



Memorandum

To: The Board of Directors of Connecticut Foundation Solutions Indemnity Company, Inc. ("CFSIC")

From: Michael Maglaras, Superintendent

Date: September 29, 2021

Re: **Annual Report**

I am pleased to provide you, in my firm's capacity as Superintendent of CFSIC, with CFSIC's third Annual Report summarizing our impact on the crumbling foundations natural disaster.

Date Range of Data

Most of the data in this report is valid as of August 31, 2021, with the addition of data effective on September 22, 2021. We will by the third week in October supplement this report with infographics as we did last year.

Revenue to Date

To date, from the inception of the program, CFSIC has taken in or has booked revenue of \$122,575,961. (I have employed rounding.) This is derived from the following sources:

- \$100,000,000 of allotment approved by the Connecticut Bond Commission
- \$21,687,339 in Healthy Homes Fund* allotment
- \$874,797 in interest income
- \$13,825 in charitable donations

* This total includes booked but not received revenue of \$505,512, which we expect to receive from the Connecticut Department of Housing.

Total Anticipated Additional Funding

In the summer of this year, CFSIC's prospects as a business continuing to serve the victims of this crisis exponentially improved.

Thanks to the wisdom of our elected officials, including the great work done by the Governor and his Administration, CFSIC was pledged another \$100,000,000



to be paid to us through the Connecticut Bond Commission in annual installments of \$25,000,000 beginning in July of 2022.

Additionally, the most important thing of all occurred: CFSIC's statutory sunset date of June 30, 2022 was removed. Simply put, at this point, CFSIC has a limitless lifespan.

As a result of the new bond funding allotment of \$100,000,000 and with an estimated eight more Healthy Homes installments of roughly \$10.6 million each year, CFSIC has budgeted an anticipated \$184,800,000 in future revenue (not inclusive of interest income) projected to be received between the close of the fiscal year ending June 30, 2022 and the fiscal year ending June 30, 2030.

To put this in perspective:

- This means that we will be able to assist as many as 1,100 more homeowners in that time frame.
- We'll be able to start moving Severity Class 3 Pending claimants into line for Participation Agreements in the summer of 2022. (Before the new bond allotment noted above, we had not expected to be able to assist any of these victims until a minimum of 2026.)

Current Financial Status

CFSIC is on a July 1 through June 30 fiscal year basis. As of CFSIC's 8/31/21 unaudited financials, CFSIC carried negative equity of (\$14,580,399). This means that CFSIC is under water by that amount, and therefore is entirely dependent upon future revenues to offset existing known claim liabilities that represent verifiable individual homeowner foundation impairment. As a result, CFSIC's auditors have indicated that, from an accounting perspective, CFSIC is not a going concern.

However, from the standpoint of available cash within CFSIC's accounts, at any given time, versus outstanding written commitments to construction expense, general expense, and foundation replacement reimbursements, CFSIC continues to maintain, as of the date of this writing, a positive cash balance and has done so since inception.

Under my watch, CFSIC will never be cash-negative.

CFSIC has accomplished what it has by rationing its available cash through the use of periodic restrictions imposed on the countersigning of homeowner Participation Agreements by the Superintendent. CFSIC has provided



\$75,847,712 million in claim payments for construction and reimbursement to its claimants through the action of the Superintendent's countersigning of Participation Agreements.

CFSIC has gone into suspension periodically in order to ration its cash or to enable staff to manage the flow of application information correctly. Most recently, CFSIC went into application suspension on June 30, 2020 and came out of suspension on December 7, 2020, but then only for the taking of Pending applications.

CFSIC is, as of this writing, actively engaged in the process of releasing and countersigning Participation Agreements for foundation remediation and will most probably continue to be until mid-May of 2022.

Booked unfunded claim liabilities carried on CFSIC's balance sheet greatly exceed CFSIC's assets at any fixed point in time. Booked liabilities consist of insurance company claim reserves, which are potential commitments to individual homeowners for remediation or reimbursement when cash becomes available. Once cash is available based on the way CFSIC's funds are received, Participation Agreements can be signed with those homeowners. These reserves are substantiated by individual applications from homeowners accompanied by verifiable points of written and photographic evidence.

We maintain reserved claim liabilities on CFSIC's balance sheet for all Active and Inactive Severity Class 3 and 2 claimants. (We also maintain modest initial claim reserves on Severity Class 1 foundations, but only when we have an accompanying positive core test on file; without the visible manifestations of impairment, CFSIC does not replace a foundation.) We do all of this so that when funding is received in any given fiscal year, we can allocate funding to claimants with existing reserves. At every point in CFSIC's life as an insurance company, the total of our booked reserve liabilities has greatly exceeded our assets on hand at the same point in time. As indicated earlier, however, the total of CFSIC's actual signed Participation Agreements (commitments to fund remediation) plus its operating expense and capital requirements have never exceeded the amount of cash on hand, and that is important for the public to be aware of.

At all times, CFSIC must maintain a cash balance in excess of cash commitments to construction and reimbursement, in order to provide for unencumbered statutory capital and surplus of a minimum of \$225,000 and to provide for the payment of applicable operating expenses, in order to secure a continual flow of services so that if, at any point, further funding is not forthcoming, service providers can be terminated quickly and effectively, CFSIC's license as an insurer surrendered, and its operations terminated. Should CFSIC's



operations be terminated, CFSIC would go into receivership, coming under the direct control of the Connecticut Insurance Department.

It is important to point out that with the new pledges of funding CFSIC has received, it is highly unlikely that CFSIC will, in the foreseeable future, need to terminate its operations. I have committed to Insurance Commissioner Mais that the total amount of funded claim liability outstanding, plus operational expenses and statutory capital, will at no point exceed the amount of cash in CFSIC's bank accounts.

Operations

CFSIC is regulated by the Connecticut Insurance Department, to which it is directly answerable for adherence to its original business plan and for its conduct as a licensed insurer.

CFSIC is managed on a day-to-day basis by outsourced service providers who carry out their duties directly under the supervision and management of CFSIC's Superintendent, with the exception of CFSIC's auditors, which report directly to CFSIC's board.

Expenses

CFSIC's cost of operations includes the cost of claim adjustment, administrative services, legal services, actuarial services, accounting services, public outreach activities, audit fees, and liability insurance expense. CFSIC has no employees, as is traditional under the structure of a captive insurance company.

Its directors are volunteers who have agreed to contribute time to this effort as a public service.

CFSIC tracks its expenses on a calendar year basis, based on the advice of counsel with respect to the interpretation of the limitation contained in the original enabling legislation that CFSIC cannot expend more than 10% of all revenues received in any calendar year on administrative and operational expenses.

Since inception of operations, as of August 31, 2021, CFSIC has operated on a cash and accrual basis at an average of 2.9% of revenues on a calendar year basis.



Claimant Activity; Total Outstanding Claim Liability; Total Claim Payments to Date

What follows provides information as to the extent of application activity, outstanding claim liability, and paid claim liability to date, valued as of 8/31/21:

Town**	Total Active/Inactive/Pending Claimants Identified	Total Outstanding Claim Liability	Total Claim Payments to Date
Amston	3	\$0	\$175,000
Andover	8	127,447	791,317
Ashford	36	1,698,880	2,044,154
Berlin	1	0	0
Bloomfield	4	39,371	135,613
Bolton	24	897,309	755,982
Branford	1	0	0
Bristol	2	0	0
Broad Brook	9	20,000	357,745
Burlington	1	0	0
Columbia	9	99,260	381,192
Coventry	93	1,669,366	4,331,991
Darien	1	0	0
Deep River	1	0	0
East Hartford	4	0	234,383
East Windsor	72	5,040,000	0
Eastford	1	0	40,956
Ellington	117	1,296,307	7,228,625
Enfield	45	434,099	1,814,298
Glastonbury	4	174,930	49,163
Granby	1	0	175,000
Hebron	3	157,500	304,885
Manchester	188	10,672,395	4,814,496
Mansfield	10	104,464	561,702
Marlborough	2	0	0
Middletown	1	0	0
Milford	2	0	0
Monroe	1	0	0
Naugatuck	2	0	0



Town**	Total Active/Inactive/Pending Claimants Identified	Total Outstanding Claim Liability	Total Claim Payments to Date
New Britain	2	\$0	\$0
New Haven	4	0	0
Norwalk	1	0	0
Somers	51	1,069,534	1,380,678
South Windsor	179	4,929,654	9,631,387
Stafford/Stafford Springs	176	7,032,050	7,264,819
Storrs	13	192,602	891,099
Suffield	6	175,000	342,000
Tolland	242	7,577,797	13,368,886
Union	11	174,712	976,619
Vernon	378	11,921,990	8,793,089
Waterbury	2	0	0
West Hartford	1	0	0
West Haven	1	0	0
West Suffield	2	140,000	17,500
Willimantic	1	0	0
Willington	127	3,886,184	6,749,253
Windsor	1	0	0
Woodstock	2	0	347,300
TOTAL	1847	\$59,530,850	\$73,959,130***

** Claimants are required to complete the application question identifying the "town" they live in. From time to time, claimants indicate a town location that may essentially be an unincorporated neighborhood/division of an existing town.

*** This total reflects available data as of 8/31/21.

Commentary:

1. The data in the CFSIC program changes daily, in fact in some cases hourly. This data is valid as of close of business on August 31, 2021.
2. Reserves are not held for Pending claimants; statutory reserves are posted for Active and Inactive claimants holding valid severity class codes.
3. Both booked and paid claim liabilities are reflective of claim activity for Type 1 and Type 2 claimants.



The Participation Agreement Process

CFSIC holds Connecticut captive insurance license #29. Its charter and its operations are reflective of those of a licensed insurance company; however, CFSIC does not collect any premium and does not issue an insurance contract in the form of an insurance policy. As a result, CFSIC's operations resemble those of a captive insurer in some respects, and not at all in others.

What eventually binds CFSIC and an individual homeowner contractually is a Participation Agreement, which outlines both the homeowner's and CFSIC's responsibilities, contractor or reimbursement payment schedules, and contractual commitments. Participation Agreements have been signed on a regular basis, permitting foundation remediation to be scheduled, and foundation reimbursements to be made, for approximately the past twenty-nine months, except on those occasions during which PA suspensions occurred.

It is important to note that the actual schedule of remediation is up to the homeowner and the contractor in question in each case. When the Superintendent countersigns a Participation Agreement, this can literally mean that in some cases the remediation can commence in a few days, or in a few years, depending upon contractor and homeowner schedules. Once the Superintendent countersigns a Participation Agreement, CFSIC has in effect made a promise to make payment.

As of September 22, 2021, the Superintendent had countersigned 706 Participation Agreements, and 379 families had been put back in their homes with new foundations in place.

Application Process

CFSIC's Underwriting and Claims Management Guidelines permit two types of claim activity.

A "Type 1" claim is a claim requesting assistance with the replacement of a foundation verifiably determined to be impaired through visual evidence of the manifestation of the presence of reactive pyrrhotite in the original aggregate used in the concrete composing that foundation, and where the homeowner has made, through the completion of an application and the provision of points of evidence, a valid claim for payment of enumerated allowable costs.

There are three classes of severity class code employed to reflect the degree of foundation impairment. These class codes provide a basic prioritization for the use of funds, beginning with Severity Class 3, which is a class code reflective of a severely impacted foundation.



A “Type 2” claim is a claim requesting assistance with reimbursement by CFSIC to a homeowner for the replacement of a foundation verifiably determined to have been impaired through evidence of the presence of reactive pyrrhotite in the original aggregate used in the concrete composing that foundation, but where that homeowner used personal resources to originally repair/replace such an impaired foundation prior to making application to CFSIC; and where the homeowner has subsequently made, through the completion of an application and the provision of points of evidence, a valid claim for reimbursement of enumerated allowable costs.

CFSIC’s Board of Directors has authorized a total of 100 such Type 2 paid claim reimbursements to be made during CFSIC’s statutory lifetime. As of September 22, 2021, CFSIC had engaged with 94 Type 2 claimants, where CFSIC had either completed or will shortly complete the reimbursement process for those families. It is important to point out that as of this writing we currently have 16 Pending Type 2 claimants waiting for assistance.

The application process gathers information for purposes of underwriting, claim prioritization, and eventual potential payment. On average, more than 150 pages of supporting documentation are collected with each application. The average time to process an application varies significantly, based on the ability and willingness of individual claimants to provide CFSIC with quantifiable and verifiable data, either at the precise point of application to the program or at some point thereafter.

CFSIC claimants are categorized as “Active,” “Inactive” or “Pending” with respect to both Type 1 and Type 2 claims. On January 13, 2020, the Superintendent announced the launch of the “Pending” class of claimant in order to permit claimants to register the existence of a verifiable impaired foundation...but with the clear understanding, repeated consistently on CFSIC’s website, that existing budgeted financial resources might be insufficient to respond to any Pending claimant at any point in the future.

On August 16, 2021, CFSIC put a plan in place that segregated the existing group of Pending claimants from those who applied after that date. We did this in order to allocate funding fairly and equitably to the first group of Pending claimants. We’re pleased to report that we’ll be getting to a good number of those Pending claimants (beginning with those carrying a Severity Class code of 3) beginning on January 5, 2022.

CFSIC is doing its part to assist in a revitalization of the Northeast Corner real estate market. We have instituted a claim transfer process enabling Type 1 claimants who are registered with us as Active, Inactive, or Pending claimants, and where no remediation work has been done or started, to transfer their claim



to the buyer of their home...where that buyer can assume the exact position of the original claimant in CFSIC's register of claimants with no penalty. We are very pleased to report that there is robust activity in this transfer process and that we are doing our part in a logical and fair way to help victims sell their homes if they are our claimants.

CFSIC's Effect on the Towns with Recorded Claimants

CFSIC's operations are having a direct and positive effect on the existing property tax abatement crisis in CT's Northeast Corner.

The towns of Coventry, East Windsor, Ellington, Manchester, Somers, South Windsor, Stafford/Stafford Springs, Tolland, Vernon, and Willington represent 90% of the total of our existing book of incurred claim liability.

CFSIC has been, for the past twenty-nine months, improving the economies of the ten hardest hit communities, literally one home at a time, by identifying affected homes and beginning the process of restoring those homes, through foundation remediation, to original assessed value. By twelve months from the date of this writing we project that CFSIC will have restored as much as 75% of the total of the current tax abatements for residential dwellings in these top ten hardest hit Connecticut communities.

The Extent of the Crisis

In the past twenty-nine months, CFSIC has collected a significant amount of data through the application and remediation processes. None of the data collected to date suggests that the crumbling foundations crisis currently or potentially affects as many as 35,000 homes in the 48 communities where CFSIC has applicants. Similarly, no data in CFSIC's possession provides evidence of a crisis on the magnitude of \$1 billion to \$2 billion, as has been widely reported.

However, the crumbling foundations crisis is a devastating economic and human crisis.

We believe that this crisis involves most probably 3,000 to 5,000 homes in total, which will require remediation between the date of this writing and the end of 2030 in two distinct waves of remediation activity, as described below. To be clear, the negative economic impact on the communities and the citizens of the Northeast Corner of Connecticut is quantifiable, verifiable, and cannot be disputed.

It is important to emphasize what we firmly believe to be the manageable size of this crisis. We also believe that the key to raising additional funding from federal



sources will in fact be the understanding of just how manageable this crisis is, through the adoption of realistic and verifiable assessments of the impact of the crisis.

CFSIC's database is the only credible database in existence on the extent of this crisis.

As a result of what CFSIC's data now suggests, we maintain that this crisis is now and will continue to be a crisis that is manageable in what we project is two potential "waves" of impairment manifestation: the first one that began on January 10, 2019 and will run through approximately June 30, 2024...and a second one, which will begin then and end at some point after 2030, resulting in the need for as many as 4,500 to 5,000 potential foundation replacements from inception.

CFSIC's Challenges

CFSIC now has many fewer challenges than I have noted in prior reports as a result of the greatly increased funding commitment made by citizens throughout the state of Connecticut to the victims of this crisis.

Outreach

CFSIC has renewed its efforts in the area of public outreach in the past twelve months. Among many outreach initiatives, we have:

- instituted a Facebook page
- added a Superintendent's video update
- retained Kevin Miller, a well-respected concrete specialist, to write a series of eight white papers on the causes of the crumbling foundations crisis
- redoubled our press release efforts to keep the public informed of our activities

Offering Thanks

I would like to close by acknowledging that what we have achieved in the past twenty-nine months is as a result of a team effort.

About a dozen people work behind the scenes on the CFSIC project on a daily basis in one capacity or another. These people support the office of Superintendent by quietly doing a job each day that very few people would take on. These people are my teammates, and they recognize the terrible toll that this



crisis has taken on people's lives. I'm proud of my teammates. They have acted patiently with victims whose lives have been turned upside down by this crisis.

I'm pleased to report that, over the past year, social media anger and other forms of anger directed at staff by claimants, contractors, and non-claimant concrete activists has greatly subsided. The negative comments about CFSIC's operations and the way it conducts its business have been toned down. We ascribe this to the fact that some of those people who have expressed their unhappiness with the way CFSIC conducts its business have, in fact, had their foundations replaced. That fact speaks for itself.

As Superintendent I have fielded dozens of phone calls and emails from residents of Massachusetts asking for advice and guidance about the Massachusetts crisis. These calls and emails have been from ordinary citizens, not necessarily members of any established Massachusetts organization; and even though CFSIC has no resources to help these victims or even to spend time with them, I have committed my personal time "off the clock" to answer their questions and provide them with advice. We sincerely hope that the victims of Massachusetts will one day be able to realize their dream of returning to safe and secure homes.

All in all, this past year has been one of great achievement and progress. I can take very little credit for that achievement and progress. I thank my Board of Directors for their patience and diligence, and I remind the public that the members of my board are volunteers. They get nothing and they expect nothing in return for their service. The members of my staff are among the finest people I know. They are intelligent and caring professionals. They actually care about the job they are doing, and it shows each and every day.

Respectfully submitted,

Michael Maglaras, Principal
Michael Maglaras & Company, Superintendent of CFSIC

Sources of Data:

CFSIC August 31, 2021 Incurred Loss Run

CFSIC August 31, 2021 Unaudited Financials

CFSIC September 22, 2021 Internal Construction Tracking Data Reports