



Memorandum

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

From: Michael Maglaras, Superintendent

Date: October 20, 2024

Re: **Annual Report**

I am pleased to provide you, in my firm's capacity as Superintendent of CFSIC, with CFSIC's fifth 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 September 30, 2024, with the addition of data effective October 10, 2024. We will, on or after the 14th of November, 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 revenue of \$209,695,774. (I have employed rounding.) This is derived from the following sources:

- \$150,000,000 of allotment approved by the Connecticut Bond Commission as part of our first and second tranches of funding from that source
- \$55,233,366 in Healthy Homes Fund allotment
- \$4,448,508 in interest income
- \$13,900 in charitable donations

Total Anticipated Additional Funding

CFSIC anticipates receipt of an additional \$50,000,000 in CT bond allotment in two annual installments of \$25,000,000 each. (On August 8, 2024, the CT Bond Commission authorized our fiscal '24-'25 allotment of \$25,000,000, but as of the date of this writing CFSIC has not yet received those funds.) In addition to that, we should receive approximately \$55,000,000 of Healthy Homes surcharge funds between now and June 30, 2030.



With this approximately \$105,000,000 in expected revenues, given current average remediation costs, we should be able to assist approximately 675 new claimants over that period.

Current Financial Status

CFSIC is on a July 1 through June 30 fiscal year basis. As of CFSIC's 9/30/24 unaudited financials, CFSIC carried negative equity of \$31,807,210. 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 and reimbursement expense (signed Participation Agreements) and general expense, 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 a contractual 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 \$156,666,217 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-June of 2025, assuming the receipt of the '24-'25 bond allotment noted above.

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.) CFSIC does not permit and does not recognize a written assigned Severity Class code of "zero." Such a designation cannot be assigned to 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 who are also in the Participation Agreement line. (Claimants are not eligible to have their claims paid if they are in Active status but not yet in the Participation Agreement line.) 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 permanently 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 September 30, 2024, CFSIC has operated on a cash and accrual basis at an average of 3.9% 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 9/30/24:

Town*	Total Active/Inactive/Pending Claimants Identified	Total Outstanding Claim Liability	Total Claim Payments to Date
Amston	5	\$0	\$489,425
Andover	12	612,727	1,255,402
Ashford	55	1,892,281	4,140,823
Berlin	1	0	0
Bloomfield	4	0	174,984
Bolton	29	950,941	2,429,378
Branford	1	0	0
Bridgeport	1	0	0



Town*	Total Active/Inactive/Pending Claimants Identified	Total Outstanding Claim Liability	Total Claim Payments to Date
Bristol	3	\$0	\$0
Broad Brook	13	1,107,134	449,889
Burlington	1	0	0
Chaplin	1	0	0
Columbia	10	372,057	772,515
Coventry	117	5,001,412	8,502,176
Darien	1	106,470	0
Deep River	1	0	0
Derby	1	0	0
Durham	1	0	0
East Hartford	5	0	424,379
East Windsor	74	190,000	980,000
Eastford	2	0	40,956
Ellington	159	5,646,282	10,668,887
Enfield	60	1,861,731	2,697,094
Glastonbury	4	171,000	243,093
Granby	1	0	175,000
Hamden	2	0	0
Hampton	1	0	0
Hartford	4	0	0
Hebron	8	190,000	287,385
Lebanon	1	190,000	0
Manchester	245	10,146,336	15,614,874
Mansfield	23	493,754	932,092
Marlborough	2	189,580	0
Meriden	1	0	0
Middletown	1	0	0
Milford	2	0	0
Monroe	1	0	0
Naugatuck	3	0	0
New Britain	2	0	0
New Haven	7	0	0
Norwalk	1	0	0



Town*	Total Active/Inactive/Pending Claimants Identified	Total Outstanding Claim Liability	Total Claim Payments to Date
Norwich	1	\$0	\$0
Somers	69	3,113,739	3,930,619
South Glastonbury	1	190,000	0
South Windsor	229	9,430,281	18,783,338
Stafford/Stafford Springs	215	7,199,199	17,815,862
Staffordville	1	0	0
Stamford	1	0	0
Storrs	16	408,720	1,274,997
Suffield	10	422,749	820,992
Thomaston	1	0	0
Tolland	362	14,936,588	26,032,717
Union	18	864,600	1,118,252
Vernon	412	7,827,866	21,921,167
Waterbury	2	0	0
Watertown	1	0	0
West Hartford	1	0	0
West Haven	1	0	0
West Suffield	2	189,978	175,000
Willimantic	1	0	0
Willington	152	4,355,101	12,782,168
Windsor	2	0	0
Winsted	1	0	0
Woodstock	3	190,000	347,300
TOTAL	2,368	\$78,250,526	\$155,280,764

* 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. Any totals shown reflect available data as of 9/30/24, supplemented elsewhere in this report by 10/10/24 data.

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 September 30, 2024.
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.
4. It is important to note that CFSIC has registered claimants in towns where it is highly unlikely that those claimants will prove to have verifiable crumbling foundations once the full claim adjustment process begins. It is therefore inadvisable to assume that the crumbling foundations crisis extends well beyond the area generally recognized as the extent of the crisis.

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 five years, 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, but only subject at all times to adherence to CFSIC's Underwriting and Claims Management Guidelines.

As of October 10, 2024, the Superintendent had countersigned Participation Agreements for 1,318 claimants, and 1,001 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 October 10, 2024, CFSIC had engaged with 123 Type 2 claimants, where CFSIC had either completed or may complete the reimbursement process for those families.

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.



CFSIC is doing its part to assist in a revitalization of the Northeast Corner real estate market. We have instituted a one-time 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 92% of the total of our existing book of incurred claim liability.

CFSIC has been, for the past five years, 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 93% 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 five years, 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 64 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 3,500 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 a total of as many as 3,500 to 4,000 potential total foundation replacements from inception.

CFSIC's Challenges

What are CFSIC's challenges? Simply put: it's money. We believe that our projections as to the ultimate extent of the crumbling foundations crisis are accurate and supported by the data we have collected. The remaining \$105 million in anticipated revenue due CFSIC will simply not be sufficient to put this crisis fully to rest.

CFSIC needs another estimated \$166 million in order to finish the job. What this means is another \$100 million of Connecticut revenue bonding and a six-year extension (through 6/30/36) of the existing Healthy Homes surcharge. We at CFSIC recognize the sacrifice that CT taxpayers have made to fund this program; and while we recognize that a great deal of this sacrifice has been borne by citizens who do not now have a crumbling foundation and never will have a crumbling foundation, we believe that our data is accurate, and we can predict the end of the crisis. We think we can put this crisis to rest, and it is my personal goal to establish a remaining platform that would assure that CFSIC's license as an insurer is surrendered and that its operations cease by no later than June 30, 2036. We cannot expect the taxpayers of CT to bear this burden indefinitely and without more federal help (beyond the very important help Congressman Joe Courtney has secured from HUD). We must see light at the end of the tunnel, and we at CFSIC see that light.



Outreach

CFSIC has continued its efforts in the area of public outreach in the past twelve months. Among many outreach initiatives, the Superintendent has:

- met with more condominium associations in the affected area and other claimant groups to promote the program and educate claimants as to the extent of the crisis and the CFSIC solution; the Superintendent has also been pleased to receive more than seventy phone calls and emails from registered claimants with helpful and constructive suggestions about how to improve and streamline the claims management process as well as reach citizens who may not be fully aware of the extent of the crisis; in addition, the Superintendent has focused strong efforts at educating the real estate agent community about the extent of the crisis and how real estate agents can be better informed about ways in which they can assist prospective buyers and sellers;
- continued to maintain an active Facebook page;
- completed a video interview, which will be published on CFSIC's website in December, regarding how to identify, through the visual inspection process, an affected residential foundation;
- continued to retain and work with Kevin Miller, a well-respected concrete specialist, to assist CFSIC in the visual inspection education process; in addition, in December 2024 we will require mandatory retraining of all CFSIC-certified home inspectors, with such training conducted by Kevin, in order to redouble our efforts to provide timely visual inspections to affected homeowners;
- continued our tradition of weekly website updates informing the public of the status of the CFSIC program.

Offering Thanks

I would like to close by acknowledging that what we have achieved in five years 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, DOH Commissioner Mosquera-Bruno, Treasurer Erick Russell, and Secretary of OPM Jeffrey Beckham, for their staunch and trusting support of this program. They all recognize that we celebrate our victories at CFSIC one family at a time.



Lastly, I thank Steve Werbner and my Board of Directors for their unwavering support. CFSIC is not a branch of state government. It is an independent corporation, and policy is overseen and directed by its board. I am grateful for the wisdom and understanding of all my directors.

Respectfully submitted,

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

Sources of Data:

CFSIC September 30, 2024 Incurred Loss Run

CFSIC September 30, 2024 Unaudited Financials

CFSIC October 10, 2024 Internal Construction Tracking Data Reports