General Discussion of Budgets and Forecasts in Finance: Every Subject in Finance Boils Down to Two Subjects

CONCLUSION: THE CHANNELS OF FINANCE HAVE BEEN STUFFED WITH FRAUD BY CREATING CREDIT INCLUDING PRINTING OF MONEY (AKA YOUR DEBT) AND ALLOWED BY NO OVERSIGHT CREATING THE OVERVALUATION AND CORELATED OVER TAXATION OF ASSETS BEING BOTH CORPORATE AND PERSONAL (HOUSING) THUS CREATING INFLATION BY FRAUD. IT IS THE FRAUD THAT WILL CAUSE 37% + OF THE HOUSEHOLDS (approx. 42,000,000 Households) TO GO BANKRTUPT OR LOSE THE ROOF OVER THEIR HEAD. The economic fallout will be many times greater than the crash of 2007.

Every decision in finance be it corporate or personal is in one way or another derived from how much the outcome of the decision is worth.

- Valuation analysis of debt or equity involves assessing
  1. Future cash flow levels, (cash flow is reality) and
  2. Risks in valuing those cash flows, whether it be the cash flow from assets, debt or equity
- **Future Cash Flow:** forecasting is a very complex and difficult problem. In this course we will understand how to find historic cash flows so you will have a basis for your forecasts.
- **Risk Assessment:** Coming up with a measurement of risk is extremely difficult and things like beta, value at risk and credit scoring have not worked very well.

No homeowner in the entire United States signed up to go bankrupt for any school in the Texas or the U.S.

Just like when Michael Burry discovered that Mortgage Backed Securities which were comprised of subprime lending were converted to bonds with AAA Ratings and sold to the unaware public with the blessing of the bond underwriters this case is the same parallel in that In Texas and across the U.S. the School Districts packaged up inflated fraudulently appraised values, to meet pre-determined budgets, knowing they can ***never*** be paid off and turned them into bonds. It takes more bonds to pay off – Roll out and Roll up the principal and debt which by definition is Ponzi scheme. The homeowners are completely upside down as the Median Household Income does not exist to pay off the debt today, never mind tomorrow morning as the interest compounds daily. The moral hazard, again just like 2007, is “To Big to Fail” but in this case they must fail and the entirety of funding school districts via bonds must be destroyed and no school district allowed to ever again obtain money from the bond market using property owners' property as collateral.

Corporate Finance

- Analysis is founded on history and evaluation of how companies (governments and individuals) will evolve relative to the past.
- Financing is important but not necessarily the primary part of the evaluation.
- Successful companies (families, governments) expected to continue growing.
- Focus on earnings, P/E ratios, EV/EBITDA ratios and Debt/EBITDA.
- **EBITDA does not tell the entire valuation**

Finance

- Since there is no history a series of consulting and engineering studies must be evaluated.
- Lenders assess whether the project works (engineering report).
- Successful projects will pay of all debt from cash flow and cease to operate.
- Focus on cash flow. Equity IRR and DSCR. **(THIS IS WHAT THE CADs REFUSE TO DO AS REQUIRED IN LAW..USPAP)**

Whether a City, State, Corporation or Individual the laws of finance are applicable to all. Hiding or manipulating the true value has ramifications that increase the Probability of Default.

Corporate Finance

- Interest Coverage Buffer
  - EBITDA/Interest
  - EBIT/Interest
  - FFO/Interest
- Time To Repay Debt
  - Debt/EBITDA
  - Debt/FFO or FFO/Debt
- Value of Company to Debt
  - Debt to Equity
  - Debt to Capital

Real Estate and Personal Finance

- Debt Service Buffer
  - DSCR (debt service coverage ratio)
  - LLCR (loan life coverage ratio)
  - PLCR (project life coverage ratio)
- Skin in the Game
  - Debt to Capital
  - Debt to Equity
  - **Debt to Income Ratio**
  - **What is the income (MHI – Median Household Income)?**
  - **What are the true expenses?**
  - **What is the anticipated inflation?**
  - **What is the cash flow to carry the debt (if any)?**

DSCR Buffer and Breakeven

The debt service coverage ratio, also known as the debt coverage ratio, is a financial ratio that measures an entity's ability to generate sufficient cash to cover its debt obligations, including interest, principal, and lease payments. It is calculated by dividing the net operating income by the total debt service. A higher DSCR indicates stronger cash flow relative to debt commitments, while **a ratio below 1 suggests insufficient funds to meet payments**.

- Percent reduction in cash flow: (DSCR-1)/DSCR

  Max Reduction = (DSCR-1)/DSCR

  DSCR = 1/(1-Max Reduction)

  DSCR * Max Reduction = DSCR – 1

  DSCR - DSCR * Max Reduction = 1

  DSCR * (1- Max Reduction) = 1

  DSCR = 1/(1-Max Reduction)

  Max Reduction over life of project = (PLCR-1)/PLCR

  Max Reduction over life of loan = (LLCR-1)/LLCR

Time to Repay and Debt/EBITDA

- If there is no interest, taxes or capital expenditures, then the Debt/EBITDA measures the time to repay the loan.
- Eurotunnel 2003:

– Debt	6,365,028
– EBITDA	298,619
Debt to EBITDA	**23.10**
– Interest	340,386
– Capital Expenditures	41,118
– Working Capital Change	2,360
– Taxes	0
Free Operating Cash Flow to Debt	**(61,850)**
Debt to Free Operating Cash Flow	**Infinity**

Implication: Debt to EBITDA does not really measure how long it takes to repay debt

Limited Use of Liquidity Ratios: General S&P Benchmarks

Table 1—Key Industrial Financial Ratios, Long-Term Debt

Three-year (2002 to 2004) medians

	AAA	AA	A	BBB	BB	B	CCC
EBIT interest coverage (x)	23.8	19.5	8.0	4.7	2.5	1.2	0.4
EBITDA interest coverage (x)	25.5	24.6	10.2	6.5	3.5	1.9	0.9
FFO/total debt (%)	203.3	79.9	48.0	35.9	22.4	11.5	5.0
Free operating cash flow/total debt (%)	127.6	44.5	25.0	17.3	8.3	2.8	(2.1)
Total debt/EBITDA (x)	0.4	0.9	1.6	2.2	3.5	5.3	7.9
Return on capital (%)	27.6	27.0	17.5	13.4	11.3	8.7	3.2
Total debt/total debt + equity (%)	12.4	28.3	37.5	42.5	53.7	75.9	113.5

Note that liquidity ratios are not mentioned in the table

For BBB companies the debt to EBITDA ratio is 2.2 time implying that if there was no interest expense and no taxes, it would take 2.2 years to repay debt. In terms of the debt to FFO, you can compute the ratio through dividing 1 by 35.9%. This number is 2.78 years or .58 years more than the debt to EBITDA.

Table 2—Key Utility Financial Ratios, Long-Term Debt

Three-year (2002 to 2004) medians

	AA	A	BBB	BB	B
EBIT interest coverage (x)	4.4	3.1	2.5	1.5	1.3
FFO interest coverage (x)	5.4	4.0	3.8	2.6	1.6
Net cash flow/capital expenditures (%)	86.9	76.2	100.2	80.3	32.5
FFO/average total debt (%)	30.6	18.2	18.1	11.5	21.6
Total debt/Total debt + equity (%)	47.4	53.8	58.1	70.6	47.2
Common dividend payout (%)	78.2	72.3	64.2	68.7	(4.8)
Return on common equity (%)	11.3	10.8	9.8	4.4	6.0

Problems with Debt to EBITDA – Compare FFO to Debt and Debt to EBITA

Funds from Operations (FFO) is a financial metric used by real estate investment trusts (REITs) to measure cash flow generated from their operations. It is calculated by taking net income, adding back depreciation and amortization, and subtracting any gains from property sales, providing a clearer picture of a REIT's operating performance.

Table 2—Financial Risk Indicative Ratios*

	Cash flow (Funds from operations/Debt) (%)	Debt leverage (Total debt/Capital) (%)
Minimal	Over 60	Below 25
Modest	45-60	25-35
Intermediate	30-45	35-45
Aggressive	15-30	45-55
Highly leveraged	Below 15	Over 55

* Fully adjusted, historically demonstrated, and expected to consistently continue

Internal ratings

		AAA	AA	A	BBB	BB	B	CCC
Interest coverage	EBIT interest coverage (x)	21.4	10.1	6.1	3.7	2.1	0.8	0.1
	EBITDA interest coverage (x)	26.5	12.9	9.1	5.8	3.4	1.8	1.3
	EBITDA int. + div. cov. (x)	3.8	4.3	4.5	4.4	3.1	1.7	1.2
Cashflow to debt	Discretionary cash flow/total debt (%)	42.8	9.3	7.4	4.6	1.6	-3.8	-3.3
	Discretionary cash flow/total debt (%)	42.8	9.3	7.4	4.6	1.6	-3.8	-3.3
	Total debt / EBITDA (x)	**0.6**	**1.2**	**1.6**	**2.3**	**3.4**	**4.9**	**6.3**
	Free oper. cashflow / tot debt (%)	84.2	25.2	15	8.5	2.6	-3.2	-12.9
	FFO / total debt (%)	128.8	55.4	43.2	30.8	18.8	7.8	1.6
Operating erformance	EBITDA / total assets (%)	26.4	20.9	17.9	15.3	13.7	10.8	10
	Return on capital (%)	34.9	21.7	19.4	13.6	11.6	6.6	1
	Operating income / sales	27	22.1	18.6	15.4	15.9	11.9	11.9
Financial leverage (debt to assets)	Long-term debt / capital (%)	13.3	28.2	33.9	42.5	57.2	69.7	68.8
	Total debt / capital (incl. STD) (%)	22.9	37.7	42.5	48.2	62.6	74.8	87.7
	Total liabilities / net worth (%)	103.6	155.6	151.7	168	223.4	188.1	113.7
	Total debt / market-value equity (%)	3.2	10.5	20.8	46	98	116.2	273.5
	Total debt / market enterprise value (%)	3.1	9.5	17.2	31.5	49.5	53.8	73.2

! Cyclical: for most borrowers all these metrics will improve with a strong economy – and vice versa…

Compute the length of time to repay debt with Debt to FFO rather than Debt to EBITDA

Assume that Maintenance Cap Exp is 10% of EBITDA and compute length of time to repay debt.

Key Point about Credit Ratios like DSCR and Debt/EBITDA

- You should understand why the ratio is computed
- You cannot apply same ratio to companies with different business risk
- This means what you really need to do is to understand business risk and or personal risk
- Business risk cannot be boiled down to a simple formula
- The place to start evaluating business risk (person risk) is fundamental economics
- Evaluating business risk is why you make financial models
- **PUBLIC COMPANIES THAT COMPRISE OF REAL ESTATE HOLDINGS HAVE TWO LEVELS OF FINANCIAL ANALYSIS BEING VALUES BASED ON INCOME AND SUBSEQUENT BOND RATINGS BASED ON THE INDIVIDUAL PROPERTIES INCOME AND THE CASHFLOW TO THE COMPANY AND ITS SHAREHOLDERS. IF THE UNDERLYING REAL ESTATE IS NOT PROPERLY VALUED THEN EITHER ARE THE BOND RATINGS.**

Map of Internal Ratings to Public Rating Agencies

Internal Credit Ratings	Code	Meaning	Corresponding Moody's
1	A	Exceptional	Aaa
2	B	Excellent	Aa1
3	C	Strong	Aa2/Aa3
4	D	Good	A1/A2/A3
5	E	Satisfactory	Baa1/Baa2/Baa3
6	F	Adequate	Ba1
7	G	Watch List	Ba2/Ba3
8	H	Weak	B1
9	I	Substandard	B2/B3
10	L	Doubtful	Caa - O
	N	In Elimination	
	S	In Consolidation	
	Z	Pending Classification	

Investment Grade

Junk

Sub-Junk - bankrupt

Buffer for Coverage of Debt Service in Project Finance (DSCR)

- Alternative Debt Service Coverage Ratios for Different Types of Projects
  - Electric Power with Fixed Contract: 1.3-1.4
  - Resources with volatile prices: 1.5-2.0
  - Telecoms with volume risk: 1.5-2.0
  - Infrastructure availability payment or traffic: 1.2-1.6

- At a minimum, investment-grade merchant projects probably will have to exceed a 2.0x annual DSCR through debt maturity, but also show steadily increasing ratios. Even with 2.0x coverage levels, Standard & Poor's will need to be satisfied that the scenarios behind such forecasts are defensible. Hence, Standard & Poor's may rely on more conservative scenarios when determining its rating levels.

- For more traditional contract revenue driven projects, minimum base case coverage levels should exceed 1.3x to 1.5x levels for investment-grade.

Use of Ratios Different Ratios in Different Industries: DSCR and Credit Ratings

- Target rating of BBB-
- Target DSCR or LLCR
- Example of Toll-roads

Appendix: Characteristics of a Typical Fitch Ratings Analysis in Developed Economies to Achieve Investment-Grade Ratings (Continued)

(This table is intended to provide illustrative guidance on how Fitch might develop a base and stress case and does not represent an absolute approach to credit analysis. The application of each of the factors identified will be a function of the type of the toll road and the level of conservatism and financial flexibility in the transaction.)

	Fitch Base Case	Fitch Stress Case
Financial Ratios (x)		
User-Pay (Amortizing Structures)		
Minimum DSCR	1.30	1.00 (including internal liquidity in the near term)
Minimum LLCR	1.50	1.25
Minimum PLCR	1.75	1.50
User-Pay (Long-Dated Negative or Nonamortizing Structures)		
Minimum DSCR	1.30	1.00
Minimum PLCR	3.00	2.00
Shadow Toll and Availability Payment (Amortizing Structures)		
Minimum DSCR	1.20	1.05
Minimum LLCR	1.30	1.20

Complexities in Corporate Finance - Alternate S&P Guidelines Depending on Business Risk Profile

U.S. INDUSTRIALS

Manufacturing, Service and Transportation Companies

Funds from Operations/Total Debt Guidelines (%)

	—Rating category—				
Company business risk profile	**AAA**	**AA**	**A**	**BBB**	**BB**
Well above average business position	80	60	40	25	10
Above average	150	80	50	30	15
Average	—	105	60	35	20
Below average	—	—	85	40	25
Well below average	—	—	—	65	45

Total Debt/Capitalization Guidelines (%)

	—Rating category—				
Company business risk profile	**AAA**	**AA**	**A**	**BBB**	**BB**
Well above average business position	30	40	50	60	70
Above average	20	25	40	50	60
Average	—	15	30	40	55
Below average	—	—	25	35	45
Well below average	—	—	—	25	35

Credit Ratings, Business Risk and Financial Risk

Business Risk/Financial Risk

	—Financial risk profile—				
Business risk profile	**Minimal**	**Modest**	**Intermediate**	**Aggressive**	**Highly leveraged**
Excellent	AAA	AA	A	BBB	BB
Strong	AA	A	A-	BBB-	BB-
Satisfactory	A	BBB+	BBB	BB+	B+
Weak	BBB	BBB-	BB+	BB-	B
Vulnerable	BB	B+	B+	B	B-
Financial risk indicative ratios*	**Minimal**	**Modest**	**Intermediate**	**Aggressive**	**Highly leveraged**
Cash flow (Funds from operations/Debt) (%)	Over 60	45–60	30–45	15–30	Below 15
Debt leverage (Total debt/Capital) (%)	Below 25	25–35	35–45	45–55	Over 55
Debt/EBITDA (x)	<1.4	1.4–2.0	2.0–3.0	3.0–4.5	>4.5

S&P Risk Rating Example

- Assume:
  - FFO to Debt is 40%
  - Debt to Capital is 50%
  - Debt to EBITDA is 1.5
  - Business Risk is Modest
- Find the Rating
- **The problem is that to obtain the truth means a deep dive into each level of the proforma or financial statement.**
- **Looking at averages is nothing more than increase the damage from the flaw of averages.**
- **Why create a system that is deceptive, intentionally complex, and fraudulent?**
- **Answer: A desire for power, profit, and the ability to manufacture credi t money from a hard money basis.**
- **Understand a bank creating their credit is a bank creating your debt.**

Use of Financial Ratios in Corporate Analysis - Credit Rating Standards and Business Risk

S&P Benchmark Ratios

Funds from Operations Interest Coverage (x)

Business Profile	AA		A		BBB		BB	
1	3	2.5	2.5	1.5	1.5	1		
2	4	3	3	2	2	1		
3	4.5	3.5	3.5	2.5	2.5	1.5	1.5	1
4	5	4.2	4.2	3.5	3.5	2.5	2.5	1.5
5	5.5	4.5	4.5	3.8	3.8	2.8	2.8	1.8
6	6	5.2	5.2	4.2	4.2	3	3	2
7	8	6.5	6.5	4.5	4.5	3.2	3.2	2.2
8	10	7.5	7.5	5.5	5.5	3.5	3.5	2.5
9			10	7	7	4	4	2.8

Funds from Operations to Total Debt (%)

Business Profile	AA		A		BBB		BB	
1	20	15	15	10	10	5		
2	25	20	20	12	12	8		
3	30	25	25	15	15	10	10	5
4	35	28	28	20	20	12	12	8
5	40	30	30	22	22	15	15	10
6	45	35	35	28	28	18	18	12
7	55	45	45	30	30	20	20	15
8	70	55	55	40	40	25	25	15
9			65	45	45	30	30	20
10			70	55	55	40	40	25

Total Debt to Total Capital (%)

Business Profile	AA		A		BBB		BB	
1	48	55	55	60	60	70		
2	45	52	52	58	58	68		
3	42	50	50	55	55	65	65	70
4	38	45	45	52	52	62	62	68
5	35	42	42	50	50	60	60	65
6	32	40	40	48	48	58	58	62
7	30	38	38	45	45	55	55	60
8	25	35	35	42	42	52	52	58
9			32	40	40	50	50	55
10			25	35	35	48	48	52

Detail Benchmarks

Business		Debt to Capital Standards					
Profile	AAA	AA Low	A Low	BBB Low	BB Low	B	CCC
1	0.00%	48%	55%	60%	70%	100%	200%
2	0.00%	45%	52%	58%	68%	100%	200%
3	0.00%	42%	45%	55%	65%	70%	100%
4	0.00%	38%	42%	52%	62%	68%	100%
5	0.00%	35%	40%	50%	60%	65%	100%
6	0.00%	32%	38%	48%	58%	62%	100%
7	0.00%	30%	35%	45%	55%	60%	100%
8	0.00%	25%	32%	42%	52%	58%	100%
9	0.00%	1%	25%	40%	50%	55%	100%
10	0.00%	1%	3%	35%	48%	52%	100%

Business		FFO to Debt Standards				
Profile	B Start	BB Start	BBB Start	A Start	AA Start	AAA Start
1	0.00	0.01	0.05	0.10	0.15	0.20
2	0.00	0.01	0.08	0.12	0.20	0.25
3	0.00	0.05	0.10	0.15	0.25	0.30
4	0.00	0.08	0.12	0.20	0.28	0.35
5	0.00	0.10	0.15	0.22	0.30	0.40
6	0.00	0.12	0.18	0.28	0.35	0.45
7	0.00	0.15	0.20	0.30	0.45	0.55
8	0.00	0.15	0.25	0.40	0.55	0.70
9	0.00	0.20	0.30	0.45	0.65	1.50
10	0.00	0.25	0.40	0.55	0.70	2.00

Use of Different Ratios in Different Industries: Example of Using Ratios to Gauge Credit Rating

- The credit ratios are shown next to the achieved ratios. Concentrate on Funds from operations ratios.

Exelon's Texas merchant subsidiary, ExGen Texas Power, filed for Chapter 11 bankruptcy on November 7, 2017. This move was aimed at reducing debt amid challenging market conditions.

Note that based on business profile scores published by S&P

Key Credit Measures

(Stand-alone)			S&P Credit Ratings[1]	"A" Target Range [2]
Exelon Consolidated:	FFO / Interest	6.1x	BBB	4.5x – 6.5x
	FFO / Debt	31%		30% – 45%
	Debt Ratio	51%[3]		
Generation:	FFO / Interest	12.7x	BBB+	5.5x – 7.5x
	FFO / Debt	92%		40% – 55%
	Debt Ratio	31%		
ComEd:	FFO / Interest	3.9x	A-	3.5x – 4.2x
	FFO / Debt	18%		20% – 28%
	Debt Ratio	37%[3]		
PECO:	FFO / Interest	5.8x	A-	3.5x – 4.2x
	FFO / Debt	23%		20% – 28%
	Debt Ratio	51%		

Exelon's Balance Sheet is strong

Notes: Exelon consolidated, ComEd and PECO metrics exclude securitization debt. See presentation appendix for FFO (Funds from Operations)/Interest and and FFO/Debt reconciliations to GAAP.
[1] Senior unsecured ratings for Exelon and Generation and senior secured ratings for ComEd and PECO; [2] Based on S&P Business Profiles 7, 8 and 4 for Exelon, Generation, and ComEd and PECO, respectively; [3] Reflects $1.2 billion ComEd goodwill write off in 2005

Exelon.

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Credit Formula Definitions

Table 3—Key Ratios

Formulas	
1. EBIT interest coverage	Earnings from continuing operations* before interest and taxes/Gross interest incurred before subtracting capitalized interest and interest income
2. EBITDA interest coverage	Adjusted earnings from continuing operations** before interest, taxes, depreciation, and amortization/Gross interest incurred before subtracting capitalized interest and interest income
3. Funds from operations (FFO)/total debt	Net income from continuing operations, depreciation and amortization, deferred income taxes, and other non-cash items/Long-term debt§ + current maturities + commercial paper, and other short-term borrowings
4. Free operating cash flow/total debt	FFO – capital expenditures – (+) increase (decrease) in working capital (excluding changes in cash, marketable securities, and short-term debt)/Long-term debt§ + current maturities, commercial paper, and other short-term borrowings
5. Total debt/Total debt + equity	Long-term debt§ + current maturities, commercial paper, and other short-term borrowings/Long-term debt§ + current maturities, commercial paper, and other short-term borrowings + shareholders' equity (including preferred stock) + minority interest
6. Return on capital	EBIT/Average of beginning of year and end of year capital, including short-term debt, current maturities, long-term debt§, non-current deferred taxes, minority interest, and equity (common and preferred stock)
7. Total debt/EBITDA	Long-term debt§ + current maturities, commercial paper, and other short-term borrowings/Adjusted earnings from continuing operations before interest, taxes, and D&A

*Including interest income and equity earnings; excluding nonrecurring items. **Excludes interest income, equity earnings, and nonrecurring items; also excludes rental expense that exceeds the interest component of capitalized operating leases. §Including amounts for operating lease debt equivalent, and debt associated with accounts receivable sales/securitization programs.

Formulas for Ratios - Continued

FORMULAS FOR KEY RATIOS

1. EBIT interest coverage = $\dfrac{\text{Earnings from continuing operations* before interest and taxes}}{\text{Gross interest incurred before subtracting capitalized interest and interest income}}$

2. EBITDA interest coverage = $\dfrac{\text{Adjusted earnings from continuing operations before interest, taxes, and D\&A}}{\text{Gross interest incurred before subtracting capitalized interest and interest income}}$

3. Funds from operations (FFO)/total debt = $\dfrac{\text{Net income from continuing operations + D\&A deferred income taxes, and other non-cash items}}{\text{Long-term debt§ + current maturities, commercial paper, and other short-term borrowings}}$

4. Free operating cash flow/total debt = $\dfrac{\text{FFO - capital expenditures - (+) increase (decrease) in working capital (excluding changes in cash, marketable securities, and short-term debt)}}{\text{Long-term debt§ + current maturities, commercial paper, and other short-term borrowings}}$

5. Return on capital = $\dfrac{\text{EBIT}}{\text{Average of beginning of year and end of year capital, including short-term debt, current maturities, long-term debt§, non-current deferred taxes, minority interest, and equity (common and preferred stock)}}$

6. Operating income/sales = $\dfrac{\text{Sales - cost of goods manufactured (before D\&A), SG\&A costs, and R\&D costs}}{\text{Sales}}$

7. Long-term debt/capital = $\dfrac{\text{Long-term debt§}}{\text{Long-term debt§ + shareholders' equity (including preferred stock) + minority interest}}$

Formulas for Ratios - Continued

8. Total debt/capital =

$$\frac{\text{Long-term debt§ + current maturities, commercial paper, and other short-term borrowings}}{\text{Long-term debt§ + current maturities, commercial paper, and other short-term borrowings + shareholders' equity (including preferred stock) + minority interest}}$$

9. Total debt/EBITDA =

$$\frac{\text{Long-term debt§ + current maturities, commercial paper, and other short-term borrowings}}{\text{Adjusted earnings from continuing operations before interest, taxes, and D\&A}}$$

10. Discretionary cash flow/total debt =

$$\frac{\text{FFO - capital expenditures - (+) increase (decrease) in working capital (excluding changes in cash, marketable securities, and short-term debt) - common and preferred dividends}}{\text{Long-term debt§ + current maturities, commercial paper, and other short-term borrowings}}$$

*Including interest income and equity earnings; excluding nonrecurring items.
Excludes interest income, equity earnings, and nonrecurring items; also excludes rental expense that exceeds the interest equivalent.
§Including amounts for operating lease debt equivalent, and debt associated with accounts receivable sales securitization programs.

Reconciliation of FFO and EBITDA

- Funds form Operations (FFO) =

  Net Income + Depreciation and Amortization + Deferred Tax + Other Non-Cash Items

- EBITDA =

  Net Income + Depreciation + Current Tax + Deferred Tax + Interest + Other Adjustments

- Reconciliation of FFO and EBITDA

  EBITDA is NI + depreciation + interest + taxes

  FFO is NI + depreciation

  Difference between FFO and EBITDA is interest and taxes

  FFO = EBITDA – Interest – Current Taxes

FFO and Free Operating Cash Flow

- Funds form Operations (FFO) =

  Net Income from Continuing Operations + Depreciation and Amortization + Deferred Tax + Other Non-Cash Items
- Free Operating Cash Flow =

  FFO + (-) Increase in Working Capital excluding changes in cash – Capital Expenditures
- Reconciliation of FFO and Free Operating Cash Flow

  Difference is Working Capital and Capital Expenditures

IF MEDIAN HOUSEHOLD INCOME (ie FF0) DOES NOT EXIST TO PAY FOR THE EXPENSES (I&S + M&O) THEN THERE IS NO POSSIBLE WAY TO HAVE CASH FLOW FOR THE SCHOOL DISTRICTS TO PAY FOR THEIR FRAUDULENT INCREASING BONDS + THE OUTSTANDING COMPOUND CUMULATIVE INTEREST ON THOSE BONDS. THUS THE RATING AGENCIES ARE WRONG AND THE PROBABILTY OF DEFAULT INCREASES BY THE DAY VIA THE COMPOUND CUMULATIVE EFFECT ON THE DEBT.

Why Ratios are Different in Finance and Corporate Finance

- Continuing Large Capital Expenditures in Corporate Finance
- Large Bullet Repayments in Corporate Finance that Do Not Correspond to Cash Flow
- No Customizing Repayments to Cash Flow
- In Corporate Finance, Source of Repayment in Re-Financing.
- **In income producing real estate there are dozens of measurements of valuation many of which are outlined in USPAP, and most of which are ignored in favor of pre-determined budgets that literally have nothing to do with USPAP or the law thus making the ratios pure fiction (aka fraud).**

CFADS vs EBITDA in Corporate Finance

- EBITDA
  - Less Working Capital Changes
  - Less Capital Expenditures
  - Less Taxes
  - Plus Interest Income

Equals CFADS - Cash Flow Available for Debt Service (CFADS) is a financial me tric that measures the cash available to meet a company's debt obligations, in cluding interest
payments and principal repayments, after accounting for operating expenses a nd
necessary adjustments. It is an important indicator of a project's ability to gen erate
sufficient cash flow to service its debt over time.

- EBITDA is not a measure of cash flow. **It is half truth.**

Why S&P Credit Criteria is Nonsense

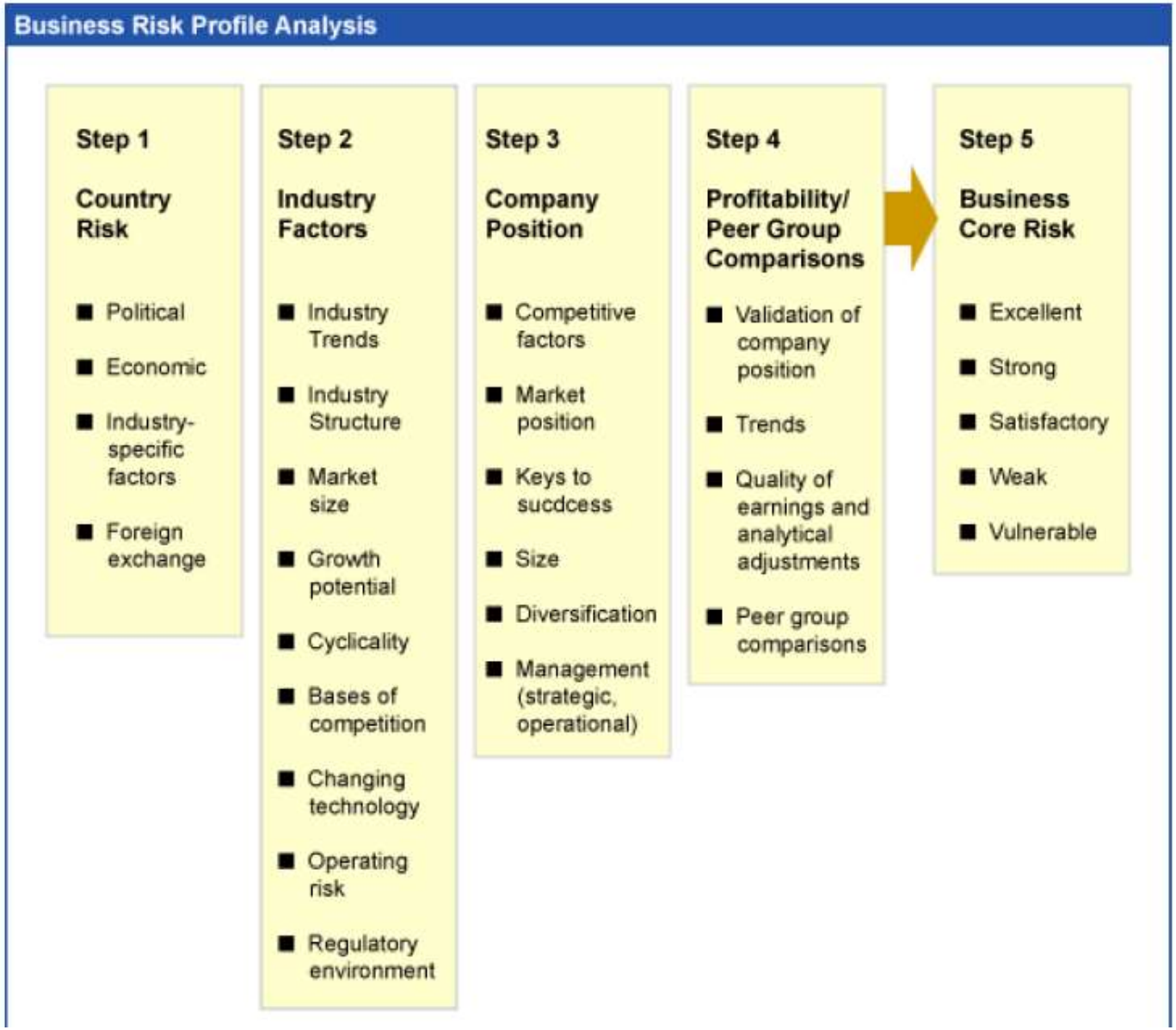
Key Industry Characteristics And Drivers Of Credit Risk

ct: High (H); Medium (M); Low (L)

Risk factor	Cyclicality	Competition	Capital intensity	Technology risk	Regulatory/Government	Energy sensitivity
Industry	H	H	H	L	M/H	H
Airlines (U.S.)	H	H	H	M	M	H
Autos*	H	H	H	M	M	M
Auto suppliers*	H	H	M	H	L	L/M
High technology*	H	H	H	M	M/H	H
Mining*	H	H	H	L	M	L
Chemicals (bulk)*	H	H	H	L	M	H
Hotels*	H	H	H	L	L	M
Shipping*	H	H	H	L	L	M
Competitive power*	H	H	M	L	H	H
Telecoms (Europe)	M	H	H	H	H	L

Note the lack of diversity in the categories – when there is no diversity the ratings are useless

Why S&P Credit Criteria – More Nonsense



EBITDA Volatility – Peak to Trough Percent (PTT) – Even More Nonsense

EBITDA Margin PTT Declines (%) (cont.)										
Technology hardware and semiconductors	(12.8)	(8.0)	(2.4)	(3.3)	(12.0)	(4.9)	(7.7)	(18.7)	(42.3)	(16.3)
Specialty chemicals	(11.5)	0.0	(9.3)	(12.6)	(11.1)	(21.2)	(19.0)	0.0	(14.0)	(15.9)
Capital goods	(11.1)	(13.1)	0.0	(17.7)	(8.4)	(3.1)	(20.3)	(5.5)	(10.3)	(21.8)
Engineering and construction	(10.9)	(12.0)	(7.5)	(10.6)	(29.8)	(12.5)	(6.5)	0.0	(16.6)	(2.5)
Real estate investment trusts (REITs)	(10.8)				(15.4)	(33.3)	(2.9)	(9.1)	(3.9)	0.0
Railroads and package express	(10.6)							(8.6)	(8.3)	(14.8)
Business and consumer services	(10.2)	(50.0)	(9.2)	0.0	(6.6)	(9.6)	(10.7)	(1.9)	0.0	(4.0)
Midstream energy	(10.0)		0.0	(4.8)	(12.0)	(12.2)	(13.2)	(19.2)	(9.5)	(8.8)
Technology software and services	(9.4)	(13.3)	0.0	(4.4)	(28.8)	(24.6)	(3.1)	0.0	0.0	(10.5)
Consumer durables	(9.9)	(1.0)	(7.9)	(10.7)	(12.1)	(18.4)	(7.3)	(2.3)	(11.6)	(18.1)
Containers and packaging	(8.8)	0.0	(0.8)	(8.9)	(15.9)	(6.3)	(24.2)	(10.6)	(6.3)	(6.5)
Media and entertainment	(8.1)	0.0	0.0	(17.4)	(19.4)	(7.2)	(8.0)	(6.3)	(7.5)	(6.9)
Oil and gas drilling, equipment and services	(7.7)	0.0	(5.8)	(8.5)	(21.6)	(0.4)	(4.6)	(5.6)	(13.5)	(9.0)
Retail and restaurants	(7.1)	(1.9)	(6.2)	(9.5)	(9.0)	(13.1)	(7.1)	(9.9)	(1.1)	(5.6)
Health care services	(6.2)				(5.7)	(16.6)	(1.6)	(6.8)	(2.5)	(3.8)
Transportation infrastructure	(6.1)									(6.1)
Environmental services	(6.0)			(4.9)	(10.9)	(6.7)	0.0	(8.4)	(1.3)	(9.9)
Regulated utilities	(5.3)	0.0	0.0	(5.3)	(11.2)	(16.6)	(8.4)	(1.9)	0.0	(4.3)
Unregulated power and gas	(5.3)	0.0	0.0	(5.3)	(11.2)	(16.6)	(8.4)	(1.9)	0.0	(4.3)

More Nonsense - 5 Cs of Credit

Character - **CRIMINALS**

Cash Flow/Condition - **FAKE**

Capital - **FRAUD**

Capacity - **PONZI**

Collateral - **DEVALUED**

Real Measures of Industry Operating Risk – Demand and Price

- Demand Volatility with Mean Reversion
- Demand Volatility from Fashion Changes and/or Technology Changes – No Mean Reversion
- Difference Between Short-run Marginal Cost and Long Run Marginal Cost – Exposure to Price Change
- Demand Growth to Alleviate Surplus Capacity
- Surplus Capacity with Capital Intensity and without Capital Intensity
- Shape of Supply Curve in the Industry
- Rate of Return in Industry

Real Measures of Industry Operating Risk – Operating Cost and Capital Expenditures

- Fixed and Variable Cost – Percent of Revenues
- Fixed and Variable Cost – Per Unit
- Exposure to Volatile Prices (ie Florida Condos)
- Exposure to Increasing Competitiveness in Industry Structure
- Potential for Obsolescence in Capital Expenditure (ie Florida Condos)
- Potential for Changes in Capital Expenditure Value
- Changes in Value for Inventory from Commodity Price Spike (ie all real estate)

Real Measures of Company Position in Industry

- Cost position relative to competitors
  - Cost per unit of fixed and variable
  - Rate of return position and potential to fall to industry norm
- Price relative to competitors and relative to companies in other countries
- Ability of company to maintain product differentiation
- The same is applicable to the economic measurements of income properties and even housing

Examples of Business Risks that Have Led To Bankruptcy and Valuation Declines

https://www.creditbenchmark.com/white-papers/2024-default-risk-outlook-us-industries/

https://maalot.co.il/Publications/FTS20250331162126.pdf

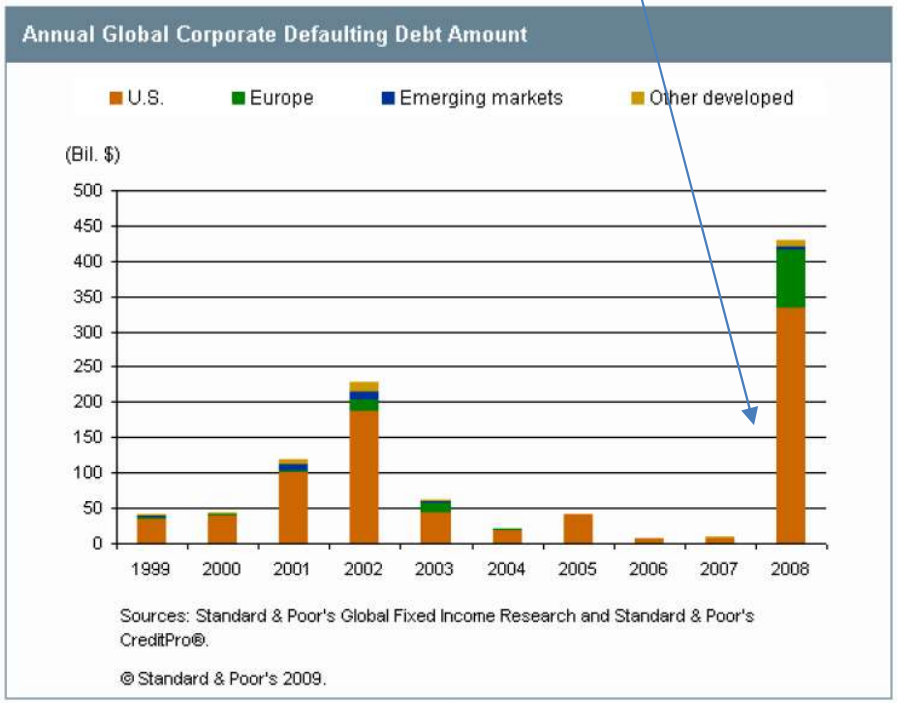
Selected Defaults including Lehman Brothers in 2008

Table 8

2008 Corporate Publicly Rated Defaults*

Company	Country	Industry	Debt amount (Mil.$)	Default date	Next to last rating	Date of next to last rating	First rating	Date of first rating
2008 Corporate Publicly Rated Defaults* (cont.)								
Lehman Brothers Holdings Inc.	U.S.	Financial institutions	144,426.2	9/16/2008	A	6/2/2008	AA-	1/1/1985
UTGR Inc.	U.S.	Leisure time / media	565.0	9/19/2008	CCC-	3/21/2008	B+	7/21/2005
Lehman Brothers Inc.	U.S.	Financial institutions	229.9	9/23/2008	BB-	9/15/2008	AA	10/5/1984
HRP Myrtle Beach Holdings LLC	U.S.	Leisure time / media	113.8	9/24/2008	NR	8/29/2008	B-	3/22/2006
Washington Mutual Bank	U.S.	Financial institutions	19,913.6	9/26/2008	BBB-	9/15/2008	B+	1/24/1989
Washington Mutual, Inc.	U.S.	Financial institutions	8,984.6	9/26/2008	CCC	9/24/2008		
Ashton Woods USA LLC	U.S.	Real estate	454.0	10/2/2008	CCC	8/22/2008		
Corporacion Durango, S. A. B. de C. V.	Mexico	Forest products	520.0	10/6/2008	CC	10/3/2008		
Baseline Oil & Gas Corp.	U.S.	Energy and natural resources	240.0	10/7/2008	CCC+	9/13/2007		
Controladora Comercial Mexicana, S. A. B. de C. V.	Mexico	Customer service	449.6	10/9/2008	BBB-	10/3/2000		
Glitnir Bank	Iceland	Financial institutions	18,737.1	10/9/2008	CCC	10/7/2008		
Viskase Cos. Inc.	U.S.	Health/chem	108.7	10/10/2008	CC	8/8/2008		
3D-Gold Jewellery Holdings Ltd.	Hong Kong	Customer service	170.0	10/15/2008	BB	10/2/2007		
Majestic Star Casino LLC (The)	U.S.	Leisure time / media	580.0	10/15/2008	CCC-	10/9/2008		
Masonite International Inc.	Canada	Forest products	2,294.8	10/17/2008	CC	10/10/2008		
Britannia Bulk PLC	U.k.	Transportation	185.0	11/3/2008	CC	10/29/2008		
Hawaiian Telcom Communications Inc.	U.S.	Telecommunications	1,074.7	11/3/2008	CCC+	8/19/2008		
VeraSun Energy Corp.	U.S.	Energy and natural resources	1,165.8	11/3/2008	B-	9/23/2008		
Palmdale Hills Property LLC	U.S.	Real estate	0.0	11/6/2008	NR	2/23/2007	B	4/26/2005

Lehman is about ½ of total defaults



Demand Volatility with Mean Reversion

- Demand Volatility with Mean Reversion – In almost all of the bankruptcy cases the demand is below the expected demand. You can sometimes look at history and gauge potential reduction in demand just from cycles in the industry. Other times you may need to use some judgment to assess whether demand will fall. For example, construction activity has more volatility than food and leisure activity may be more volatile than health care. **When demand drops and the interest carry increases this is a recipe of terminal projection if not corrected immediately.**
  - Lehman Brothers and Real Estate
  - Shale Gas
  - Calpine

Demand Volatility without Mean Reversion

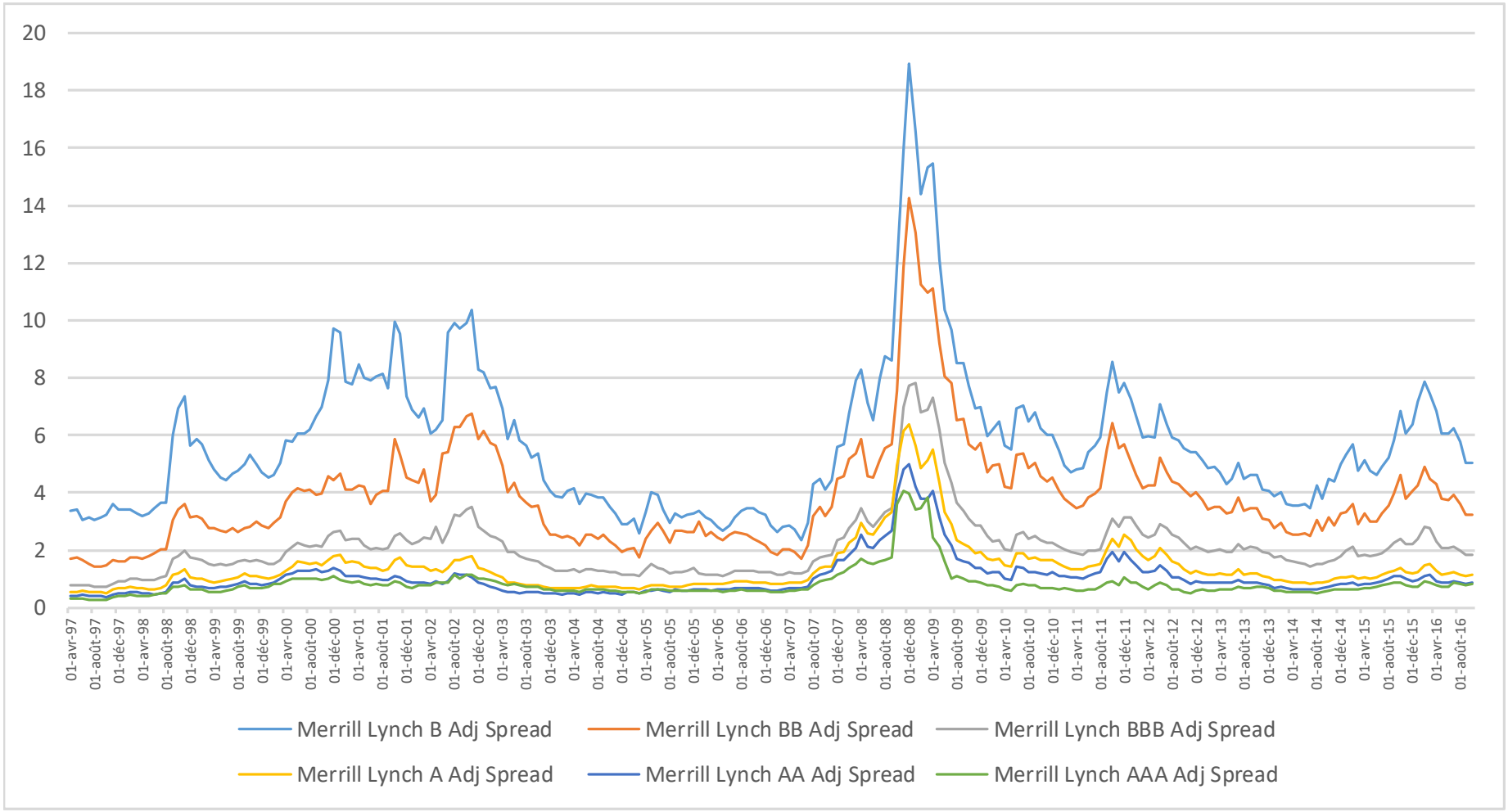
- Demand Volatility without Mean Reversion – Meaning Decline from Technological Changes or Fashion Changes
  - Kodak
  - Iridium (Motorola)
  - Levi Strauss
  - Ford Motor – GM, Chrysler (now Stellantis)

Difference Between Short-run Marginal Cost and Long-Run Marginal Cost

- Industry has steep short-run supply curve meaning companies will not go out of business.
  - Texas Energy Holdings
  - Iridium (Motorola)
  - Levi Strauss
  - Ford Motor

Credit Spreads, Defaults and Loss Given Default

Credit Spreads on Bonds – 2008 blowout



Recent Credit Spreads

https://www.longtermtrends.net/bond-yield-credit-spreads/

Default Rates and Bond Ratings

https://www.creditbenchmark.com/wp-content/uploads/2023/08/Whitepaper-Default-Rate-Forecast-23-24-16.08.23-2.pdf

Loss, Given Default

Table 6 1988-2003 Bankruptcy vs. Distressed Exchange Recoveries		
Instrument	**Bankruptcy Recoveries (%)**	**Distressed Exchange Recoveries (%)**
Bank debt	75.1	73.72
Senior secured bonds	60.6	66.32
Senior unsecured bonds	37.2	57.86
Senior subordinated bonds	23.6	56.27
Subordinated bonds	19.1	35.15
Junior subordinated bonds	10.7	31.93
Source: Standard & Poor's LossStatsÂ™ Database.		

Summary of why EBITDA is Used in Credit Analysis and Valuation

- EBITDA is one way to think about the fundamental operations of a company is that it makes capital expenditures to generate EBITDA. EBITDA is before depreciation and before taxes and interest while capital expenditures is before financing from debt and equity. Therefore the EBITDA that is computed before depreciation, financing and taxes can be compared to capital expenditures so as to assess whether the strategy is working.
- **HOWEVER**…..

EBITDA is earning before interest, taxes, depreciation, and amortization. It is not under any circumstance a better indication that GAAP net income of a company's operating result. It is a flawed concept what was adopted by the financial community and one should ask why! Interest Payments and tax payments are cash outflows that take priority and are unavoidable, so ignoring them is not realistic. GAAP financial statements already provide better cash flow and earnings information in the statement of cash flows and the income statement therefore the reporting of EBITDA has a high probability of being motivated by the desire to make a situation look better than it really is, or in the case of a start-up company, even avoiding the focus on an operating loss.

There are direct parallels between EBITDA and the CADs failing to adhere to USPAP and violating dozens of laws.

1. Avoiding the truth of the financial position of the Asset leading to…
2. Ignorance and criminal intent of those licensed to adhere to the law.
3. Taking money from those who don't know how to defend against the crimes being committed.
4. Improper assignment of bond Rating Agencies, fraudulent and or misleading financial statements (school districts), fraudulent overvaluation and resulting over taxation all lead to a high probability of default which is measurable when the evidence is available www.mockingbirdproperties.com/dcad

SOME OF THE MEASUREMENTS OF VALUE AS DEFINED BY AND REQUIRED BY THE APPRAISAL INSTITUTE.

CPI, EQUITY, EFFECTIVE GROSS INCOME, FUTURE VALUE, NET INCOME TO BUILDING, NET INCOME TO EQUITY, NET INCOME TO LEASEHOLD, NET OPERATING INCOME, IRR, RATIO OF LAND TO BUILDING, ORTGAGE, NET PRESENT VALUE, PRESENT VALUE, CAP RATE, BUIDLDING CAP RATE, PRE TAX CASH FLOW ALSO CALLED EQUITY CAP RATE, MORTGAGE CAP RATE, TERMINAL CAP RATE, REINVESTMENT RATE, SINKING FUND FACTOR, EQUITY VALUE, LAND VALUE, EFFECTIVE TAX RATE, REINVESTMENT VALUE, EQUITY YIELD, MORTGAGE YEILD.

WHEN UTILIZING PROPERTY APPRAISAL METHODS, SHOWING TRUE INCOME AND EXPENSES, SHOWING EXACTLY WHAT IS REQUIRED IN LAW….THE "registered professional appraisers" put forth every excuse imaginable (see Amicus Brief) on how they are right and the ultimate excuse as stated in 2025 is

"OUR OPINION IS THE CLEAR AND CONVINCING EVIDENCE"

THIS IS THE MORAL HAZARD – NO CHECK AND BALANCES AND NO OVERSIGHT.

Financial Engineering to Cover the Truth

313 Agreements – Energy Agreements – Off Balance Sheet Financing – JETI Agreements:

Where is the revenue that allegedly came back to the school districts as a return on investment from these instruments?
Are the taxpayers aware that the 313 Agreements give away up to 98% of what would be collected in property taxes to pet projects of the elected officials?
Where is the advertising for the bonds that states property tax revenue would be taken from the taxpayers to allow 40 year tax breaks for pet projects?
How are these instruments of financing, equal treatment under the law, when property taxpayers do not have the same treatment afforded the pet projects especially when the taxpayers are commanded to pay more in bonds for new schools to hold the alleged future students that the pet projects are supposed to deliver?
Who oversees these instruments? Who is getting paid to steal our money?

Sinking fund:

Does your school district have a sinking fund?
What proof exists that the sinking funds allegedly associated with the bonds exists?
What bank and bank account is the sinking fund held in?
What interest is paid on the sinking fund?
Where is the proof that the sinking fund has been used to retire bond debt?
Is the sinking fund listed on the School District Balance Sheet?
Who oversees the sinking fund?

Investment Pool:

Do the teachers know if they participated in this investment pool and if the fraudulent bonds are part of that investment pool?
Do the teachers know who is getting the fees for running the investment pool?
What is the rate of return?
What are the investments?
Who gets benefit from the investment pool?
Who paid in?
Who oversees the investment pool that is on some of the school district balance sheets?

CADs

What proof exists from DCAD that the certified taxes are correct?

What proof exists from DCAD that on an individual or global basis the certified taxes are correct?

If not correct and used as a basis for a property tax and subsequent school district bonds, how do homeowners recover from that lack of authority?

Where is DCAD's correct data?

What evidence exists that the ARB panels utilize USPAP, to determine their Values?

What method and under what laws do the ARB panels use to determine their values?

The ARB under the Patel case written by the Supreme Court of Texas cannot be the final determiner of value as the ARB does not have the authority under law to determine fraud.

Where is the verification of evidence?

Where is the verification that the process, as required in law, was adhered to?

Where is the verification of the School Districts line-item budget detail tied to the demand for the bond and tied to the CUSIPs?

Where is the verification of the bond money received by the School Districts was applied to line item budget detail?

Where is the calculation of the outstanding compound cumulative interest associated with each bond and stated on the balance sheet or notes to the balance sheet?

Where is the evidence that the bonds are paid off and not rolled out and interest rates rolled up to the next bond?

Where are the proper notes to the school districts balance sheet, sources and uses, line-item budgets, forward looking cost of carry, forward looking bond requirements, comparison to cash basis operations, and true forensic audit under the method required in the Yellow Book of Government Auditing Standards?

No one at DCAD and most CADs across the State of Texas and the United States has met the requirement of proof.

Hundreds of Billions of Dollars of fraudulent liability (creation of a debt) have been placed on the property owners which they are not required to pay, yet from which demand is made, or the property will be foreclosed. DCAD, its employees, Board and co-conspirators and other CADs, through willing suspension of disbelief, have created systemic RICO as defined under both State and Federal law among a host of other violations of law.

Nothing in the property valuation process meets the standard of what is required and the closed loop of… "we are DCAD and the public is just going to have to trust us" and "no enforcement"…. you can't look under the hood and that is the *big con*, *moral hazard* and pure fraud!

The response from the Attorney General for the State of Texas is "we are not the repository of the documents" and that was following a 15 page FOIA request see www.mockingbirdproperties.com/dcad

The school districts, TDLR, TALCB, State Comptroller, State AG, State Auditor, refuse to answer the questions, and we have this in writing. Use the FOIA to get it in writing and take them to court.

What are we doing about this?

1. Lawsuits filed Mavex vs DCAD for several years in a row – Done – fraud admitted by the court.
A. Created the website / library of the evidence of pattern and practice of fraud for all property owners and government officials to see.
2. Ft. Worth Court of Appeals – Done – fraud admitted by the court.
3. Supreme Court of Texas – Waiting for response to remand to the lower court to allow the fraud to be heard and adjudicated.
4. Filed Criminal Complaint with the DOJ & FBI.
5. Filed Complaint with the SEC.
6. Wrote the Bill to repeal all property tax in favor of the Uniform States Sales Tax.
6. Notified multiple government officials of the crimes being committed including Governor, Comptroller, Attorney General, and Texas House Representatives and Senators. See Chapter 42 Section 1986 "knowledge of a crime and power to prevent".
7. Trial Brief for the lower Court, ready (392 Pages – live linked to over 1,000 evidentiary documents).
8. Prepared for U.S. Supreme Court challenge.
8. Formulating a process for Class Action lawsuits starting with Denton CAD and moving quickly throughout Texas and the United States. We have the evidence, formulas and law to help all property owners. Many people have asked to provide funding, and we are working on a transparent method for funding assistance.

What can you do about this?....we need your help and involvement.

1. Join with neighbors to file suit against your CAD for Overvaluation and Over Taxation. Form and link to Facebook groups
2. Determine the outstanding school district bond debt. Determine the number of household in your school district. Divide the two numbers to give you an indication of how much debt has been placed on your house that they believe you are liable to pay for their fraud.
3. Per the Financial Engineering to Cover The Truth on Page 44, ask your school district, chief appraiser & politicians the questions outlined. How are you going to pay off a fraudulent school district bond debt on your house, like Argyle TX. at approx. **$235,723** per house or Godley TX at roughly $120,000 per house?
4. Sign the Petition if you want to participate in a possible Class Action https://www.mockingbirdproperties.com/sign-petition
5. Stay Informed. Via the Petition Signatures, we will notify you of our progress.
6. Share this document and questions with people who want to help

What does Subprime housing loans, Subprime Auto Loans, Wachovia, Enron, Arthur Anderson, Worldcom, Bear Sterns, AIG, Washington Mutal, Madoff, Theranos, Silicon Valley Bank, Signature Bank, First Republic Bank, Tricolor Auto, First Brands, and Lehman have in common?

Review Tricolor Auto Group.

In a parallel situation Tricolor Auto Group recently filed for Chapter 7 bankruptcy, which means they are liquidating their assets rather than restructuring. The company is under investigation for fraud.

Overview of Tricolor Auto Bankruptcy

Tricolor Auto, a used car dealership based in Houston, filed for Chapter 7 bankruptcy on September 11, 2025. This type of bankruptcy involves liquidating assets to pay creditors, marking a significant and rapid decline for the company.

Key Facts:

Bankruptcy Details

- **Filing Date**: September 11, 2025
- **Type**: Chapter 7 bankruptcy
- **Liabilities**: Over $1 billion

Impact on Customers

- Customers have reported locked vehicles and empty dealership lots.
- Many are concerned about payments for vehicles purchased from Tricolor, as the dealership is no longer operational.

Current Situation:

Investigations and Complaints

- The Texas Department of Motor Vehicles is investigating complaints related to Tricolor.
- There are allegations of fraud against the company, with lenders looking into potential ***multiple-pledging of collateral***.

Future Outlook

- A Chapter 7 trustee is now managing the liquidation process, which may take months or years to resolve.
- The situation is complicated by the need to manage approximately 100,000 auto loans and the rapid shutdown of operations, which included terminating over 1,000 employees.

This bankruptcy is notable for its swift execution and the challenges it presents to both customers and creditors.

Tricolor was a Ponzi scheme that involved bonds and levered debt to cover the fraud until it self-destructed as no more money could be raised to cover the fraud. Just like Wachovia Bank, Enron, & Countrywide Financial. ***The data is faked and then it is levered.*** How do you hide these issues in plain sight? ***Hide debt, hide repossessions, and play with the asset valuations***. ***The blind spot is the collateralized debt*** obligations which are the equivalent of handing a loaded gun to a 3-year-old.

In the case of Denton County School Districts such as Argyle ISD, there can't be median home values of approximately $450,000 and the outstanding bond debt today of roughly $235,723 which ends up being a 2nd mortgage in perpetuity because the population does not exist to pay it off and neither does the Median Household Income. Who is the alleged auditor for the School District? Did the School Districts auditor look at the communities' demographics and Median Household Income? How can a family afford 4 mortgages comprised of A.) the 1st Mortgage B.) Collateralized Debt...Bond Mortgage and C.) Compound Cumulative Interest Rate Mortgage on the outstanding Bonds as of today and D.) future bond raises plus the compound cumulative debt on prior and future bond raises? When is the lesson on Collateralized Debt going to be learned? Did the auditor examine the amortization schedules individually and cumulatively for all bonds? Did the auditor examine the sinking fund to determine what it should be? Where is the proof that these bonds are worth anything? Did the auditor determine that the income matches the asset? Where is the proof that these bonds can be paid off and retired permanently? ***No auditor or accountant can show us how the revenue can pay off the bonds.***

On September 25, 2025, a Federal Reserve governor was quoted being "concerned about rising unemployment and deteriorating housing conditions". This begs the question of what did the FED and it's governors do to eliminate fake data which is then levered into Bonds and Collateralized Debt Obligations? **What did the Fed do after Wachovia, Enron, Arthur Anderson, Worldcom, Bear Sterns, AIG, Washington Mutal, Madoff, Theranos, Silicon Valley Bank, Signature Bank, First Republic Bank and Lehman? Adding to the above question and in direct parallel…What did the CADs, State AG, State Auditor, State Comptroller, and a host of co-conspirators do to eliminate fake data which is then levered into Bonds and Collateralized Debt Obligations? We are right back to 2007 with the data still cooked except now we must deal with the compound and cumulative interest on the fake data that has occurred since 2007. The valuation fraud at DCAD has created a situation where the compound cumulative interest today is many times greater than the original principal and will be many times greater in the next 10, 20 and 30 years as the evidence shows that the bond debt and interest thereon is not paid off but rolled out in time and rolled up in interest cost respectively.**

The parallel between DCAD (most CADS) and the above listed entities is undeniable.

An adverse ruling against DCAD on any of the grounds outlined herein would have an impact far beyond the Denton County Appraisal District market as the pattern and practice is clear across the CADs in Texas and across the United States of America, and will force all Taxing Districts to adhere to the Laws under which they are governed or in the alternative due to the size of the fraud and related bond fraud by the School Districts, the CADs should be enjoined, forced into involuntary bankruptcy to eliminate the fraudulent debt, and upon exit from bankruptcy all School Districts must operate on a cash non-debt basis in perpetuity. What is more, the court will have to address multiple issues created at the hands of DCAD including **Mail Fraud, Ricco, Extortion, Bias, impersonating a Public Official, Fraud, Civil Rights violations, and Constitutional violations all of which are the ramifications of falsifying property values.** Without doubt, as the Court will see, DCAD is exceeding its statutory authority.

Those who are going to get stuck in foreclosure and tax liens need to take the CADs and School Districts to court and demand the repeal all property tax in favor of the Uniform States Sales Tax. **The bonds cannot be paid and many School Districts are bankrupt. Taxes on property valuation were never appropriate as they are in violation of the 16th Amendment, and the math never worked. However, real estate taxes to meet bond funding are not appropriate as *in order to meet the bond funding systemic fraud is required along with increasing fraudulent valuations and fraudulent taxation regardless of the values of the homes.* Taxes cannot come out of homeowner's equity (Equity Stripping).** DCAD lacks the authority to ignore the United States Constitution, Texas Constitution, Texas Property Code, USPAP, and its own membership rules under IAAO, TAAO, Appraisal Foundation, and Appraisal Institute. A ruling from the Court on these issues should terminate DCAD's ability to manufacture real estate values, outside the confines of any appraisal law and Constitutional Law forever. Such a ruling would spread across Texas and the United States to the benefit of society. The **Prayer** in the Supreme Court Case to remand to the lower Court for adjudication of the fraud, will address all these issues.

What do these frauds all have in common? Criminal behavior, involving shadow banks that in today's world are responsible for roughly 30% of all outstanding bond debt, having pension…401Ks…other banks as investors, almost no jail time, politicians and government employees that talk about protections but are in all cases 100% reactionary and always when it is too late, and no due diligence (transparency) from which to see how the soup of financial debauchery has cooked the books and who is ultimately responsible.

Summary:

You have been robbed and there is nothing you can do about it! That is the attitude of the school districts, CADs, and politicians.

This document is the irrefutable case that regardless of corporate financial measurements of value or real estate measurements of value (real estate is also owned by corporations), the vast majority of CADs do not adhere to USPAP and with these CADs claiming they adhere to USPAP, that is **Perjury**. The mountain of evidence at www.mockingbirdproperties.com/dcad proves dozens of laws are being violated as is USPAP to the point that USPAP and the Appraisal Foundation may as well not exist. When a property tax invoice is sent, made up of fraudulent valuations, that is **mail fraud** under Federal law with considerable legal exposure to those that participated in the creation of the mail fraud.

The Game is rigged and the data bases at the CADs are irretrievably corrupted.

This case is about law, being either the law exists or it doesn't. This case is about politics as it is the politicians that gave cover to the School Districts purposefully turning a blind eye to the **investigations required and requested about the fraud which is a violation of Chapter 42 Section 1986 "Knowledge of a crime and power to prevent".**

The bondholders being the pensions and 401ks that invest in these fraudulent bonds are at extreme risk as are the property owners who cannot pay off the fraudulent debt.

CONCLUSION: **THE CHANNELS OF FINANCE HAVE BEEN STUFFED WITH FRAUD BY CREATING CREDIT INCLUDING PRINTING OF MONEY (AKA YOUR DEBT) AND ALLOWED BY NO OVERSIGHT CREATES THE OVERVALUATION AND CORELATED OVER TAXATION OF ASSETS BEING BOTH CORPORATE AND PERSONAL (HOUSING) THUS CREATING INFLATION BY FRAUD. IT IS THE FRAUD THAT WILL CAUSE 37% + OF THE HOUSEHOLDS (approx. 42,000,000 Household) TO GO BANKRTUPT OR LOSE THE ROOF OVER THEIR HEAD. The economic fallout will be many times greater than the crash of 2007.**

No homeowner in the entire United States signed up to go bankrupt for any school in the Texas or the U.S.

Just like when Michael Burry discovered that Mortgage Backed Securities which were comprised of subprime lending were converted to bonds with AAA Ratings and sold to the unaware public with the blessing of the bond underwriters this case is the same parallel in that In Texas and across the U.S. the School Districts packaged up inflated fraudulently appraised values, to meet pre-determined budgets, knowing they can ***never*** be paid off and turned them into bonds. It takes more bonds to pay off – Roll out and Roll up the principal and debt which by definition is Ponzi scheme. The homeowners are completely upside down as the Median Household Income does not exist to pay off the debt today, never mind tomorrow morning as the interest compounds daily. **The moral hazard, again just like 2007, is "To Big to Fail" but in this case they must fail (via bankruptcy) and the entirety of funding school districts via bonds must be destroyed, and no school district allowed to ever again obtain money from the bond market using property owners' property as collateral.**