

Crumbling foundation numbers lower than anticipated, official stresses

By Eric Bedner

ebedner@journalinquirer.com

The superintendent of the captive insurance company that's fixing crumbling foundations says misinformation and some homeowners' concerns that the captive isn't doing enough are overshadowing the successes of the company.

In a Monday update on the Connecticut Foundation Solutions Indemnity Co.'s website, Michael Maglaras,

who announced last week he's soon stepping down, urged the public to "coalesce around the success."

"Advocates and agitators," Maglaras said, "continue to publish half-truths and misleading information about CFSIC," the extent of the crisis, and the company's remediation practices.

Maglaras, however, recognizes that the captive exists because of the "advocacy and

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Maglaras: Likely fewer than 5,000 affected

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agitation” that led to the enabling legislation and former Gov. Dannel P. Malloy signing it into law.

Although some members of the public and some media outlets continue to use the outdated number of potentially 35,000 affected foundations, Maglaras insists that his data is more credible than what was available in the past.

There are more likely fewer than 5,000 affected homes, costing roughly a total of \$700 million to fix, he said.

“There is absolutely no evidence of 35,000 visibly impaired foundations where homes are ready to be lifted off the ground,” Maglaras said. “I am not for a moment indicating that the crisis will not get larger than our data currently supports, but we can only deal in evidence here. The idea that this is a \$2 billion problem has no current basis in fact.”

Although he was told to expect between 5,000 and 7,000 applications on the first day of operations, the company received only 227, Maglaras said, but added that there is no data on public or commercial buildings.

“We do not want to minimize the extent of this natural disaster, but homeowners are not served by those who spout numbers for which they have no verifiable evidence,” he said.

By making clear the issue isn't likely to cost billions of dollars, the federal government could be more apt to contribute funds for remediation, Maglaras said.

“A good hunk of President (Donald) Trump's base in the state of Connecticut is within a 20-mile radius of J.J. Mottes,” Maglaras said. “If I could get in front of Mr. Trump, I would tell him how quickly he could score a victory with that ‘base’ by picking up his pen and ordering (the Federal Emergency Management Agency) to recognize this disaster as a

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Average fix is \$144,000

The average cost of fixing a foundation through CFSIC is \$144,000, and operating expenses are less than 4 percent, far less than the statutory cap of 10 percent, according to the company's website.

CFSIC data shows improvements to the tax base of 42 towns, slow improvements to the affected area's real estate market, increased payroll tax payments by contractors hiring more workers, and increased purchases of construction equipment from area vendors.

Maglaras said the largest contractor working with CFSIC has \$9 million in new contracts signed, contracts that did not exist before the captive was formed.

This, he said, leads to a line of credit from area banks used to purchase bulldozers from area companies, leading to an “economic rebirth” in northeastern Connecticut.

“It's a message of hope,” he said. “It's a message of an economy trying to get itself back on its feet.”

CFSIC, Maglaras said, also enables young people to purchase homes at a discounted price, knowing that the captive will be there to fix a deteriorating foundation.

As many expected, the crumbling foundation issue will continue in future years, Maglaras said, emphasizing the importance of extending the captive's lifetime past June 30, 2022, when it is set to expire.

“The data shows the true extent of the crisis, and just as importantly shows exactly where the crisis will continue

to grow as the second wave comes,” he said.

Much of the data comes from information provided by homeowners when filing applications, and more information can be extrapolated.

For example, if a house on a particular street was built with J.J. Mottes concrete on a certain date and neighboring houses on the same street were built around the same time, it is likely many of the houses on that street are affected but are not necessarily showing drastic deterioration.

“At CFSIC we are proud of the fact that our claim data warehouses the best information on the extent of the crumbling foundations crisis,” CFSIC President Steven Werbner said. “Our data is not speculative. It's not a guess. It's real data that shows which towns are affected and even which streets within towns are affected.”

He added that the information will be summarized in the company's annual report, which will be coming at the end of the month.

\$40 million in state bonding

The captive's balance sheet, which is under the supervision of the Insurance Department, is now going through an audit by a public auditor, Maglaras said.

As of Tuesday, CFSIC carries known claim reserves of \$118 million, \$35 million of which is slated for construction costs through approved participation agreements.

However, the company has received only \$40 million of an expected \$100 million in state bonding, and contributions from a percentage of a

\$12 annual surcharge on certain homeowner insurance policies won't be deposited into the captive's account until June.

Maglaras said he expects the third \$20 million allocation to be approved by the end of September, but has been told that the remaining \$40 million is “not a certainty,” meaning “a bill signed by a former governor containing a pledge of funding may simply be ignored.”

However, Gov. Ned Lamont's administration has shown no indication the governor, who chairs the Bond Commission and decides what's on its agenda, will not allocate the remaining funding.

“Governor Lamont is committed to placing the next \$20 million allocation for the crumbling foundation assistance program on the agenda for the next meeting of the state Bond Commission, consistent with the schedule authorized in state law,” Lamont spokesman David Bednarz said.

If there is not a minimum amount of capital on the company's books, the Insurance Department could pull the captive's license, Maglaras said.

Considering there are nearly 1,100 total claimants as of Wednesday and \$118 million in probable claims, the June 2020 sunset date is “irrelevant,” however, because the captive will stop taking new applications by mid-October or early November at the latest, Maglaras said.

“CFSIC has now become the single most important source of data on the crumbling foundations natural disaster in Connecticut,” Maglaras said. “There is no better, more credible, or more verifiable source of crumbling foundations data anywhere else in Connecticut on this crisis.”

“It is only with real data that we can understand the nature of this crisis and how best to address it,” Werbner said. “Since the inception of this crisis, many would agree that

ed homes

too many numbers have been thrown around. With data, we begin to get our arms around the true extent of this crisis. With speculation and misinformation, we never will.”

Misinformation creates problems

While Maglaras complimented Lamont for his commitment to bond the next \$20 million, which will enable 54 more participation agreements to be signed as soon as the money is transferred to the captive, the constant question of when the next round of funding played a large part in Maglaras’ decision to step down, he said.

Such uncertainty, he said, makes it difficult to logically plan a business that relies on reserves to stay viable.

“I can’t operate a business without certainty as to cash,” Maglaras said, adding that he’s confident the company will continue to fix foundations with the help of a supremely qualified board of directors, which Maglaras noted are volunteers.

“The public should cut them some more slack,” he said.

While he wouldn’t speak on behalf of Maglaras, Rep. Jeffery Currey, D-East Hartford, who has been instrumental in various crumbling foundation-related issues, opined that negativity from the public on social media may have played a role in Maglaras’ decision.

“I can’t speak for Mike, but I think there’s a point where we all get a bit frustrated with the spread of misinformation and the inciting of panic and fear,” Currey said. “Social media is the downfall of our civilized, informed society.”

Additionally, the captive has determined that homeowners in New Haven and Branford seeking grants through the captive are not eligible because their foundations have been found not to contain pyrrhotite.

Maglaras said the development is “great news” because it shows that the crisis may be contained to a more manageable geographic area.