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To Whom it May Concern and to the Benefit of the Taxpayers of Texas

This Document Has Been Prepared for the SEC Regarding Matters Pertaining to Systemic Problems in Texas Relating to Bond Fraud and Corruption with Taxpayer Money

Its purpose is to highlight parallels with the findings by the SEC into fraud and corruption exposed in Crosby ISD. It is to prove the fraud and corruption is rampant across the State of Texas and has been for decades.

“What the Taxpayers Don’t Know Won’t Hurt Them”

The quote above was made by the business manager of a school district in northeast Texas during a meeting held in the spring of 2019. This statement has been repeated dozens of times by school officials across the State of Texas for decades. I know because I was present in many of these instances. It is a direct reflection of the sentiment of elected school board members and superintendents towards the taxpaying public that keep them employed at the detriment of personal financial loss and ruin due to the fraud and corruption embedded in the public education system in Texas. What has taken place in Texas is undeniable and proven by the public record.

The problems and issues that exist in Texas would take a book of many volumes to cover adequately and in detail. I will make this document as short and concise as possible to describe the root problem(s) and why elected leaders in Texas have put the state at risk of a total financial collapse.

The Crosby ISD investigation highlights multiple problems pertaining to bond fraud and how it has been perpetrated in Texas school officials across the state for decades. It is not complicated but actually a very simple problem that has been ignored by state leader and public educators for decades. I will use the simplest and broadest terms and method to describe what has taken place in Texas in both public and private meetings between school officials, state leaders, contractors, vendors, consultants, and architects who are supposed to be following rules, statutes and the law but have failed to do so for decades.

The Undefined Scope of Work

If there is a single key and hinge pin in which everything that follows and is built upon it is simply this problem, the **“undefined scope of work.”**

1. Bond Referendums

- 1.1. Bond Referendums have and are currently being put forth by school districts across the state as we speak without boundaries or definition as to what taxpayers are going to

receive in exchange for their financial sacrifice to fund the perpetual bond Ponzi scheme in Texas. This has and is common practice in Texas as well as other states across the nation.

- 1.2. School board superintendents and board members use fraudulent and deceptive tactics to put together projections for the increase(s) in property taxes as a result of a proposed bond. These numbers are based on fraudulent and deceptive practice and means to elevate property values to increase tax revenues to fund school bond projects. It is impossible to know what the REAL financial need is to fund ANY type of project without the REAL cost of these projects being known. This is the first step in the bond fraud Ponzi scheme in Texas.
- 1.3. School districts use values based on nothing more than speculation and a wish list approach to determine how money they need from taxpayers. They hire their favorite construction companies as the Construction Manager at Risk (CMAR) to put together some very loosely derived numbers for projects to quote “cover the worst-case cost” for the project(s). This is the second step of the bond fraud phase.
- 1.4. School districts in 95% of ALL bond projects do not have completed construction drawings, specifications, bid documents or bids received from contractors when advertising a bond referendum to the taxpayers within the district’s taxing jurisdiction! This is absolute insanity from both a construction and financial perspective. The REAL cost of anything is unknown at this phase. Examples: Godley, Cleburne, Itasca, and Celina ISDs have put forth bond referendums without this information being available to taxpayers. In the case of Celina ISD, the \$2.3 billion dollar bond package was pass by naïve voters who have no clue as to how the game is played and who they have put at risk of losing their homes. This is the third step of the bond fraud phrase.
- 1.5. **Conflict between local and state government officials.** In Texas on May 3rd, school districts put forth bond referendums across the state for voter approval. Many failed to pass but some did pass. The information and data provided to taxpayers during publicly held school board meetings describing the cost of the project(s) and tax impact for the bond measure voted on May 3rd were nullified by legislators during the 89th legislative session when the homestead exemption values were increased and signed into law by Governor Gregg Abbott after the May 3rd election. The entire tax base in school districts just changed dramatically and homeowners are not even aware of just what happened to them. Many senior homeowners in Texas completely dropped off the taxable base of school districts when the homestead exemption for seniors over sixty-five was increased to \$200,000.00. The actions of legislators and state leaders just made ALL bond measures that passed illegal and void. The right hand does not know what left hand is doing in Texas and taxpayers are caught in the middle. This is the fourth step of bond fraud in Texas.
- 1.6. **Collateral Damage-** In the state of Texas it is the homes of taxpayers that have been put up for collateral for bond projects without taxpayers even understanding how the game is

rigged and the bond Ponzi scheme actually works. Many naïve citizens and homeowners have been hood-winked by state leaders and public educators by the mantra used so often, **“we are doing this for the children”** then when the tax bills come, they find out they have been taxed out of their homes. The property foreclosure rate is skyrocketing in Texas. Homes are being sold at auction on the courthouse steps for pennies on the dollar so school superintendents and board members can get the things they want on the Christmas Wishlist by issuing fraudulent bonds and obligating taxpayers and homeowners under the current ad-valorem taxing system that has been used for decades in Texas and violates the 16th Amendment of the US Constitution by being taxed on un-realized gains on personal property. This is the **fifth** step but one of the most important points in the legal challenges currently underway by taxpayers to eliminate ALL property taxes.

- 1.7. Discretionary Spending by School Officials is Unchecked** – Many school district officials are successful in getting their proposed bond referendums passed by naïve taxpayers who do not understand how the system is rigged against them and how they are putting themselves at risk of losing their most valuable asset their homes. If a school superintendent and board of trustees are successful and pass a bond for \$50,000,000.00 as an example. If the real project cost ends being \$40,000,000.00 after all design and engineering is completed and bid packages are issued and actual bids submitted. The current system allows school officials to have control of the \$10,000,000.00 in excess funds to be used at their discretion without a system of checks and balances. This is a root problem that has led to the excess bond debt in schools all across Texas. Under the current system a major financial default is inevitable. If not stopped will very soon the financial impact to the bond market and credit ratings will be far worse than anything that has ever occurred in the US. This is the **sixth step** in the school bond Ponzi scheme but a major one.

2. Off Balance Sheet Contracts, Long-Term Lease Purchase Agreements and Hidden Debt

- 2.1. There are no limits as to how far unethical and incompetent elected state leaders, school officials, and smart crooks will go to defraud taxpayers. Since the early 1990's many state leaders who have served and many currently serving along with many local government officials, public-school administrators and board members have been involved in one of the most deceptive and corrupt methods of “beating the system” to get their way. Some very smart crooks hood-winked state leaders over three decades and created an entire industry on the backs of taxpayers without no one even knowing it was happening right before their very eyes across the state of Texas. It has been part of the so-called **“Green Energy and Energy Conservation”** agenda that has been in existence since the early 1990's. It has cost the taxpayers of Texas billions of dollars in inflated costs for projects to replace lighting, HVAC systems and equipment, Building Control Systems (BAS) and what are known as snake-oil tactics sold to many incompetent school district officials for many years. These

contracts and debt obligations to third-party financing institutions have been hidden from taxpayers for decades. Even in Austin at this time currently serving state representatives do not even know this funding scheme exist today. This contracts have caused great financial harm and impact for taxpayers. There have been multiple conflicts between existing bond projects and ESPC contracts that overlap and have increased the cost of operating schools in Texas for decades.

- 2.2. Those legislators involved in the decisions to go along with the Ponzi scheme pitched by some of the most well-known big-name companies and their managers to bury their shenanigans from the taxpayer's eyes by hiding them deep inside the Texas Education Agency Code for years will be exposed in the federal investigations that have been underway since 2019 in Texas. The actions and conduct by lawmakers made it virtually impossible for the average taxpayer to even know this Ponzi scheme existed. It was not until late 2001 that it was exposed and now taxpayers are learning what has taken place in over four hundred school districts in Texas. This fraudulent, corrupt, and deceptive methodology and gateway to billions of dollars' worth of lucrative energy conservation contracts is known as "Energy Savings Performance Contracts" (ESPC) or Guaranteed Energy Savings Performance Contracts and to many simply as Performance Contracting (PC) in Texas. Legislators by design and intent to defraud the public hid this deep in the **TEA code in Chapter 44.901, Subchapter "Z," Miscellaneous Provisions**. Every individual at every level of public office in the State of Texas including those individuals working for Energy Service Companies (ESCOs), subcontractors, vendors, consultants, and engineering firms have participated in acts of fraud and corruption against the public and will be found guilty in a court of law. Their involvement regardless of their position and role in the process will lead to criminal indictments as has already happened in Texas. It has taken almost 20 years for the first shoe to drop and to expose what has been going in Texas for decades. Taxpayers got a huge break when the US Justice Department investigated and exposed a huge bribery and kickback scheme involving millions of dollars from a contract executed by the La Joya ISD in the Rio Grande Valley. The investigation by the Justice Department was going on at the same time efforts were underway to expose the fraud with the contract by a taxpayer and citizen of Texas who had been working undercover to expose the Ponzi scheme since late 2004.
- 2.3. The crooks involved in this scheme had it made for years, and no one questioned the too good to be true Ponzi scheme until an energy engineering working on these contracts starting to catch on to what was going on and who was benefitting financially by deceiving city, county, state, and school leaders in Texas. It was an elaborate and complicated scheme that used a lot of high-level tech-no-babble to make it sound legit and above board. While there are many ways ESCOs defrauded school and local government entities these cannot be disclosed at this time due to projects that have been identified and that will be investigated soon and exposed by federal officials. Those individuals involved that held positions in places of authority and financial responsibility in city, county and school

districts are being called out by name for their involvement and failure to protect the interest of taxpayers and citizens.

- 2.4. **Precedence Set in Court**- As part of the fallout of the US Justice Departments investigation in the Rio Grande Valley into La Joya ISD another huge victory for taxpayers happened. The judge that over saw a case filed by a former mayor in the City of Mission ruled the methodology as outlined in the Performance Contracting statutes violates the Texas State Constitution. This resulted in a contract worth \$21.7 million dollars to be nullified. Judge Noe Gonzales at the 370th district court Hidalgo County ruled the statute violates multiple tenants of the Texas State Constitution. Even after this ruling by the court the State of Texas and leaders in Austin with close ties and relationships with ESCO companies involved in millions of dollars' worth contracts have tried to protect and defend the state agencies and school districts for their involvement. Many of these leaders and school districts will be exposed in the federal investigations moving forward at this time.
- 2.5. **Writing Hot Checks**- For decades cities, counties and school districts have written hot checks from unfunded escrow accounts set up with third party financing institutions to fund the up-front cost of projects ranging in cost from \$1.0 mil to \$100 mil without taxpayers even knowing it happened. The too good to be true scheme pitched to city, county and school districts have put many financial officers in grave danger of facing criminal charges and serving time for going along with the Ponzi scheme. The idea behind the ESPC legislation and Ponzi scheme is; ***"this is not going to cost the taxpayers a dime"***! We all know how this ends up. To this day there has never been a 100% guaranteed energy savings contract signed in the state of Texas. It only takes three maybe four questions to someone involved on the witness stand to prove they are guilty of fraud, corruption and the intent and design to defraud the public. Local government entities are not allowed to guarantee anything period. They are not allowed to use taxpayer money for guarantees or borrow money from an escrow account with a zero balance under the assumption it may or may never be fully funded from an energy savings contract executed with an ESCO operating in the State of Texas. Just the sound of this should raise red flags with anyone with commonsense yet elected leaders have been involved with these shenanigans for decades including current Governor Gregg Abbott when he was the attorney general of Texas in 2006-2007 and refused to take action to stop it. This all part of the public record and evidence that is now in the hands of the US Justice Department.
- 2.6. **Energy Savings Not Quantifiable**-The off-balance sheet and long-term lease purchase agreements with third party financing institutions are all hinged on the ideology that a project(s) can be funded from future energy savings (dollars) as a result of buying and installing lighting, mechanical, control systems and a host of other snake-oil ideas from ESCOs. The projected and stipulated energy savings are calculated and derived from a data set that is needed but does not exist! This is the kryptonite and silver bullet to the whole Ponzi scheme that has been exposed. There are many nervous individuals who have been

involved in this deception and deliberate intent to defraud the public for many years. There has been a federal court case filed and won by the US Justice Department with an ESCO on a federal project in December of 2021. This ESCO has had free reign in Texas for almost thirty-years and has many friends in Austin to whom they help fund their campaign war chests. One of the individuals involved has a picture of him and Governor George W. Bush at that time when he was given a campaign contribution. There are several individuals in the electrical generation and distribution industry that will testify in court the ESPC contracts are a Ponzi scheme and always have been.

- 2.7. **Conflict and Additional Cost and Burden to Taxpayers**- Part of the fallout and cost to taxpayers from bad bond and energy related projects is the additional cost to correct the problems left behind by ESCOs. There are several school districts in Texas that were impacted severely from bad decisions made by school officials to execute a ESPC contract in their district. Several of the projects executed conflicted with current projects done with bond money and resulted in one district spending over \$8.5 million dollars for an ESPC contract that was not even necessary and so wrong it is hard to describe it. The district spent \$8.5 million for no reason initially and then had to spend ~\$1.5 million dollars to correct problems with the project over several years. The poor decision by this district in 2005 is still impacting taxpayers today. The district involved in this case will set the precedence in court and across the State of Texas and will expose every facet of what is wrong in Texas. I have reached out to several districts to come forward and use their examples as evidence in court to prove what can happen. At this time not a single district will come forward and has refused to cooperate as advised by their legal counsel they are hiding behind at this very time. These law firms and lawyers have exacerbated the problems and extended the financial harm and injury to taxpayers within the districts involved. These firms and districts should be held accountable in every way to provide relief and compensation to those taxpayers they have defrauded.

3. Chapter 313 Agreements to Subsidize the Green Energy Industry on the Backs of Taxpayers

- 3.1. Another huge problem in Texas and school districts is related to what are known as Chapter 313 Agreements and offer solar farm owner/operators huge tax abatements to reduce their tax burden on real property installed to construct a solar farm. School district officials and board members do not have the knowledge and experience from a technical and financial perspective to be allowed to make any such agreements or negotiations without taxpayer input or a vote of approval by taxpayers. The State of Texas has violated the rights of citizens and taxpayers regarding Chapter 313 Agreements and what now called JETI Agreements (Jobs, Energy, Technology, and Innovation Act).

- 3.2. These tax abatement agreements have multiple problems and issues in regard to their legality and information provided to the State Comptroller that is not vetted and falsified in regard to cost and actual generating capacity. Below are some of the key problems.
- 3.3. It is the position of taxpayer's local school districts and officials do not have the authority or power to execute a Chapter 313 Agreement that results in a financial impact on taxpayers. Taxpayers have been left out of the equation and process and denied due process to participate in important matters that impact them financially. The State of Texas and leaders in Austin do not have the power or authority to bestow power(s) or authorities to any individual including school board superintendents or board of trustees to infringe, suppress and limit in any fashion the rights of taxpayers as granted in the US Constitution and Bill of Rights. Leaders in Austin have violated the rights of citizens and taxpayers for decades in Texas. These claims are undeniable and based on the public record.
- 3.4. School districts and their legal counsel have refused to cooperate with formal written requests made to disclose information relating to public contracts and funds regarding a local government entity in Texas. Taxpayers have been denied due process as required by law.
- 3.5. Chapter 313 Agreements and Conflicts with State and Matching Funds
 - 3.5.1. School districts have failed to take advantage of available taxable revenue from solar farms and put additional burden(s) on State resources and funding as well as issues pertaining to federal funding and grants.
 - 3.5.1.1. School officials including superintendents of school and board of trustee members have failed to take advantage of all available local tax revenue and spread the tax burden fairly across those taxpayers residing within the taxing jurisdiction of their respective districts.
 - 3.5.1.2. These problems are part of the school bond fraud and Ponzi scheme that exist in the public education system in Texas.
 - 3.5.1.3. Taxpayers and homeowners in Texas have been rendered financially bankrupt and their lives ruined forever due to the decisions by school superintendents and board of trustee members to subsidize big business and the Green Energy industry on the backs of taxpayers.
 - 3.5.2. Failure to validate the real cost of the installation. No documents available to verify what the real cost of installation really is therefore the real property value used to levy property taxes is unknown.

- 3.5.3. Failure to validate the generating capacity as stated in the application. Requests have been made to ERCOT for data to see if the completed solar farms have met the values as stated in the applications with the State Comptroller's office. Nothing has been provided at this time from ERCOT or the State Comptroller.
- 3.5.4. Failure of school district officials to apply fair uniform and equal tax burdens across the district. School districts have demonstrated bias and prejudice against taxpayers in the district that do not benefit from the Chapter 313 Agreements.
- 3.5.5. School districts allowing depreciation schedules to be applied to real property of solar farms installed for ten years. Normal citizens and taxpayers are not given the same treatment to depreciate the value of their homes but instead are subjected to increases of property taxes based on un-realized gains on personal property a direct violation of the 16th Amendment. This point is made in the Vexler vs. Denton County CAD and Don Spencer that has been filed.
- 3.5.6. Conflict with depreciation schedules agreed to and negotiated by school officials with solar farm owner/operators and depreciation schedules used by solar owners/operators filed with the IRS for federal income tax purposes. Solar farm owner/operators use a twenty-five-year cash flow model to evaluate the validity of the project from a financial perspective. Solar farms are built on the ideology the output will remain as high as possible for twenty-five years or longer. If this is true, then how does a depreciation schedule make sense?
- 3.5.7. Failure of school districts to disclose and quantify the tax revenue generated by the ad-valorem taxes levied on the real property value being taxed as a result of the negotiations with the Chapter 313 Agreements. Multiple requests have been made to school boards and their legal counsel by taxpayers for financial information and proof there was any financial benefit to the district.

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