

Memorandum

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

From: Michael Maglaras, Superintendent

Date: September 26, 2022

Re: **Annual Report**

I am pleased to provide you, in my firm's capacity as Superintendent of CFSIC, with CFSIC's fourth 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, 2022, with the addition of data effective on September 23, 2022. We will by the last 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 \$159,129,550. (I have employed rounding.) This is derived from the following sources:

- \$125,000,000 of allotment approved by the Connecticut Bond Commission as part of our first tranche of funding from that source
- \$33,116,289 in Healthy Homes Fund allotment*
- \$999,411 in interest income
- \$13,850 in charitable donations

* This payment is net of a return of \$500,259, which represented an overpayment made to CFSIC by the CT Department of Housing.

Total Anticipated Additional Funding

CFSIC anticipates receipt of an additional \$75,000,000 in CT bond allotment in three annual installments of \$25,000,000 each, beginning in the summer of 2023. In addition to that, we should receive approximately \$77,000,000 of Healthy Homes surcharge funds by June 30, 2030.



With this approximately \$152,000,000 in expected revenues, given current average remediation costs, we should be able to assist approximately 1,000 new claimants over that period.

Current Financial Status

CFSIC is on a July 1 through June 30 fiscal year basis. As of CFSIC's 8/31/22 unaudited financials, CFSIC carried negative equity of \$34,620,358. 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. This means that we will never undertake an obligation for which we do not have cash in the bank.

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 \$99,761,573 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.

CFSIC is now, as of this writing, actively engaged in the process of releasing and countersigning Participation Agreements for foundation remediation and will most probably continue to do so until mid-May of 2023.

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, 2022, CFSIC has operated on a cash and accrual basis at an average of 3.6% 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 8/31/22:

| Town** | Total Active/Inactive/Pending Claimants Identified | Total Outstanding Claim Liability | Total Claim Payments to Date |
|-------------|--|--------------------------------------|------------------------------------|
| Amston | 4 | \$314,425 | \$175,000 |
| Andover | 12 | 569,378 | 918,764 |
| Ashford | 45 | 1,713,887 | 2,789,105 |
| Berlin | 1 | 0 | 0 |
| Bloomfield | 4 | 0 | 174,984 |
| Bolton | 27 | 1,217,490 | 1,212,891 |
| Branford | 1 | 0 | 0 |
| Bridgeport | 1 | 0 | 0 |
| Bristol | 2 | 0 | 0 |
| Broad Brook | 10 | 20,000 | 357,745 |
| Burlington | 1 | 0 | 0 |
| Columbia | 10 | 210,575 | 414,279 |



| Town** | Total Active/Inactive/Pending Claimants Identified | Total Outstanding Claim Liability | Total Claim Payments to Date |
|------------------------------|---|--|---|
| Coventry | 101 | 2,820,441 | 5,565,034 |
| Darien | 1 | 0 | 0 |
| Deep River | 1 | 0 | 0 |
| East Hartford | 4 | 189,996 | 234,383 |
| East Windsor | 73 | 872,216 | 107,784 |
| Eastford | 1 | 0 | 40,956 |
| Ellington | 132 | 2,429,784 | 8,219,977 |
| Enfield | 50 | 665,447 | 2,100,222 |
| Glastonbury | 4 | 0 | 224,093 |
| Granby | 1 | 0 | 175,000 |
| Hebron | 3 | 0 | 287,385 |
| Lebanon | 1 | 0 | 0 |
| Manchester | 221 | 9,171,395 | 8,853,381 |
| Mansfield | 10 | 189,926 | 666,166 |
| Marlborough | 4 | 0 | 0 |
| Meriden | 1 | 0 | 0 |
| Middletown | 1 | 0 | 0 |
| Milford | 2 | 0 | 0 |
| Monroe | 1 | 0 | 0 |
| Naugatuck | 2 | 0 | 0 |
| New Britain | 2 | 0 | 0 |
| New Haven | 4 | 0 | 0 |
| Norwalk | 1 | 0 | 0 |
| Norwich | 1 | 0 | 0 |
| Somers | 56 | 1,908,307 | 1,861,513 |
| South Glastonbury | 1 | 0 | 0 |
| South Windsor | 203 | 7,969,761 | 11,632,333 |
| Stafford/Stafford Springs | 195 | 9,618,053 | 10,708,024 |
| Staffordville | 1 | 0 | 0 |
| Storrs | 14 | 209,644 | 1,063,701 |
| Suffield | 7 | 331,742 | 342,000 |
| Tolland | 278 | 9,117,928 | 17,764,702 |



| Town** | Total Active/Inactive/Pending Claimants Identified | Total Outstanding Claim Liability | Total Claim Payments to Date |
|---------------|---|--|---|
| Union | 14 | 174,712 | 976,619 |
| Vernon | 399 | 10,492,931 | 12,791,169 |
| Waterbury | 2 | 0 | 0 |
| Watertown | 1 | 0 | 0 |
| West Hartford | 1 | 0 | 0 |
| West Haven | 1 | 0 | 0 |
| West Suffield | 2 | 21,875 | 135,625 |
| Willimantic | 1 | 0 | 0 |
| Willington | 134 | 3,730,662 | 9,187,681 |
| Windsor | 1 | 0 | 0 |
| Winsted | 1 | 0 | 0 |
| Woodstock | 2 | 0 | 347,300 |
| TOTAL | 2054 | \$63,980,575 | \$99,761,573*** |

** 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 8/31/22.

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, 2022.
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 forty-one 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 23, 2022, the Superintendent had countersigned Participation Agreements for 908 claimants, and 609 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 125 such Type 2 paid claim reimbursements to be made during CFSIC's statutory lifetime. As of September 23, 2022, CFSIC had engaged with 116 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 8 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. As a result of the great work of our staff, we have moved more than 125 claimants into Active status since 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 Ashford, Coventry, Ellington, Manchester, Somers, South Windsor, Stafford/Stafford Springs, Tolland, Vernon, and Willington represent 89% of the total of our existing book of incurred claim liability.

CFSIC has been, for the past forty-one 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 90% 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 forty-one 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 2,500 to 4,000 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 2,500 to 4,000 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 and continue to maintain an active Facebook page
- added a second 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; in addition, in November we will require mandatory retraining of all CFSIC-certified home inspectors in order to redouble our efforts to provide timely visual inspections to affected homeowners
- continued 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 forty-one months is as a result of a team effort.

The ESIS ProClaim staff are the life blood of this program, and they deserve all the praise we can give them, because they are on the front lines of what needs to be done every day.

I want to thank Governor Lamont, Insurance Commissioner Mais, and DOH Commissioner Mosquera-Bruno for their staunch and trusting support of this program. They all recognize that we celebrate our victories at CFSIC one family at a time.



Respectfully submitted,

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

Sources of Data:

CFSIC August 31, 2022 Incurred Loss Run

CFSIC August 31, 2022 Unaudited Financials

CFSIC September 23, 2022 Internal Construction Tracking Data Reports