ACCOUNTING TODAY. The Latest Trends in New York’s Construction Industry (courtesy of Crain's NY)

Carl Oliveri at Grassi & Co. (July 11, 2019)

The construction industry in New York is never standing still; it’s dynamic and constantly in flux.Like many companies, construction firms continue to adapt to changes in technology, the workforce and the regulatory environment. To understand the biggest issues facing contractors today and the best ways to address those challenges, Crain’s Content Studio interviewed Carl Oliveri, partner, construction practice leader and New York City office market leader at Grassi & Co., a tax, accounting and business advisory firm.

Crain’s: **What are the top three business issues you see contractors facing today in New York?**

Oliveri: Based on conversations we’ve had with industry executives and thought leaders, succession planning continues to be a major issue. The industry is essentially facing a future leadership void as the baby boomer, C-suite individuals who run many companies are now retiring and companies struggle to find the next generation of leaders. Skilled labor is another concern both in-office and on job sites. Between the high level of construction spending within Manhattan and the pace of retirements, there are simply not enough skills coming into the industry. Our recent industry survey indicated that foremen, project managers and estimators are the most difficult positions for contractors to fill.

Compliance is another big issue because it touches operations, execution and reporting. Compliance issues range from meeting workforce diversity requirements and dealing with safety reform, to the those associated with income-tax reform and the changing rules around financial statement revenue recognition.

he third issue is cybersecurity. There are basically three types of companies: those that have done something about being hacked, those that have not done anything about being hacked and those that don’t realize they’ve been hacked. Hackers are attracted to the construction industry because they believe contractors don’t invest in security technology. The mindset in the middle-market construction arena is, “I am too small for hackers to waste their time on.” That is precisely why the hackers target them. However, we know that if you make it difficult for the bad guys to get in, they tend to move on to the next company.

Crain’s: Construction is highly regulated in New York. What concerns are you hearing from clients, and how are you advising them?

Oliveri: Safety reform is the biggest issue our clients face. Local Law 196 has mandated that if you are on a project at a job site, you must have a specified amount of OSHA training, but nobody knows how this will actually be regulated. What is going to be the penalty for noncompliance? We are advising our clients to learn as much as possible and consult with a safety specialist. Talk to other service providers and see what type of safety advice they have to offer. For example, it’s not unusual to hear that more insurance brokers are bringing a safety specialist in-house. To sum it up, be prepared.

What we found from our recent industry survey is that 40% of firms are complying by hiring in-house safety personnel, and 36% said they were engaging outside firms.

Crain’s: Are you seeing any shifts in the mix of union and nonunion-open shop contractors?

Oliveri: We found that 46% of industry professionals said nonunion-open shop projects had greatly increased in the residential sector. Our respondents also indicated that the nonunion-open shop share is increasing in the nonresidential sector, but at a slower pace. Almost nine in 10 respondents told us that they expect these trends to continue.

Crain’s: How have the recent tax reform changes affected the construction industry?

Oliveri: Anytime there is reform, it creates a tenuous situation because there’s always uncertainty surrounding the regulations. But, when you can reduce tax rates, that’s generally a good thing for any industry—especially for the construction industry, which relies on cash. The change in the small-business threshold from three-year average annual revenue of $10 million to $25 million was huge, too, because it enabled qualifying companies to go back to a cash basis for income-tax reporting purposes. It can take construction companies a long time to get paid, so not having to pay tax on uncollected revenues creates an opportunity to retain corporate capital and cash for reinvestment and growth.

Crain’s: You mentioned cybersecurity is a concern. Are there unique cybersecurity risks in construction? How are you advising your clients?

Oliveri: Construction sites are especially risky. Many people have access to confidential information and the industry uses network-enabled equipment in a relatively unsecure environment. Work-site cybersecurity caused concern among 76% of our survey respondents, and it’s clearly a problem with the potential to have a material impact on any business. We advise our clients to think beyond their four walls to ensure they have not only a physically safe job site, but also a cyber-safe job site.

In addition, according to our survey, only about half of contractors have cyber insurance. At one time, this coverage was reasonably priced, but with the rise of cybersecurity incidents, costs have risen as well. We advise our clients to work with their insurance carrier. We’ve also found that having a cybersecurity program in place can help them get a more competitive bid by reducing their value at risk.

Crain’s: Many of today’s successful contracting businesses were built by entrepreneurs. How are you helping these family-owned companies prepare for the future?

Oliveri: No two situations are ever alike, and no two succession plans are alike—so our advice varies. The cleanest situation is when another family member in the company has the skills and desire to take over the firm. When that’s not the case, we typically explore transitioning the business to key employees, a flat-out sale to a third party or winding down operations. Within each of these scenarios, there are options to consider. For example, if the plan is to transition the company to key employees, a contractor can compare strategies of issuing new stock or the sale of existing stock against using an employee stock option plan. We help our clients negotiate and structure these transactions, but the best advice is to be flexible. As industry conditions change, so should your succession plan.

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