward flexible work arrangements and remote working. COVID-19 has accelerated that movement. As more of the workforce works remotely, there may be a decrease in the demand for commercial office space. If the need for office space decreases, construction work may shift away from commercial real estate development and toward efforts to retrofit existing office space with various safety measures both to keep the workforce safe and to accommodate a workforce that may split its time working in the office and remotely.

LOOKING AHEAD

There is uncertainty and some headwinds facing the industry as it moves toward the second half of 2020 and especially into 2021. There will be a challenge to replenish backlog with new projects. Still, contractors should proceed thoughtfully and only take work at prices they anticipate will be profitable – it’s often preferable to wait on the sidelines than take on potentially unprofitable projects. Contractors with a high overhead may be in a precarious position and will need to find ways to reduce costs and increase liquidity. Contractors who have been able to receive assistance from the Paycheck Protection Program (PPP) may be better-positioned to guard against unknown risks.

One positive is that the construction industry has been through economic slowdowns before and has become stronger as a result. Although the last major downturn was approximately 12 years ago, the lessons learned during that recession remain fresh in everyone’s minds. This downturn, as in 2008, will force contractors to reassess their business plans, be disciplined with their costs, be extra diligent when reviewing contractual risk, and focus their entire effort on managing their company through the crisis. There may be silver linings for contractors who manage effectively through the crisis, as they may uncover new and better ways to run their businesses.

Matthew Cocco
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There is potential for lack of work due to projects being postponed or terminated due to COVID-19.

- SURVEY RESPONDENT

COMPETITION
A low number of bidders is typically indicative of a healthy construction market. According to survey respondents, the number of bidders remains low, with 56% of respondents bidding against one to four bidders and 39% bidding against five to nine bidders.

Another good industry indicator is average job size. Over the past 12 months, 48% of survey respondents report that their average job size has increased and 46% report their job size has remained the same, reflecting a fairly healthy construction industry.

When looking at our two groups of respondents, there was no material change in the number of bidders, though the average job size declined slightly in the post-pandemic responses.

In the future (next 12 months), your company’s budget for overhead expenditures will:

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<th>PRE-COVID-19</th>
<th>POST-COVID-19</th>
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<tbody>
<tr>
<td>Increase</td>
<td>43%</td>
<td>25%</td>
</tr>
<tr>
<td>Stay the same</td>
<td>46%</td>
<td>53%</td>
</tr>
<tr>
<td>Decrease</td>
<td>10%</td>
<td>21%</td>
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GENERAL AND ADMINISTRATIVE OVERHEAD EXPENDITURES
Almost half (48%) of all respondents increased their general and administrative overhead expenditures over the prior year, with only 11% of respondents reporting they decreased costs. Looking ahead, 36% of respondents overall predict they will increase expenditures in the next year. Forty-three percent of pre-pandemic respondents said they planned to increase future expenditures, compared with only 25% of post-pandemic respondents.

According to one survey respondent, “There is potential for lack of work due to projects being postponed or terminated due to COVID-19. As a result, it is going to create overhead issues regarding personnel after the SBA loan dollars run out, and there will be tough decisions that will have to be made unless the economy restarts quickly and people can get back to work.”
At some level, it’s pretty simple. The pre-COVID-19 economy was blissful for many contractors. A combination of strong job growth, technology-induced transformation, healthier state and local government finances, rising incomes, consumer confidence, low inflation, and minuscule interest rates propelled construction spending higher.

The year began in stunningly fine fashion. In January, the nation added 214,000 net new jobs, remarkable given how low unemployment had become (3.5%, a 50-year low) and how much difficulty employers were experiencing filling unfilled jobs. Contractors Routinely complained about a dearth of skilled craftspersons, and noted shortages of carpenters, HVAC professionals, roofers, glaziers, electricians, superintendents and estimators. By February, America added another 251,000 net new jobs according to available estimates.

The post-COVID-19 economy is the mirror opposite. The second quarter of 2020 is likely to prove the worst quarter of our economic lives. By February, the nation was already in recession even though it began the month with momentum. The last three weeks of March were so bad for the economy that U.S. GDP declined 4.8% for the quarter. The nation lost 881,000 jobs in March before losing 20.5 million jobs in April. Many forecasters expect America’s gross domestic product to decline in the range of 40% on an annualized basis when all is said and done, meaning that for a time the U.S. is facing depression-like conditions. Unemployment will likely peak well above 20%.

Often, construction is spared during the early stages of a broader economic downturn due to a combination of ongoing work and backlog. That didn’t happen this time. A number of communities declared construction non-essential as social distancing directives took hold, including in New York, New Jersey, Massachusetts, Pennsylvania, and California. An unprecedented decline in energy prices during the early stages of the crisis also impacted the pace of investment, further dampening construction activity. Accordingly, construction lost 975,000 jobs in April, the worst single monthly total on record.

ONE SURVEY BECOMES TWO

While the economy was rapidly transitioning from boom to bust in early February, Marcum was busily conducting its first annual National Construction Survey. The survey could not have been better timed, since it provided us with a picture of how the industry was being impacted by the unfolding coronavirus crisis in real-time. Some responses came before the pandemic began to unravel the economy, and some responses came during the early stages of the crisis. Thus, one survey became two.

As an example of how quickly economic conditions were changing at the time, pre-March 15 respondents indicated with near-unanimity that their access to funding had either improved or remained stable. Responses arriving after March 15 indicated that already the industry’s ability to access financing had been negatively impacted by the emerging public health and economic crisis, though the overall trend was still not unduly problematic during the crisis’ initial phase.

CONTRACTORS HAVE CAUSE FOR CONCERN

While the current recession is unlike any other in history, looking to the past offers a plausible glimpse into what’s possibly in store for the U.S. construction industry. The last recession officially began in December 2007 and ended in June 2009, a harrowing span of 18 months.

Construction’s recession came earlier, largely due to a collapse in single-family homebuilding attributable to mass mortgage delinquencies and defaults that emerged in 2006 and 2007. On an annualized basis, construction spending peaked in early 2006 at a bit more than $1.2 trillion. By recession’s end, construction spending stood at around $907 billion, a decline approaching 25% from the pre-recession peak.

But while construction entered the recession early, it left late. As is often the case, construction’s fortunes lagged behind those of the broader economy. Even as the economy began to expand, construction spending continued to wane. The bottom didn’t come until early 2011. By that point, construction spending was down a massive 37% from its pre-recession peak.

Already, the current downturn is different from the prior one. In this instance, construction’s deterioration didn’t begin prior to the broader economic downturn, but coincidentally. Still, the Great Recession represented a period of significant economic decay, and this one shares that characteristic.

Marcum’s survey responses are consistent with the notion that operating a construction firm will be more challenging going forward than it was during a time of brisk demand. Prior to the COVID-19-induced downturn, many contractors found that they weren’t overwhelmed by massive numbers of competitors. For instance, more than half of respondents indicated that the number of competing bidders they encountered was usually quite modest, in the range of one to four bidders. Another 40 percent indicated that they routinely squared off against five to nine bidders.
A SILVER LINING?

For years, construction firm operators have wrestled with the challenge of bringing more talent into the industry. But given the sharpness of the economic downturn, one could speculate that for now the problem of skills shortages has been substantially diminished.

Indeed, Marcum’s survey indicates that many contractors have become less alarmed by skills shortages. Among pre-pandemic respondents, 41% listed “securing skilled labor” as the leading threat to their business. But that percentage fell to 23% among later respondents, with “lack of work” frequently taking the top spot.

If past is prologue, even the economic downturn may not be enough to solve the nation’s construction skills shortage. In 2015, roughly halfway through the now-ended economic expansion, the U.S. Census Bureau conducted a study examining what happened to millions of displaced construction workers. The study focused heavily upon what workers chose to do following the recession as well as how construction companies responded once industry hiring resumed.

The research determined that more than 60% of construction workers who lost their jobs as a result of the housing bust and ensuing economic downturn found employment in other industries. Thus, even the Great Recession did not solve the nation’s skilled construction worker shortfall. There are a number of reasons for this dynamic, one of which is that construction is typically one of the last economic segments to fully recover.

LOOKING AHEAD

The debate rages regarding the trajectory of the recovery to come. Will it be V-shaped, W, U, L, checkmark, Nike swoosh, square root, or some other symbolic manifestation? Based on the recovery from past pandemics in other societies, the initial stage of recovery from the crisis should be rapid. However, complete economic recovery will likely require years.

Construction’s recovery will be far more rapid if two things occur: 1) federal stimulus directed toward state and local governments to help them balance their budgets; and 2) a federal infrastructure investment package. There is presently plentiful stimulus built into the U.S. economy.

Once that stimulus begins to run out, the initial phase of recovery may come to a grinding halt as many economic actors continue to wrestle with intense indebtedness and still-shaken confidence. An infrastructure package could help give the recovery to come some legs, otherwise contractors may be staring at a “W” (meaning double-dip recession) at some point down the road.

Anirban Basu,
Chief Construction Economist, Marcum LLP
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With many firms already engaged and facing capacity limitations due in large measure to skills shortages, newly available work generally could only attract a modicum of bidders. Moreover, nearly half of Marcum respondents indicated that the average job size had increased over time, while another 46% indicated that job sizes remained stable.

But these responses largely reflected the economy as it was. If history is any indication, some contractors will not survive to experience the recovery to come. Based on data from the Bureau of Labor Statistics, the number of construction establishments peaked at 896,200 during the third quarter of 2007. By the early stages of 2013, the number of establishments fell to 738,056, representing a decline approaching 18%. Even after many years of economic recovery, the number of construction establishments at year-end 2019 fell short of the pre-Great Recession peak.

EXHIBIT 2. Construction Establishments, 2001 Q1 - 2019 Q4

Source: U.S. Bureau of Labor Statistics

EXHIBIT 3. Construction Establishments, 2001 Q1 - 2019 Q4

Source: U.S. Bureau of Labor Statistics
Survey respondents were asked about growth opportunities within and outside of their region over the next three years—a good indicator of industry optimism. Overall, 53% of total respondents are seeing more opportunities in their region, and 32% are seeing the same amount of opportunities. Only 15% of respondents predict a decrease in opportunities. When looking outside their region, 49% of respondents predict growth over the next three years, and 40% of respondents predict the same amount of opportunities. Only 40% of post-pandemic respondents predict more opportunities in their region over the next three years—20% fewer than their pre-pandemic peers. Only 36% of post-pandemic respondents predict more opportunities outside their region, compared with 51% of pre-pandemic respondents. Almost one-quarter of post-pandemic respondents predict fewer opportunities outside their region.

Marcum construction leaders participated on a national call in May with some of the nation’s leading construction industry experts to discuss the current and future state of the industry.

“Across the board, leaders were confident about the future of the construction industry,” said Joseph Natarelli, Marcum’s national construction industry leader. “The industry was well-positioned prior to the pandemic, even with a potential recession looming. Those going into COVID-19 with weaker balance sheets will be negatively impacted. We believe that as long as firms work with their internal teams and professional advisors to address labor safety issues and material sourcing, and have a pandemic plan in place, they will come out of this crisis in good shape.”

We received nearly 200 open-ended comments from respondents about growth opportunities, most of which were positive. According to one respondent, “The optimism of growth is the foundation of business entrepreneurship. Growth is best managed when it is paced, deliberate, and strategic.”

Many respondents are looking forward to expanding healthcare facility work and infrastructure projects, if the funding is available to back the projects. However, respondents also expressed concern about COVID-19 economic recovery. One respondent reported: “Right now it is unclear what path we can take until we see how much impact COVID-19 will have on school work.”

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- JOSEPH NATARELLI
  MARCUM LLP
Mitigate Project Impacts Due to COVID-19

BY PETER J. MARTIN | HINCKLEY, ALLEN & SNYDER LLP

Given the outbreak, escalation, and uncertainties with respect to the novel coronavirus (COVID-19), the construction industry must anticipate time and cost impacts to work on current construction projects. The declared states of emergency nationwide, travel restrictions, quarantines, and current and future cases of the disease will likely cause project delays, labor shortages and supply-chain effects. The result may increase project costs, including extended general conditions costs, material price increases, labor rate escalation, storage fees, extended home office overhead, and increased shipping costs. While taking steps to help contain the virus and ensuring public safety is of utmost importance, construction industry professionals must also take practical steps to mitigate project impacts and financial harm.

WHAT CAN YOU DO?

1. **PROTECT EMPLOYEES.** Employers should review their employee manuals, safety programs, and emergency plans to ensure compliance with COVID-19 guidelines from the Centers for Disease Control and Prevention (CDC) and regulations from the Occupational Safety and Health Administration (OSHA).

2. **KNOW YOUR CONTRACT RIGHTS.** Construction contracts will likely dictate whether time extensions and/or additional compensation are permitted for impacts of the coronavirus. Many contracts contain a force majeure clause. Contractual definitions of force majeure events commonly include war, strike, riot, or acts of God, and oftentimes provide for an extension of time as the sole and exclusive remedy (without compensation).

   In addition, the Federal Acquisition Regulation, FAR 52.249–10 Default (Fixed-Price Construction), specifically states that delays caused by “epidemics” and “quarantine restrictions” are excusable: “The Contractor’s right to proceed shall not be terminated nor the Contractor charged with damages under this clause, if … [t]he delay in completing the work arises from unforeseeable causes beyond the control and without the fault or negligence of the Contractor. Examples of such causes include... epidemics or... quarantine restrictions.” While the FAR specifically addresses epidemics and quarantines for those performing work on federal projects, contractors performing work on non-federal projects will need to review their contracts and any applicable statutes.

   At this time, it is unknown whether courts and arbitrators outside of the FAR will define COVID-19 and the resulting impacts as a force majeure event. In addition to force majeure provisions, as federal, state, and local governments impose restrictions through emergency legislation, regulations, executive orders or decrees, contractors can look to “change in law” provisions and the change order process as potential sources of relief from impacts that extend project durations and increase costs.

3. **PROVIDE NOTICE.** If, but more likely when, COVID-19 impacts your project, you should immediately provide notice to parties with whom you contract. Be sure to follow the notice requirements prescribed by your contract, which will likely include specifically identifying the impact and the date the impacted started. It is important to reserve rights to seek time extension and additional compensation if the impact is not fully known or quantifiable. In addition, keep track of lost time through schedule updates, and maintain back-up for additional costs incurred.

   One thing is for certain – the full impact of COVID-19 is unknown. While public safety remains a top priority, the construction industry must be proactive to protect itself and mitigate project issues related to the COVID-19 pandemic.

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War on Talent

The lack of skilled labor has been hindering the growth of construction companies throughout the nation for much of the past decade. Even the healthiest businesses are held back when they can’t get the right talent to complete work. We asked survey respondents to rank their greatest business threats over the next 12 months, and securing skilled labor was the top-ranked response, chosen by 34% of respondents. Also, almost half of respondents chose “finding solutions for skilled labor” as one of the top two actions they want to take to address their company’s top priorities.

One pre-COVID respondent went on to state the following:

“We can’t hire quality, salaried employees fast enough, nor can we train them fast enough. My biggest fear is a complete drop-off in quality and safety due to an inexperienced and rushed workforce. We also need to focus more resources on partnering, recruiting and promoting trade work as a positive career choice for students.”

Once the pandemic took hold in the U.S., respondents expressed increased concern about future work opportunities. While 41% of pre-pandemic respondents chose “securing skilled labor” as the No.1 threat to their business, only 23% of post-pandemic respondents chose the same response. “Lack of work” was the No.1 post-pandemic threat according to 29% of respondents post-pandemic.

Given the current historic unemployment rate, it will be interesting to see how the talent shortage shifts when we ask this question again in 2021. The industry may see cross-training opportunities to hire workers from other trades in the near future.

We also asked respondents to tell us what steps they are taking to address the labor shortage. Fifty-one percent of respondents are increasing compensation, followed closely by employee recognition and appreciation programs (46%). Some construction firms plan to intensify training programs in order to promote from within. Others are looking to unions to help them address the skilled labor issue. Apprenticeships and the adoption of employee stock ownership plans (ESOPs) are other considerations. See our ESOP article on page 22 to learn more about the value of these plans as an attractive employee benefit and a viable transition plan for construction firm owners.

The big question will be what impact the COVID-19 pandemic will have on the skilled labor shortage. Time will tell if and how much of a correction the pandemic will deliver.

What are you doing to address the lack of skilled labor? (Check all that apply)

- Increasing compensation 51%
- Employee recognition & appreciation programs 46%
- Partnering with trade schools/high school 32%
- Performance evaluations 27%
- Other 25%
- Conducting stay interviews 11%
We are keeping our teams focused on rowing forward in a time of uncertainty. The fear of the unknown permeates all aspects of business success, but is especially impactful during a time when “normal” no longer exists.

- SURVEY RESPONDENT

TOP POLITICAL ISSUES

Our survey respondents ranked healthcare reform/insurance rates and material price volatility as their top two political issues. Both issues have been critical for the construction industry for the past decade. Post-pandemic responses didn’t change these rankings, though there was a slight uptick in the number of respondents choosing material price volatility as a top political issue. Price volatility will continue to be an issue as construction companies seek new sources for materials – sometimes at a higher cost – to ensure projects are completed on time.

Income tax rates was ranked the third top political issue in overall responses, but post-pandemic respondents replaced it with “availability of credit” as their concern about the ability to finance new projects grew.

COVID-19 RESPONSE

When we sent final reminders for respondents to complete their surveys, the COVID-19 pandemic was already affecting construction work. We asked respondents to share which actions their companies planned to take to mitigate the economic impact on their businesses. A resounding 85% of respondents said they were applying for loans under the Paycheck Protection Program (PPP).

The Coronavirus Aid, Relief, and Economic Security Act (CARES Act) provides economic assistance to businesses through programs such as the PPP, which was intended to help businesses stay afloat and retain their employees. Marcum worked very closely with our clients to get applications in early. As a result, many of our clients were successful in receiving this forgivable loan, an incentive to small businesses for keeping employees on their payrolls. Being proactive under these circumstances pays off for the company and its employees – in more ways than one. Employees are more likely to remain loyal to employers who kept them on during this difficult time.

Other federal disaster assistance came in the form of the Federal Reserve’s expanded emergency Main Street Lending Program, intended to help corporations with damages related to COVID-19. The minimum loan size is $1 million. Unlike the PPP, Main Street loans are not forgivable.

In addition to taking advantage of assistance through federal relief programs, respondents examined their contracts for force majeure provisions and their business interruption insurance for virus exclusions. Please see the related article, “Mitigate Project Impacts Due to COVID-19,” on page 16 to learn more about force majeure, a clause that can protect contractors when they are unable to complete projects due to extraordinary events.

Marcum recommends that all construction company owners reevaluate their policies and contracts and work with their advisors to protect themselves going forward.
ESOPs: An Exit Planning Strategy for Construction Firms

BY PATRICE RADOGNA & KENNETH J. PIA, JR. | MARCUM LLP

Owner-operators of multigenerational, family-owned construction firms are greatly invested in their business. However, it’s simply not realistic for them to remain at the helm indefinitely. An exit strategy is critical for ensuring the continued success of the company, prior to transferring leadership to someone else—no matter how qualified that person may be.

Consider these key questions in determining a successful retirement strategy and exit plan:

- Who has the financial strength and expertise to profitably run the business?
- What are the options to sell (or gift) the company, either to the next generation or to key employees?
- How will you retain key employees who are not family members?
- What will be your “legacy” for the future of the company and its employees?
- Do you understand the criteria required by the surety company, protecting the construction firm’s bonding capacity?

ESOPs: AN ATTRACTIVE EXIT OPTION

Often, the usual options for company owners preparing to exit, such as sale to a third party or sale to a private equity, are not a good fit for construction companies. Historically, construction companies have not been great takeover candidates for a strategic sale for the following reasons:

- Cultural mismatch between the buying and selling firms.
- Lack of recurring cash flows resulting in low multiples the next generation or to key employees.
- Lack of new contracts to ensure the retention of key employees and critical clients post-acquisition.
- Low barrier to entry for a construction company seeking to enter a new location.
- Exiting owner’s fear that an acquiring company will tamash the hard-won legacy of the newly sold firm.

Private equity firms also may lack the management expertise to run a construction company and be unable to project a clear return on investment.

An employee stock ownership plan (ESOP) is often a viable solution that addresses these concerns during the complex process of transition construction firm ownership.

ADVANTAGES OF AN ESOP

An ESOP is initiated when a trust is formed to hold stock for the benefit of employees. ESOPs utilize the resources of the company’s balance sheet to fund either a partial or full buyout from the exiting shareholder(s). An owner may gain the desired liquidity from a “ready market” (the ESOP) that, through certain financing alternatives, can back its purchase of stock.

The construction firm owner can exit knowing that the legacy of the firm will remain with the people who have created it.

Another advantage is that an ESOP provides a structure allowing an owner to step back based on a controlled time frame, should they want to sell less than 100% of the business. Instead of divesting immediately, they can continue as part of the operation with the assurance that the company will continue to operate with current, trusted personnel and protocols in place.

ESOPs also provide significant tax breaks to the company, resulting in increased cash flows. As a sanctioned retirement plan, an ESOP is technically a tax-free trust. For S corporations, the pre-tax income of the company, attributed to the shares owned by the trust, serves as non-taxable income.

At its maximum benefit, an ESOP trust that owns 100% of the company stock pays no federal income taxes.

For those companies wherein the ESOP does not hold 100% of the stock of the S corporation, there is a tax benefit related to ESOP leverage instead. With an ESOP in place, both principal and interest debt payments (related to an ESOP loan) are tax-deductible.

There is much at stake for the controlling shareholder of a construction firm who has worked a lifetime to build the company—the most significant asset in his or her investment portfolio. Given the desire to leave a positive legacy and reward loyal employees with a secure future, traditional exit strategies are typically not the best fit. Employee ownership through the creation of an ESOP can offer a significant advantage that reflects the construction industry’s culture of pride and longevity.
The contractors who are successful in the post COVID-19 environment will have successfully implemented safety practices (staggered workforces, sanitization, employee protection and support), diversified their supply chains, and addressed contract language. "The impact of COVID-19, the stimulus package, and the election will have a major impact on the future of small business."
2020 MARCUM NATIONAL CONSTRUCTION SURVEY

Given the COVID-19 pandemic, please indicate what actions your company has taken in order to mitigate the impact of the virus on your business. (Check all that apply)

- Explore your federal or state provision in your contract, if it exists. 50%
- Explore your business interruption insurance to see if it has a virus exclusion. 56%
- Apply for the Economic Injury Disaster Loan Program. 26%
- Apply for the Paycheck Protection Program (PPP). 40%
- Layoff, terminate, or furlough any employees by the end of 2020. 31%
- Stop paying rent during this pandemic. 11%
- One-time loan/pooling during this pandemic. 7%
- File claims on your subcontractor default insurance (SDI) policies for any subcontractors that failed to deliver contractual obligations. 2%

Please classify the type of construction work that you perform. (Check all that apply)

- General contractor 34%
- Subcontractor 34%
- Construction management 15%
- Design/build 17%
- Federal government contractor 4%
- Service provider 17%
- Construction and materials supplier 6%
- Other 17%

Please indicate your company’s annual revenue.

- Under $1 million 9%
- $1 million to $4.9 million 18%
- $5 million to $9.9 million 11%
- $10 million to $19.9 million 12%
- More than $20 million 50%

Please indicate the number of employees at your company.

- Less than 10 18%
- 11 to 50 27%
- 51 to 100 15%
- More than 100 40%

Do you use union or non-union labor?

- Union 16%
- Nonunion 64%
- Both 20%

What percentage of your work requires bonding?

- Less than 20% 47%
- 21 to 40% 19%
- 41 to 60% 12%
- 61 to 80% 11%
- Greater than 80% 15%

What is the current outlook on your bonding capacity?

- It will be significantly more difficult to obtain bonding 6%
- It will be somewhat more difficult to obtain bonding 11%
- It will be neither more nor less difficult to obtain bonding 65%
- It will be somewhat less difficult to obtain bonding 7%
- It will be significantly less difficult to obtain bonding 11%

In the next 3 years in your region, do you see your business having:

- More opportunities outside my region 46%
- Less opportunities outside by region 14%
- Same amount of opportunities 40%

In the next 3 years outside of your region, do you see your business having:

- More opportunities outside my region 46%
- Less opportunities outside by region 14%
- Same amount of opportunities 40%

Which of the following actions are among your company’s top priorities? (Select all that apply)

- Cutting operational costs 40%
- Getting into new construction trades 11%
- Organizational planning 45%
- Managing your material vendors 18%
- Restructuring company to position for growth. 31%
- Seeking M&A opportunities 15%
- Seeking new markets 38%
- Strategic planning 56%
- Finding solutions for skilled labor 45%
- Other 6%

Over the past 12 months has the average size job that you bid on:

- Increased 48%
- Decreased 8%
- Stayed the same 44%

What is the average number of bidders that you are competing against?

- 1-4 bidders 56%
- 5-9 bidders 39%
- 10-15 bidders 4%
- More or fewer bidders 1%

What do you see as the biggest threat to your business over the next 12 months?

- Banking/heightened interest 6%
- Increased difficulty in securing bonding 2%
- Labor costs 8%
- Securing skilled labor 15%
- Lack of work 19%
- Material costs 5%
- Unfunded pension liability 1%
- The 2020 election 12%
- Other 15%

What are you doing to address the lack of skilled labor? (Check all that apply)

- Increased compensation 51%
- Conducting stay interviews 11%
- Performance evaluations 29%
- Partnering with trade schools/high schools. 32%
- Employee recognition and appreciation programs 46%
- Other 59%

As of January 1, 2019, private construction companies are required to be compliant with the Financial Accounting Standards Board’s new revenue recognition rules. Do you feel your company is ready to be compliant with the new rules?

- Yes 57%
- No 5%
- I don’t know 38%

Have you explored ESOPs?

- Yes, we are looking into it 9%
- Yes, we are structured as an ESOP 9%
- No, but we do not plan to explore any further 21%
- No 69%
- What is an ESOP? 13%

Over the past year, your company’s overhead expenditures have:

- Increased 48%
- Decreased 11%
- Stayed about the same 41%

Minority business enterprise (MBE), Women Business Enterprise (WBE), contract requirements 6th
- Environmental regulation 7th
- Union issues 8th
- Sustainability/energy efficient initiatives 9th
20| In the future (next 12 months), your company’s budget for overhead expenditures will:
Increase 36%
Decrease 15%
Stay about the same 49%

21| Do you feel that over the past year the ability to obtain financing has:
Increased 18%
Decreased 10%
Stayed about the same 72%

22| Now that new tax laws are in effect, did you realize tax savings over the past year?
Yes (positive) 37%
No (negative) 14%
No impact 23%
I don’t know 26%

23| In your opinion, what is the probability of a recession occurring in the next year?
Average percentage 49%

24| What actions are you taking to prepare for a potential recession? (Select all that apply)
Planning 59%
Managing cash flow 68%
Managing capital 51%
Attending to clients 51%
Attending to staff 30%
Focusing on sales and marketing 51%
Utilizing a dashboard to track early warning indicators 17%
We are not preparing 18%
Other 9%
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