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Ellis Straddles the Line Between Politics, Municipal Finance and Public Policy.

AUSTIN - Over the past 26 years, state Sen. Rodney Ellis, D-Houston, has voted to confirm gubernatorial appointments to the Lower Colorado River Authority, a powerful electric utility in Central Texas. During the same time, financial firms he either owned, worked for, or owned stock in have profited handsomely by helping underwrite \$3.7 billion in bonds sold by the authority.

Ellis, who is seeking the Democratic Party's endorsement for a seat on the Harris County Commissioners Court, has an impressive legislative record well-known to voters - 676 bills he has authored or served as the lead Senate sponsor have become law, including major reforms to Texas' criminal justice system, schools and community colleges.

But because of Texas' lax ethics law, much less is known about Ellis' equally impressive career in the lucrative government bond business, which repeatedly has placed him in a position to exercise authority over local governments and public agencies whose bond proceeds were being used to pay Ellis' firms. His dual role as lawmaker and bond underwriter has left him straddling the line between politics, municipal finance and public policy, raising questions about potential or actual conflicts of interest, or the appearance of conflicts.

Since first being elected to the Texas Senate in 1990, Ellis has been involved directly or indirectly in municipal bond deals totaling at least \$50 billion in Texas, an analysis by the Houston Chronicle has found. Nearly all of those deals have involved several firms doing "underwriting" - when firms are chosen or bid to buy bonds from a government agency and then sell them to investors.

The cost of issuing government bonds is about 1 percent of the bond's principal amount, or \$1 million for every \$100 million in bonds sold. About half that issuance cost, or \$500,000, would go to underwriters' fees, according to Public Sector Credit Solutions, a California-based research firm that has examined 800 bond deals nationwide since 2012.

'Proud' of varied roles

Ellis, in recent interviews via email, said he has not violated any ethics laws and has not done anything unethical in his votes as a legislator.

"There is no connection between my votes in the Senate and any bond underwriting," he said. "I'm a businessman, lawyer, and African-American involved in public finance. I'm proud of the fact that I'm one of the first to combine those four experiences and also have a successful legislative career at the same time."

Asked how his involvement with firms underwriting government debt would affect his work as a Harris County commissioner, Ellis told the Chronicle that if elected, he would "sever all ties with public finance companies."

That has not been the case during his legislative career.

In many respects, Ellis has benefited from a system in which Texas legislators set their own rules and many Texans appear reconciled with so-called “citizen legislators” who hold regular sessions every other year and often blur the line between public service and private interests. Ellis himself has said in floor debate that in “a part-time citizen legislature ... there are going to be some inherent conflicts in how people derive income.”

The list of government agencies whose bonds Ellis’ firms have helped underwrite is a long one, including the city of Houston, Harris County and the Houston Independent School District. Others are far removed from his power base, like the Lower Colorado River Authority in Austin and the North Texas Tollway Authority in suburban Dallas.

In 1993, Ellis was chairman of a Senate committee that handled legislation affecting how local governments operate. While he wielded the gavel, the firm he co-founded was doing bond work for at least 26 local governments in Texas and collecting at least \$375,000 in fees.

Ellis’ firm in 2010 was among seven that bought and sold \$256 million in bonds issued by the Port of Houston Authority for the port’s expansion. Two years later, Ellis opposed a proposal that would have enabled the governor to appoint all members of the port commission, saying the authority should not be singled out despite major questions about its leadership.

Ellis was a member of the Senate Transportation Committee in 2014 when his firm helped underwrite \$130.6 million in bonds for the Metropolitan Transit Authority of Harris County and \$379.6 million in bonds sold by the Dallas Area Rapid Transit Authority, and in 2012 when \$134.6 million in bonds were issued by the North Texas Tollway Authority.

State law does not require Ellis to categorize in his ethics statements that the firms he has owned, worked for, or owned stock in specialize in government bond deals.

Texas lawmakers have to disclose clients only if they are lobbyists or if they work for public agencies or companies that employ lobbyists.

In his personal financial statements from 1991 through 1994, Ellis listed 56 fees that his firm received from local governments and public agencies, such as river authorities, that wield power across several counties. He was not required to reveal what the fees were paid for, but the Chronicle confirmed that Ellis’ firm worked on bond sales by Harris County, the city of Houston, Bexar County, the city of Austin, the Trinity River Authority and Dallas-Fort Worth International Airport, among several others. He did not have to disclose the fee amounts – only within ranges. Of the 56 fees listed, 42 were \$25,000 or more.

Ellis has not disclosed any government bond fees after filing his personal financial statement covering 1994. Ellis’ financial services firm and the New York City company that bought it in 1998 and kept Ellis on board as a managing director have done bond deals with many of the same local governments, which have continued to employ lobbyists.

“From 1991 to 1994, I thought the disclosures I made were required,” Ellis said in an email to the Chronicle. “I was advised in 1995 that the disclosures were not required.”

Other states have more expansive requirements for legislators to disclose clients.

In California, legislators must identify those who pay them more than \$10,000 per year. Florida’s law triggers disclosure if legislators receives more than 10 percent of their gross income from a client and the total is more than \$1,500. New York lawmakers must list clients if they or their employer received more than \$10,000 in connection with work on state legislation, a contract or a

grant.

A U.S. senator or House member is barred from working as a government bond underwriter, said John Wonderlich, policy director of the Sunlight Foundation, a nonprofit organization in Washington, D.C., which advocates for transparency in government.

Tom “Smitty” Smith, director of the Texas office of Public Citizen, a nonprofit watchdog group, has watched Ellis in action from the start of his legislative career. During that time, Ellis has taken the lead on ethics issues, from requiring more disclosure to overhauling how judicial campaigns are financed, Smith said.

“There’s the good Rodney and the bad Rodney. The good Rodney knows what needs to be done, but he also has made a lot of money off of connections, knowing who to talk to, and selling bonds,” Smith said.

On several occasions, Ellis has defended his work in public finance by noting that legislators receive only \$7,200 a year in salary. Ellis said in 2013 that he wouldn’t run for Congress because he couldn’t take a pay cut. Congressmen are paid \$174,000 a year.

Controversial work

Ellis was a Houston city councilman in 1987 when he and two others opened a public finance firm, Apex Securities Inc., in a field that Ellis referred to as “overwhelmingly white.”

“There was a growing recognition in the public sector for leaders to insist that minorities and women be allowed to break into” the public finance profession, Ellis said.

But the firm’s work generated controversy.

In 1993, state Rep. Ron Wilson, D-Houston, criticized Ellis for doing bond work for the city of Houston while trying to make sure city officials got legislative approval for a \$500 million bond sale.

Ellis removed his firm from a city contract that had been awarded to help sell \$119 million in certificates of obligation. The city was borrowing the money as it waited for the Legislature to pass a law enabling the bond sale to go forward.

In 1998, a New York City financial services firm, Rice Financial Products, purchased Apex Securities. The terms were not disclosed. After the sale, Ellis became a managing director of Rice Financial.

When Ellis was first elected to the Senate in 1990, he listed owning stock in three companies, according to his personal financial statement filed with the Texas Ethics Commission. By 2003, five years after he sold Apex Securities to Rice Financial, he owned stock in 181 companies, including shares of Coca-Cola, Walt Disney Co., Morgan Stanley and Rolls Royce Group.

Ellis has not been required under Texas law to disclose much about his activities with Rice Financial.

Since 1999, he has reported the firm as a “source of occupational income,” listed managing director as his title most years, and characterized his occupation as “investment banker.” An exception was in his ethics statements covering 2012 and 2013 when he did not receive income from Rice Financial. For 2014 and 2015, he listed the firm again as a source of occupational income.

Ellis was required to disclose his ownership of stock in Rice Financial, a privately held firm, in

ranges. That ownership increased in 2008 from “less than 100” shares to between 1,000 and 4,999 shares since then. He is not required to disclose how much those shares are worth.

Legislators and other public officials who are required to file annual ethics statements don’t have to disclose their income, either as a precise amount or within an approximate range.

Ellis sidestepped several questions about his work at Rice Financial, other than to say it involved “providing strategic advice” about the bond market.

“I absolutely brought respect and earned clients’ trust across the country, and in doing so,” he said, “I brought income to the property.”

Richard Ramirez, who co-founded Apex Securities with Ellis in 1987 and has remained in touch with him, said: “Rodney is just about work – politics and work, all the time. He hits it hard all the time.”

True to form

Ellis played true to form during last year’s legislative session when Gov. Greg Abbott took aim at lawyer-legislators in an ethics reform bill he put forth as one of his top priorities.

The Texas Constitution requires legislators to disclose if they have a “personal or private interest in any measure or bill, proposed, or pending, before the legislature” and they are barred from voting.

They have interpreted that provision, according to Abbott, “to mean they do not have a conflict of interest if they vote on legislation that affects an entire industry and not just their own specific business.”

In his legislation, Abbott wanted to require legislators and statewide elected officials to disclose more about their sources of income – specifically government contracts or other deals in which they or their spouses get paid by public agencies. In addition to requiring greater disclosure by lawyer-legislators, Abbott proposed banning lawmakers from serving as bond counsel for government debt. The bill carrying Abbott’s ethics reforms included a provision to ban lawmakers from working as lobbyists.

Ellis – who noted during the debate that he is an “investment banker” and not a bond counsel – attacked the bill from several angles in committee and on the Senate floor. Commenting on the proposed ban on public officials working as lobbyists, Ellis lectured the bill’s sponsor, Sen. Van Taylor, R-Plano, that the founding fathers of Texas “wanted us to go out to work. So what you would do is prohibit someone from being able to work, in terms of doing lobbying work.”

In the end, Ellis voted for the bill.

“I support increasing all disclosures – tax returns, inherited wealth, and anything else the legislature chooses to require – but I do not support requiring them only of members in selected professions,” Ellis said in a recent email.

The bill died after the House and Senate Republicans could not reach agreement on a compromise version.

‘I don’t work on deals’

Four months after last year’s legislative session ended, a New York City investment firm, Bonwick Capital Partners, hired Ellis away from Rice Financial to expand into the competitive field of public

finance. In announcing Ellis' hiring, the firm noted that Ellis had a quarter of a century of experience in both municipal finance and the Texas Legislature.

When asked if Bonwick hired him to tap the Texas government bond market, Ellis said: "I don't work on deals; I'm simply a strategic counsel to Bonwick employees."

It appears that Ellis, if he gets the nomination from Democratic precinct committee members in June and is elected in November as a member of Harris County Commissioners Court, would have to abstain from voting if Bonwick Capital competes for Harris County bond work. He has said he would resign from Bonwick and not work for any other public finance firm if elected.

If he steps down, it would be the first time in three decades that Ellis has not worked at the intersection of politics, municipal finance and public policy.

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By James Drew

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