Employee Stock Ownership Plan

FREQUENTLY ASKED QUESTIONS

Q What is an Employee Stock Ownership Plan (ESOP)?

A: An Employee Stock Ownership Plan (ESOP) is a federally regulated ownership structure in which employees earn an ownership stake in the company they work for. Ownership is held in a trust on behalf of employees and is earned over time without requiring workers to invest their own money. ESOPs are overseen by the IRS and subject to regular compliance and financial audits.

Q How are ESOPs different from traditional construction company ownership models?

A: Traditional ownership models concentrate equity and profits among a small group of owners or investors. ESOPs distribute ownership broadly across the workforce, allowing employees to share directly in the company's long-term success. As the business grows, so does employees' financial security.

Q Are ESOPs in the construction industry unionized?

A: The vast majority of ESOPs in the construction industry operate under union agreements.

Q How are ESOPs relevant to California public works policy?

A: California invests billions of dollars each year in public infrastructure. Under traditional ownership models, the financial upside of these projects is often concentrated at the top. ESOPs ensure that public investment helps build wealth for the workers who are actually delivering these projects, without increasing financial risk for employees.

Q Do ESOPs actually improve economic outcomes for workers?

A: Yes. Research consistently shows that employee-owners have higher household wealth, higher wages, longer job tenure, and greater retirement security than comparable workers at non-employee-owned companies. In fact, employee-owners have 92% higher median household wealth than non-employee-owners. These benefits extend across income levels, education levels, and demographic groups.

Q How do ESOPs perform during economic downturns?

A: ESOP companies have proven to be more resilient than traditionally owned firms. For instance, during the height of the COVID-19 pandemic, ESOP companies retained jobs at roughly four times the rate of non-ESOP companies and were far less likely to cut wages or benefits. These firms were also more likely to maintain benefits and invest in worker safety.

Q How do ESOPs advance equity in the construction industry?

A: California's construction workforce is predominantly Hispanic and Latino. ESOPs align ownership with this reality by distributing equity across the workforce rather than limiting ownership to one or two individuals. In ESOP construction companies, a significant share of employee-owners are workers of color, meaning wealth-building opportunities reach the same communities performing the work.

Q How has the Disadvantage Business Enterprise (DBE) program recently changed, and why does that matter for California public works?

A: In October 2025, the U.S. Department of Transportation implemented an Interim Final Rule that significantly altered the DBE program nationwide. Under this new rule, race- and gender-based presumptions of social and economic disadvantage have been eliminated. All firms seeking DBE or ACDBE certification must now demonstrate disadvantage through individualized evidence, including personal narratives and detailed financial documentation effectively eliminating the program.

Q How would an ESOP bid preference differ from existing DBE-style programs?

A: ESOP-focused policies are based on a company's ownership structure rather than the characteristics of a single owner. They do not rely on race- or gender-based presumptions or federal certification processes. As a result, ESOP approaches can operate predictably while ensuring that the economic benefits of public contracts are shared broadly across the already diverse construction workforce.

Q How does an ESOP bid preference reduce risk compared to traditional ownership incentives?

A: Unlike traditional ownership models, ESOPs allow workers to build wealth without personally assuming the financial risks associated with construction ownership, such as bonding, liability exposure, or capital investment. Risk remains at the corporate level, while benefits are shared across the workforce.

Q Why should California consider an ESOP bid preference given the current suspension and restructuring of the DBE program?

A: The October 2025 Interim Final Rule has suspended DBE goal-setting and participation counting until all certified firms are reevaluated under the new federal standards. This creates a gap in California's ability to advance equity objectives in public works contracting at a time when infrastructure investment remains significant.

ESOPs provide a practical path forward in this environment. Because they do not depend on federal DBE certification or race-based presumptions, ESOP bid preferences can be implemented without waiting for reevaluations to conclude. At the same time, ESOPs directly benefit the predominantly minority construction workforce by extending ownership and wealth-building opportunities to employees across the company.