



Testimony of Michael Maglaras, Superintendent of Connecticut Foundation Solutions Indemnity Company, Inc. (“CFSIC”) in Support of HB 6646 (An Act Concerning Crumbling Concrete Foundations) Provided to the Planning and Development Committee of the Connecticut Legislature (March 22, 2021)

Good morning. My name is Mike Maglaras. I’m the Superintendent of CFSIC. I’m pleased and honored to offer this testimony before you in support of HB 6646 (An Act Concerning Crumbling Concrete Foundations) as you consider important changes to statute governing CFSIC that would enable us to continue our mission of service to those Connecticut citizens and taxpayers who are the victims of the crumbling foundations natural disaster.

When my firm was selected in 2018 to take on the task of forming CFSIC and launching it, we brought to the table more than 33 years of experience in forming and managing captive insurance companies. I don’t think the question was our experience, and I don’t think the question was how we could take that experience and use it to serve the victims of this crisis.

The question was simply whether we would succeed: whether the funding that had been promised to us would be released to us, and whether we would be able to enjoy broad support from citizens, legislators, and concrete activists, some of whom were skeptical about whether we could pull it off and in a way that rapidly put shovels in the ground, restored foundations, and restored families to their homes. The challenges my team and I encountered at the beginning of this project were daunting. They were also, at times, discouraging.

Our team has stuck to the job, and we have performed. We have succeeded in our task in ways that are quantifiable and measurable, and where our successes have been verified through the means of independent audits conducted by outside parties.

I’m pleased to report that the early skepticism about and criticism of our operations and staff has greatly diminished as our success has become more evident. I’m also pleased to report that under Governor Lamont’s administration we now appear to enjoy the confidence of those departments and senior officials who guide our efforts and are responsible for the disbursement of our funds.

What have we done to deserve this confidence?

- We opened our doors on January 10, 2019 with a fully automated electronic application process. That process has succeeded in capturing data and in helping claimants identify the existence of their crumbling foundations and how we could help them.
- Although we opened our doors on January 10, 2019, we broke ground on the first foundation remediation on March 8, 2019. In 24 months, 291 families are now back in safe and secure homes with their foundations replaced. We are on target to have more than 500 families back in safe homes by this time next year.
- To date, we have spent \$50,866,036 on completed foundation remediations and reimbursements to claimants who have expended their own funds to replace their foundations.



We currently carry claim reserves on known claimants with crumbling foundations totaling \$73,117,378. These are reserves for individual claims where we have assessed the state of the foundation and have visual evidence of how the disaster has affected these families. They are next in line to be helped.

- We have been careful stewards of state resources. We are permitted to expend a maximum of 10% of our revenues per calendar year on the administration and management of the program. Since the inception of the program, administrative calendar-year expenses have averaged 3.9% of revenues.
- To date, we have received a combined total of \$90,601,209 in funds from the CT Bond Commission and the Healthy Homes surcharge. This money has been rapidly deployed to remediate foundations, give families the hope they deserve to have about the future, and begin to return homes in 47 affected communities to the property tax rolls at their appropriate property valuations.
- We have gone through two fiscal year cycles, which means two audits of our financials and operations conducted by an independent auditor unaligned with the management of CFSIC. These audits have been conducted for the purposes of statutory compliance as well as single state audit compliance. The auditors have provided two clean audits for CFSIC. These audits are on our website for public scrutiny. The auditors do not report to the Superintendent (they are the only service providers who do not); the auditors report directly to CFSIC's independent voluntary board of directors.
- To date we have entered 1,729 applications into CFSIC's system. Each one of these claims averages between 150 and 200 pages of applicant information. This means that CFSIC is now the single greatest repository of information on this crisis. No one has more data than we do on the nature of the crisis, the cost of remediation, and the future of this natural disaster. We have distilled that information and placed key sections of it on our website for public scrutiny (being careful not to include confidential claimant information that could jeopardize the privacy of a claimant). CFSIC has been transparent and open about its operations from inception.
- We have become the focal point for the dissemination of information on the science of concrete failure. We have educated and tested, and then re-tested, more than 40 licensed home inspectors and put them in the field to help claimants identify the existence of their crumbling foundations, and thus help them to get into the application stream.
- CFSIC has now and has had from inception a cap of \$175,000 for the allowable costs of remediation we will pay for. When we launched this program, we were told pretty clearly by concrete activists and others that, with that cap, no remediation would be done. As of this morning, our average remediated foundation costs CFSIC \$154,236. The cap not only works, but we have managed to force contractors to sharpen their pencils and bring down the cost of remediation, thus enabling more families to be served.



We believe these and other remarkable successes should give this committee and other committees in cognizance, as well as the state officials who guide our efforts, the confidence they need to support our efforts and to continue our lifespan beyond the current sunset date of June 30, 2022.

If the current sunset date is not eliminated, I will begin the process of winding CFSIC down on September 1, 2021, in order to be fully wound down by June 30, 2022 and to prepare for a transition of CFSIC's operations and management to someplace within state government. We respectfully urge you to take the steps necessary to remove our sunset date entirely. We have the expertise to fight this battle and to win this war, and we ask you to provide us with the tools we need to do this.

Secondly, we believe this crisis to realistically involve as many as 6,000 families in the Northeast Corner. The funds we have available to us now and that we project we will have are not enough to do the job.

We request that the Healthy Homes surcharge be extended to 2041 at a minimum, and that, further, under the guidance of the Treasurer's Office and CHFA, we be provided funding in a lump sum, secured by annual Healthy Homes revenues, which would enable us to rapidly deploy larger financial resources to address this crisis as rapidly as we can.

CFSIC is a private corporation. It is not a branch of state government. I think the bifurcated nature of this process is what has made this program a success. Entrepreneurs and skilled captive specialists from the private business world have created an insurance company, which is in turn governed by an independent voluntary board of directors, and where state funds are utilized for the benefit of citizens in distress. I think it is the ideal public/private partnership example.

In my world, which is the captive insurance company world, CFSIC has become famous throughout my industry as the supreme example of such a public/private partnership. Every penny we spend is accounted for. Every underwriting rule we put forth is for the benefit of the widest possible constituency. The Internal Revenue Service has declared us to be tax-exempt. It did so after intense scrutiny of our operations.

In summary, CFSIC has been a quiet success dealing with one family at a time...each family with nowhere to turn except CFSIC.

I respectfully request that CFSIC's sunset date of June 30, 2022 be eliminated. I also respectfully request that the annual Healthy Homes assessment of \$12 per homeowner's policy, now scheduled to go away on June 30, 2030, be continued until a minimum of 2041. What I'm asking the citizens of Connecticut to do...each one of us who buys a homeowner's policy...is to bear a burden of 4 cents a day to help us put the victims of this crisis back on their feet.

In the course of its work, CFSIC has created scores of new jobs in the construction industry. New contractors have entered the program. We're talking about greatly increased payroll taxes as well as sales tax generated from the increased purchase and lease of construction equipment and materiel.



On March 15, we put shovels in the ground for our first condominium remediation. 34 families with condos, where each condo sits on top of a Severity Class 3 foundation...the highest severity code we register...will soon be back in a safe home.

Each week, I spend the better part of a day touring existing construction sites. I speak with families. I speak with contractors. I speak with workers on the job. And I close by reminding you all that CFSIC has succeeded. Every time we restore a family to its home, we rebuild our tax base, we rebuild our communities, we rebuild our society.

Thank you for giving me your time and attention, and thank you for your support of CFSIC.

- Michael Maglaras, Superintendent, CFSIC