



# Texas State Sen. Rodney Ellis' firm profits from bond business with local public agencies, including many he represents in Austin



State Capitol in Austin by flickr user candid honey

Monday, Sep 27, 2010, 09:30AM CST  
By Jennifer Peebles & Steve Miller

**Ellis' investment bank involved with \$50 billion worth of bond issues by Texas public agencies, including billions with city of Houston, Harris County and Houston Metro; expert says work poses conflict.**

A new warehouse for lunchroom food for the Houston school system. [Reliant Stadium](#), the [Toyota Center](#), the [Harris County Civil Justice Center](#) and the [Hilton Americas Hotel](#) next to Houston's convention center. A giant water pipeline, seven miles long, to provide water to millions of Houston-area residents. A 15-story expansion of a tower at [Texas Children's Hospital](#).

The projects have three things in common: They all cost millions of dollars to build. They were all paid for, or financed by, government agencies who would likely look to state [Sen. Rodney Ellis](#) to help them get things done in Austin. And Ellis' investment bank stood to profit from the construction of all of them.

Ellis' Houston-based firm, formerly known as Apex Securities or Apex-Pryor but now largely using the name [Rice Financial Products](#), has been involved in nearly \$50 billion worth of bonds issued by government entities in Houston and elsewhere in Texas since Ellis took his Senate seat 20 years ago, a Texas Watchdog analysis found.

Additionally, Rice Financial, Apex's New York-based parent company, has been involved in another \$4 billion in bond transactions with Texas public entities since it bought Apex in 1998, records show.



Sen. Rodney Ellis, pictured on the cover of a publication commemorating his service as governor for a day in 2000.

Ellis' firm has done bond business with nearly 80 public entities in Texas during his Senate tenure, including the [city of Houston](#), [Harris County](#), the [Houston Independent School District](#) and the [Harris County-Houston Sports Authority](#), whose leaders would likely call on Ellis for changes they want to see in state law or state financial matters.

His firm has also worked on hundreds of millions of dollars in bond issues for transportation agencies, including Houston's public transit system, [Metro](#), while Ellis served on the state Senate committee overseeing transportation policy. Ellis has advocated for light-rail as a lawmaker, and at the same time, Ellis' firm was involved in and stood to profit from the millions of dollars in bonds Metro has issued in the past two years to build [additional light-rail lines](#).

*(Click here to jump down to a spreadsheet listing the bond issues Ellis' firm has worked on with Texas governments.)*

Ellis' firm does not do business with the Texas state government – the agency that issues the state's bonds, the [Texas Public Finance Authority](#), felt Ellis' involvement with the company might pose a conflict of interest, [Executive Director Dwight Burns](#) said. But as a prominent political figure in Houston, Ellis' work with local government agencies who would likely call on him for support or representation could also raise ethical questions.

"This is a problem of the first order," said [Russell Muirhead](#), the Robert Clements associate professor of democracy and politics at [Dartmouth College](#) in New Hampshire. "This points to one of the fundamental problems in money and politics and to the kinds of ethical conflicts of interest that can afflict people who are trying to do business with public entities at the same time they're trying to represent those entities."

Others disagree.

"I think we have to realize that these guys are part-time legislators and full-time something else," said John Breeding, president of the [Uptown Houston District](#), a small local agency overseeing a special tax zone around Houston's swanky [Galleria](#) area. Rice and Apex have worked on six of the district's bond issues, worth \$83 million, since 2002.

"As long as there are ethics rules that our elected officials have to operate under, I'm comfortable with that," Breeding said. "We also have rules we have to operate under, and as long as we meet those rules, I'm OK. I don't think you can make it perfect either way."

*(A number of Texas legislators have faced potential conflicts of interest or other ethical issues in recent memory. Read our companion piece about lawmakers from both parties who have drawn controversy.)*

Some other examples of the bond issues in which Ellis' firm was involved and stood to profit:

- Construction of new schools in [Aldine](#) and [Rosenberg](#), both in Houston's suburbs, in the early 2000s. Ellis' firm made \$13,000 profit off bonds sold by the [Lamar Consolidated Independent School District](#) in Rosenberg, records show.
- Construction of 15 additional stories on the [West Tower of Texas Children's Hospital](#) several years ago, a \$100-million-plus project financed by a nonprofit arm of the Harris County government.
- Construction of a [giant water pipe](#) nearly 15 years ago to carry water from [Lynchburg Reservoir](#), near the [San Jacinto Battlefield Monument](#), to a City of Houston water plant for cleaning and treatment.
- The borrowing of nearly \$240 million by Houston's Metro system last year to extend the city's light-rail system.
- The borrowing of \$825 million last year by the [North Texas Tollway Authority](#) to fund additional construction of the [Sam Rayburn Tollway](#) and the [President George Bush Turnpike Eastern Extension](#) near Dallas.

Maturity schedule showing future interest payments for a bond issue on which Sen. Rodney Ellis' firm served as an underwriter.

Ellis' firm's role in most of the transactions involved selling newly issued government bonds, a process called [underwriting](#). Underwriters buy up the new bonds at a discounted price and make profits selling them at higher prices.

Exactly how much profit Ellis' firm has made off of its work in Texas is not clear, as many public agencies said they do not keep records of how many bonds are sold by each firm on a given bond issue, or of fees or profits paid to those firms.

Using the [state public records law](#), Texas Watchdog sought such records for more than 100 bond transactions involving Rice or Apex in the past decade -- about a third of all the transactions the firm handled in Texas since 1992 -- but found that the government agencies in question could make available records of underwriters' profits in less than two dozen cases. The total amount paid to Ellis' firm in that small group is \$261,000.

The available records show Apex and Rice were minor players in most of the bond transactions the firm worked on in Texas, and, in that role, experts said Ellis' firm would have likely garnered just a fraction of the profits off each set of bonds issued.

Through a spokesman, Ellis declined to comment for this story. A Democrat who, as a former Senate speaker pro tem, was once third in the state's line of succession, Ellis faces minimal opposition in the general election this November in his bid for a seventh Senate term.

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**Ellis' firm's bond work with Texas public agencies**

State Sen. Rodney Ellis' investment bank, initially called Apex Securities but later referred to as Apex-Pryor and more recently as Rice Financial, has been involved in nearly 400 bond issues with governments and public entities in Texas during Ellis' Senate career. The spreadsheet below includes bond issues Apex worked on from 1992 to the present -- Ellis took his Senate seat in 1990 -- as well as bond issues Rice Financial worked on since 1999 (Rice bought Apex in 1998). The list below does not include bond work by Pryor McClendon Counts prior to Rice's purchase of that firm, at which time Pryor was merged with Apex to create Apex-Pryor. The data was provided by Thompson-Reuters News Service, which publishes [The Bond Buyer](#), a prominent trade publication.

**Bond issues : Sen. Rodney Ellis' firm**

Sale date	Amount of bonds	Issuer	Rice or Apex's role in this issue
2/15/1994	\$43,525,000.00	Alamo Community College District	Co-manager
3/20/2001	\$82,435,000.00	Aldine ISD	Co-manager
1/8/1993	\$105,035,000.00	Austin ISD	Co-manager
5/11/1998	\$41,250,000.00	Bell County Health Facilities Corp.	Co-manager
6/15/1998	\$34,710,000.00	Bell County Health Facilities Corp.	Co-manager
7/8/1992	\$4,200,000.00	Bexar County	Co-manager
7/8/1992	\$12,750,000.00	Bexar County	Co-manager
2/25/1993	\$55,760,000.00	Bexar County	Lead manager
9/21/1993	\$5,600,000.00	Bexar County	Co-manager
6/28/1993	\$83,100,000.00	Bexar County Health Facilities Development Corp.	Co-manager
10/22/1992	\$6,540,000.00	Bexar County Housing Finance Corp.	Co-manager
3/24/1999	\$110,545,000.00	Brazos River Authority	Co-manager
3/30/1993	\$3,475,000.00	Cameron County	Co-manager
5/14/1992	\$114,856,000.00	City of Austin	Co-manager
2/4/1993	\$71,600,000.00	City of Austin	Co-manager
6/3/1993	\$263,410,000.00	City of Austin	Co-manager
12/17/1993	\$75,955,000.00	City of Austin	Co-manager
8/17/1995	\$31,040,000.00	City of Austin	Co-manager
8/17/1995	\$362,205,000.00	City of Austin	Co-manager
10/8/1998	\$245,314,000.00	City of Austin	Co-manager
7/1/1999	\$25,000,000.00	City of Austin	Co-manager
7/1/1999	\$6,445,000.00	City of Austin	Lead manager
8/26/1999	\$110,000,000.00	City of Austin	Co-manager
11/28/2001	\$95,380,000.00	City of Austin	Co-manager
2/28/2002	\$74,750,000.00	City of Austin	Co-manager
2/7/2003	\$121,500,000.00	City of Austin	Co-manager
5/22/2003	\$62,585,000.00	City of Austin	Co-manager
10/17/2003	\$51,850,000.00	City of Austin	Co-manager

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**Houston News** | 9 min 37 sec  
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**Texas Tribune** | 12 min 27 sec  
@nytimes editorial praises TX juvenile justice gains <http://nyti.ms/qTrzla>

**Houston News** | 12 min 38 sec  
Another protest today: Group gathers to HEB, blaming the CEO for blocking the sar cities bill in #txlege: <http://bit.ly/pgNw3k>

**YNN Austin** | 14 min 5 sec  
Headlines: W Hotel reopens after falling g debacle <http://bit.ly/pz3NHw>

**Beaumont Enterprise** | 14 min 10 sec  
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## Harris County among clients for Sen. Rodney Ellis' firm

Monday, Sep 27, 2010, 09:30AM CST



By Jennifer Peebles & Steve Miller

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Ellis has never tried to hide that Apex and its parent company specialize in selling bonds issued by state and local government agencies, or that the company is successful in what it does.



The Harris County Civil Justice Center was under construction when this photo was taken in 2005.

Photo from Harris County courts

His official state Senate website lists his primary occupation as a partner in Rice Financial Products, and his work for the firm -- in both Rice and Apex -- is listed on the personal financial disclosure statements he and other legislators are required to submit each year to the Texas Ethics Commission.

Meanwhile, Rice's website clearly explains that its focus is to "provide services to municipalities and not-for-profit institutions," including bond underwriting. The firm touts its successes, including serving as one of five chief underwriters when the Empire State Development Corp. borrowed \$1.5 billion last fall to fund various public projects in New York.

Though it is dwarfed by giant competitors such as Citigroup and Bank of America Merrill Lynch, Rice was ranked as the fourth-largest black-owned investment bank in the nation by Black Enterprise magazine this year.

But few Houston voters may understand the scope of the work Ellis' firm has done with public agencies in this region, a lack of understanding likely fostered by the complexity and arcane nature of high-dollar public finance.

Apex and Rice have served on the underwriting teams for nearly \$2 billion in bonds issued by Harris County since 1992, according to records maintained by Thompson-Reuters News Service, which owns the influential industry publication The Bond Buyer. (Thompson-Reuters' data was used by Texas Watchdog as the basis for this story and the analysis that appears throughout it, along with records from the federal Municipal Securities Rulemaking Board and the local government agencies.)

For instance, Apex was on the team of investment banks that underwrote the \$196 million in bonds the county issued in 2002 to build the 18-story Harris County Civil Justice Center, which opened three years ago at the corner of Caroline and Franklin streets downtown. Also in 2002, Apex was one of the underwriters for another \$240 million in county bonds and notes, most of which went to pay off older bonds that carried a higher interest rate.

"I know Rodney pretty well, and one thing I can say is that he has never used his influence to try to curry business from us," said Edwin Harrison, Harris County's director of financial services. In fact, Harrison said, "there has really been no love lost between me and Rice" in recent years, he said, after Rice founder J. Donald Rice Jr., a Wall Street financier, took a hard-sell approach with the county on some investments several years ago, before Ellis was connected with the firm.

The senator, Harrison said, "knew we weren't doing business with Rice, but he never said to me -- and he could have very easily said to me, 'Hey, man, how come y'all don't do business with us?'"

Harrison said his office has chosen Rice to take a lead role for an upcoming series of bonds for toll road construction, prompting Rice's representative to joke, "We're out of the doghouse finally."

Ellis' firm has also served as underwriter on another \$2 billion in bonds issued since 1992 by other government entities related to or operating within Harris County, including the Harris County Flood Control District and the county health facilities development corporation, which issued the bonds that financed the 15-story expansion of the West Tower of Texas Children's Hospital more than a decade ago.

Continued on Page 3: Houston finance director: Political influence not a factor in choosing Sen. Rodney Ellis' firm; expert sees ethical conflict

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<input checked="" type="checkbox"/> EMPLOYED BY ANOTHER	Rice Financial Products Company 333 Clay Street Suite 3010 Houston, TX 77002 Managing Director		
<input type="checkbox"/> SELF-EMPLOYED	Investment banker		

Sen. Rodney Ellis disclosed his role in Rice Financial on his 2010 state ethics form. Click to see the entire form.

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## Expert sees ethical conflict in Ellis' dual posts

Monday, Sep 27, 2010, 11:30AM CST



By Jennifer Peebles & Steve Miller

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Ellis' firm has done even more work with the Houston city government, serving as an underwriter on more than \$10 billion in city bonds since 1992, records show, and serving as co-financial advisor – an outside firm hired to serve as a government agency's independent third-party – on two other city bond issues worth a total of \$193 million.



The 2010 Houston Rodeo. Sen. Rodney Ellis' firm was part of the underwriting team for the bonds that built Reliant Stadium, the rodeo's home venue. Photo: Jennifer Peebles/Texas Watchdog

For instance, records show Apex was an underwriter on some of the \$624 million in bonds the city issued in 2001 to expand the George R. Brown Convention Center, build the adjoining Hilton Americas-Houston hotel, construct a nearby parking garage and pay back the money spent to buy land used as the site of what is now the Toyota Center, the domed arena that is the home court of the Houston Rockets basketball team. Both the hotel and the Toyota

Center opened in 2003.

(Apex also was an underwriter on \$769 million in bonds issued by the Harris County-Houston Sports Authority in 2000-01 to build the Toyota Center and Reliant Stadium. The recent downgrade of the sports authority's credit rating to "junk bond" status is unrelated to its choice of Apex to be part of those bond deals.)

Ellis' firm was also involved in the \$63.7 million in bonds the city issued in 2006 to keep afloat the pension systems of city workers and police officers, along with another \$24 million in bonds the city issued to pay back overtime to Houston firefighters who had sued the city.

"They've done a good job for us when they have been on deals," said Michelle Mitchell, the city of Houston's finance director. She plays a significant role, along with the city controller, in choosing which investment banks underwrite each set of bonds the city issues.

Among its other selling points, Mitchell said, are that Rice always has "bright, fresh ideas" on financing, it's minority-owned, and its Houston-based staff, whose offices are in the Three Allen Center building, is "attentive" in its work with the city.

Ellis' firm has also done extensive work for HISD, serving as an underwriter on \$1.6 billion in bonds since 1992 and serving as a co-financial adviser to HISD on another \$2.3 billion in bonds. Ellis' sister, Melody Ellis, was once president of HISD's board of trustees but has been out of that role for more than a decade now, though her private consulting firm has had a business relationship with the school district as a contractor since then.



Ellis' firm was also on the team for the bonds that built Houston's Toyota Center. Photo: Sports Authority

Outside Houston, Apex and Rice have done work in the past 10 years with the cities of San Antonio and Austin; San Antonio's public school system; the Lower Colorado River Authority, a major public power provider in Central Texas; Tarrant County; and the authority that manages Dallas-Fort Worth International Airport.

### PROTECTING THE CITIZENS' MONEY

Ellis' work in the underwriting field means the elected leaders of Houston, Harris County and other local government agencies must consider whether to do business with the company of an influential man whose help they may need in the legislature.

Now 56, Ellis gets things done at the Capitol, making the bills move and the deals work. He has twice made Texas Monthly's biannual lists of the state's best legislators (in 1995 and 2001), and, according to his own online tally, served as the state's fill-in governor for 50 days in 1999 and 2000.

At the same time, a Houston Chronicle profile from a couple of years ago described him as Quixotic, tilting at windmills again and again – only unlike Quixote, he actually beats the windmill sometimes.

A lawyer as well as an investment banker, Ellis fought for and eventually won the state's first posthumous pardon for an inmate who died in a Texas prison who, evidence finally showed, really didn't do it. (Outside the legislature, Ellis chairs the Innocence Project, a nationwide initiative working to free the wrongfully convicted.) And after repeated tries over the years, Ellis got Texas' first reporter shield law passed last session, earning plaudits from First Amendment groups.

A Houston city councilman before his Senate service, Ellis takes pride in his role as one of Houston's biggest boosters and fiercest protectors in Austin, taking credit on his official Senate website for "passing four of the City of Houston's top priorities in the 2005 legislative session." Those included fending off attempts to outlaw red-light cameras and protecting then-Mayor Bill White's Safe Clear towing program from its opponents.

Officials with both the city of Houston and Harris County told Texas Watchdog they included Ellis' firm on those bond transactions because of the firm's own merits, not because of any political influence the senator might hold or provide.

"I can't choose it on that. I have to choose who I think is best for the city," Mitchell said. "We're using the citizens' money. And my role here as finance director – and I know the controller and the mayor feel the same way – is that we have to protect the citizens' money." She said she had never felt any kind of political pressure to steer business toward Ellis' firm.



MITCHELL

The city has often opted to work with competing firms – and not Rice or Apex – out of a desire to give a wide variety of investment banks the chance to work with the city, Mitchell said.

And the city has done what was in the city's best financial interest, not Ellis' firm's, she said.

In one particular example, she recalled a meeting in progress she entered in White's office, at which Ellis was present. The senator talked to the mayor about working with Ellis' firm to invest in derivatives, a complex type of financial instrument different from bonds or stocks and which can be lucrative but also risky – heavy investments in derivatives drove Orange County, Calif., to a massive bankruptcy filing in 1994.

In addition to underwriting municipal bonds, Ellis' firm also sells derivatives to governments, and derivatives were Rice Financial's main focus when it bought Apex in 1998.

"We did discuss what Rice was offering in that meeting, and the mayor asked me what I thought, and I said, 'Mayor, we're not prepared to do swaps (interest rate swaps, a type of derivative) at this time,'" Mitchell remembered. "And the mayor said, 'Fine,' and nothing else was said about it."

But the scene Mitchell described is problematic, Muirhead said.



MUIRHEAD

Ellis, he said, "is charged with representing the city of Houston in the state legislature. And Senator Ellis, as a businessman, is charged with trying to sell things to the city of Houston. That creates, at the very least, the appearance of a conflict of interest – and if, in fact, he is doing both of those things in the same meeting, then there is a conflict of interest, because the mayor would not be unreasonable to think that, if he buys the derivative that Senator Ellis selling, that what he needs in the state legislature might be more likely to happen at Senator Ellis' urging."

The crossover of business and politics is worrisome, he said: "If you're doing business with the very city you're representing, then the city has an interest in doing business with you, so that you represent it more effectively and energetically in the state legislature. And that's a conflict built into the role. And that's what people need to try to avoid."

Continued on Page 4: Mayor Annise Parker: Sen. Rodney Ellis 'not an active participant' in city's bond business

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**Christine Irizarry** | 2 min 38 sec  
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Who will direct Citizen Murdoch? "Murdoch's malign influence must die with the News of the World" http://t.co/BJkyEmh via @jeffjarvis

**Texas Tribune** | 7 min 27 sec  
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## Mayor: Sen. Ellis 'not an active participant' in city bonds

Monday, Sep 27, 2010, 10:30AM CST



By Jennifer Peebles & Steve Miller

(Continued from Page 3)

While state and local laws often require government agencies to work with private companies through a competitive bidding process, that's often not the case with bond underwriting. Many state and local governments in Texas and elsewhere are largely free by law to choose whichever qualified investment banks they want to be part of an underwriting team on a particular bond deal.

The overwhelming majority – 88 percent – of Ellis' firm's 391 bond transactions with public agencies in Texas from 1992 to 2009 fell under this largely free-form selection process, Texas Watchdog found.

Houston Mayor Annise Parker, who was city controller from 2004 to last year, backed up Mitchell's assessment of the city's relationship with Ellis, adding that Parker had taken steps as Houston controller that effectively gave Rice and Apex less of the city's bond underwriting.



PARKER

"Senator Ellis has not been an active participant in any city bond transaction," Parker said in a statement.

"Our overall goal is to assemble an underwriting team that is committed to the best possible financial outcome for Houston taxpayers. Rice Financial Services' performance ranks it worthy of our consideration.

"Once I became city controller, I rotated in other minority firms for a significant part of the city's bond business, which logically reduced Rice's participation – by more than half. It was not until 2007 that they were given a 'bookrunner' role, or full management, over a medium-sized bond series so that others

could be given an opportunity."

Ellis was one of the most prominent local political figures to endorse Parker's challenger, former City Attorney Gene Locke, in the 2009 mayoral elections. Ellis and Locke were both protégés of the late U.S. Rep. Mickey Leland, D-Houston; both men did stints as Leland's chief of staff, and Ellis has a son named for Leland. (Locke is also an attorney for Metro, the sports authority and for the Port of Houston Authority, for which Apex worked on five bond issues worth \$119 million between 1995 and 2000, records show.)

George Greanias, who served 12 years as city controller and is now the president and CEO of Metro, recalled that another staffer from Apex – not Ellis himself – usually dealt with the city on bond underwriting business. Greanias left the controller's post in 1996.

A handful of government agencies, including the city of Austin, the San Antonio Water System and San Antonio's power utility, CPS Energy, provided records to Texas Watchdog indicating that they used Rice or Apex on bond underwriting deals after the firm scored well enough on internal rankings assigned by those agencies' staffs to evaluate potential underwriters.

Rice made the cut with CPS, for instance, after the utility considered the years of experience of three top staff members (42 years at the time, including one executive who had experience with the Federal Reserve Bank), the fact that they had headed up nearly \$6 billion in utility-related bonds in the previous five years, and that Rice had previously worked with another major Texas utility, the Lower Colorado River Authority.

Continued on Page 5: Sen. Rodney Ellis serves on transportation committee while Ellis' firm underwrites bonds for transportation agencies

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Page 6: 'Politically connected': Sen. Rodney Ellis mixes business and politics, but profits hard to estimate

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## Ellis has overlapping roles on transportation

Monday, Sep 27, 2010, 10:30AM CST



By Jennifer Peebles & Steve Miller

(Continued from page 4)

Ellis' firm has also worked on more than \$1 billion in bond issues by Texas transportation-related entities while Ellis has served on the state [Senate's Committee on Transportation and Homeland Security](#), which he [joined in 2005](#) and to which he was reappointed in 2007 and 2009 by Lt. Gov. David Dewhurst.



One of Houston Metro's light-rail trains pulls into the Museum District station. Texas Watchdog file photo

Rice and Apex served as an underwriter on three bond issues for Houston's Metro system, worth a combined \$239 million, in 2008 and 2009, records show.

Ellis is a big supporter of light-rail, on which Metro is currently spending billions of dollars with plans to build out four new lines to accompany the existing Red Line.

Records released to Texas Watchdog by Metro show that Metro staff and its financial advisers recommended Rice and a half-dozen other minority owned firms as underwriters but said little about the qualities of one firm over another. [Gerald B. Smith](#), a Houston investment banker who was then the chairman of the Metro board's Finance and Audit Committee, said the committee selected the underwriting teams.

George Greanias, who took the helm at Metro in May, said the only contact he'd had with Ellis during his service at the transit agency was to discuss how Metro could secure federal funding for the light-rail program.

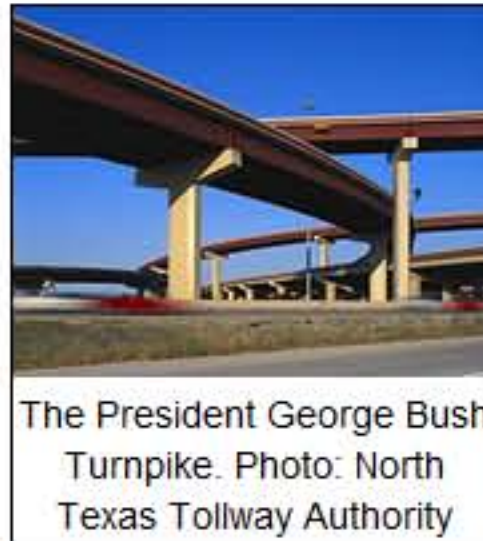
"He is a very accomplished political figure, and I found him to be a source of good advice on how to negotiate those waters," Greanias said. The subject of bonds and Ellis' investment bank work never came up, he said.

Americans are using way too much energy, "and that, first and foremost, is what rail is about," Ellis said in 2007 when he and other local dignitaries attended the ribbon-cutting ceremony for the Metro office that manages construction of the [proposed southeast line](#). (Video footage of his remarks is available on Metro's Web site.) "Folks in Austin, even as late as this last session, (are) always looking for an avenue to kill rail. It is the way of the future. And it is the only way our city will continue to be a world-class city."

And in 2008, the senator advocated for TxDOT to use some of its \$6.2 billion in federal stimulus funding to spur rail as an alternative to road-building: "While federal money for roads is necessary, I also hope that a large amount of money will be used to relocate freight rail lines outside of Texas' urban areas which would open up great opportunities for using rail for mass transit," he [told the Houston Chronicle](#).

Elsewhere, Rice Financial was part of the underwriting team on \$825 million in bonds issued last year by the North Texas Tollway Authority -- and partially subsidized by the federal stimulus program -- for work on two major road projects in suburban Dallas.

The [Sam Rayburn Tollway](#) will be a portion of State Highway 121 in Collin County, while the 10-mile eastern extension of the [President George Bush Turnpike](#) will connect Garland with Interstate 30.



The President George Bush Turnpike. Photo: North Texas Tollway Authority

The connection between Ellis and Rice "did not come up as a detraction or a selling point" when selecting the underwriting team for the bonds, said [Janice Davis](#), chief financial officer for the Plano-based tollway authority.

"I was hired here to do my best from a financial standpoint, and that includes having a bench doing what we need to have done. We've never gone to Rodney to ask for anything (legislatively) that I know of, and don't know that he has advocated for anything. That he is affiliated with Rice doesn't matter to us. It's not about what Rodney could or could not do for us."

[Continued on Page 6: 'Politically connected': Sen. Rodney Ellis mixes business and politics, but profits hard to estimate](#)

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## Ellis firm's profits hard to estimate

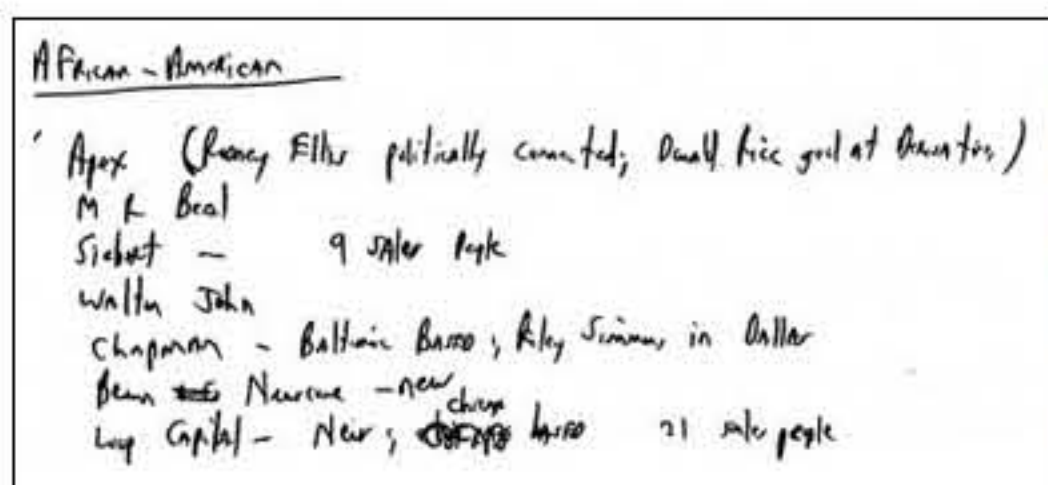
Monday, Sep 27, 2010, 08:30AM CST



By Jennifer Peebles & Steve Miller  
 (Continued from Page 5)

But records show that some government officials who would later hire Rice or Apex knew Ellis wasn't just another investment banker.

The phrase "Rodney Ellis -- politically connected," was the first impression an unnamed official at San Antonio's CPS Energy got about Ellis' firm as the utility vetted proposals from potential underwriters in 2001. The phrase appears at the top of an unsigned page of handwritten notes that CPS released to Texas Watchdog following a public records request.



Close-up of document released by San Antonio's CPS Energy

The handwritten notes scrawled in the margins of one document the Lamar Consolidated Independent School District made public to Texas Watchdog, recording the impressions of school system officials as they considered the firms who could underwrite their upcoming bond series, noted next to Apex's name the phrase "Rodney Ellis (Sen.)."

At the same time, Ellis' dual roles -- senator and investment banker -- mean others in both the political and financial arenas look to him for expertise.

Ellis was one of the speakers earlier this year at *The Bond Buyer's annual Austin conference* on Texas public finance, and Harrison said he'd enlisted Ellis more than once to speak at training sessions for local government investment officials.

But exactly what role Ellis plays for his company today is not entirely clear.

When J. Donald Rice Jr., a veteran of Merrill Lynch, bought Ellis' firm in 1998, Apex was the fifth-largest black-owned investment bank in the nation, *Black Enterprise* said. Terms of the sale were not disclosed, the story said, but it said Ellis was made a minority partner in the firm.

Ellis reported on his 2010 state ethics form -- covering calendar year 2009 -- that he owned between 1,000 and 4,999 shares in Rice Financial, and another 1,000-4,999 shares in Apex Advisors Inc., which has the same mailing address as Rice Financial. Ellis listed himself as "managing director" for Rice and "chairman/director" of Apex Advisors, and disclosed his other positions as an attorney and businessman.

However, Ellis' name does not appear on a list of Rice Financial shareholders on file as of Sept. 22 with the Financial Industry Regulatory Authority.

As of Tuesday, Rice Financial's website described Ellis as a partner in the firm and founder of Apex Securities.

### PROFITS HARD TO FIGURE

How much Ellis, or his firm, has profited from this work is not publicly known.

State legislators are required to list their sources of income on their annual ethics forms but are not required to state how much they make from those sources. They're required to list the value of stocks, bonds and other assets only if they were sold that year.

As a privately held company, Rice Financial is not required to disclose the level of profit-and-loss information that would be expected of a publicly-traded firm such as IBM or Coca-Cola, but it must submit audited financial statements each year to the federal Securities and Exchange Commission. The most recent filing, covering calendar year 2009, shows the firm had slightly more than \$5 million in total assets and equal liabilities.

Using Texas' Public Information Act to access records from the government agencies that worked with Rice, Texas Watchdog reviewed thousands of pages of documents pertaining to about 130 of the nearly 400 bond transactions in which Ellis' firm was involved in Texas since 1992. The selected transactions included those with government agencies based in the Houston, Austin or San Antonio areas, and which had taken place within the past decade.

Information about Rice or Apex's profits from those sales was available in 13 cases -- all of them transactions in which Ellis' firm was a bit player. The profits from those 13 cases totaled \$261,000, Texas Watchdog found.

CATEGORY	FIRM	GROUP NET TAKING	PERCENT
LOCAL	Capital Securities	\$ 26,286.75	2.00%
	A.O. Edwards & Son, Inc.	78,880.25	6.00%
	First Southwest Company	26,286.25	2.00%
	<b>Total</b>	<b>\$ 131,453.25</b>	<b>10.00%</b>
MIDSWEST	Apex Paper Securities	\$ 13,143.38	1.00%
	Robert Rowland Bank & Co., L.L.C.	118,295.17	9.00%
	Southwestern Capital Markets, Inc.	13,143.38	1.00%
	<b>Total</b>	<b>\$ 144,581.93</b>	<b>11.00%</b>
NATIONAL	UBS Financial Services Inc.	\$ 495,195.25	46.00%
	Lebanon Brothers Inc.	242,587.50	23.00%
	Moquea Realty	179,863.82	17.00%
	<b>Total</b>	<b>\$ 917,646.62</b>	<b>86.00%</b>
	<b>Total</b>	<b>\$ 1,214,377.25</b>	<b>100.00%</b>

In one instance, that of a \$350 million bond issue by San Antonio's CPS Energy, Ellis' company sold \$3.5 million in bonds and made \$13,143.38 on the sale. (UBS Financial Services served as the chief underwriter, eating up the lion's share of the profits on the deal.)

When the San Antonio Water System issued \$311 million in bonds in 2007 to refinance some older bonds, Apex sold \$7 million worth and was paid \$145,095.08 in profits and fees. A few years earlier, when SAWS issued \$137.8 million in bonds, Apex had sold \$1 million of the bonds and was paid \$26,916.25, public records showed.

Records were also available for five other bond transactions indicating how many bonds Rice or Apex sold, but without specifying its profit margins. For instance, the firm sold \$12.2 million in bonds for the Lower Colorado River Authority out of three issues worth a total of \$370 million.

Post-sale records were also available for eight other bond transactions in which Rice was part of the underwriting syndicate but wound up selling no bonds at all, such as the \$20 million in bonds the Greater Greenspoint Redevelopment Authority issued in 2002.

In that deal, Rice and the other underwriting firms had many more orders for Greenspoint bonds than they had bonds to sell, records show. The lead underwriter in the deal, RBC Dain Rauscher, wound up selling more than \$13.8 million of the \$20 million in bonds issued.

It's not uncommon for smaller firms on an underwriting team to wind up selling no bonds, even if they have numerous willing buyers, several local government officials said.

That's not a reflection on the quality of those firms' work as much as it's a factor of their small size: Even though most bond transactions have set limits on the proportion of the bonds that any one firm can sell -- often around 50 percent -- the biggest dogs tend to eat first, and sometimes the smallest dogs are left to go hungry.

Many, but not all, municipal bond transactions are structured so that underwriting firms who sell no bonds generally do not make any profit, multiple debt managers for Texas local governments told Texas Watchdog.

However, most government agencies contacted by Texas Watchdog for this story could not produce any records addressing what share of each bond issue was sold by Rice, Apex or any of its competitor firms, nor could they produce records addressing how Ellis' firm, or any other investment bank, was chosen to serve on the underwriting team.

Records were also available showing payments to financial adviser firms on six other bond transactions on which Ellis' firm served as co-financial adviser, all of them for bonds issued by Houston ISD. For those transactions, HISD contracted directly with First Southwest, which then hired Ellis' firm as a subcontractor.

The records do not say exactly how much was paid to First Southwest or Ellis' firm, instead showing one lump-sum payment to both firms. However, the district's most recent contract with First Southwest specifies that Ellis' firm would be eligible to receive up to 30 percent of First Southwest's fees.

The total amount paid to both firms for the six transactions, public records show, was just under \$720,000. Thirty percent of that fee would be almost \$216,000.

However, the total amount paid to Apex or Rice for its services is unclear, as HISD told Texas Watchdog it had no records of any payments or disbursements to Rice or Apex in the past decade.

Reach Jennifer Peebles at [jennifer@texaswatchdog.org](mailto:jennifer@texaswatchdog.org) or 281-656-1681, or follow her on Twitter at [@texaswatchdog](https://twitter.com/texaswatchdog) and [@jpeebles](https://twitter.com/jpeebles). Reach Steve Miller at [stevemiller@texaswatchdog.org](mailto:stevemiller@texaswatchdog.org).

Want to see more source documents for this story? Texas Watchdog has made public more than 100 sets of documents pertaining to Sen. Rodney Ellis and his investment bank and its work on campaign contributions made by staffers at his investment bank and more details on bond transactions his firm worked on. Just follow this link to Texas Watchdog's Rodney Ellis folder on Scribd.com.

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 @budkennedy @amanbatheja Stole Bud's blurb to use with video on home page. Punchier than my words. Thanks!

**Christine Irizarry** | 4 min 59 sec  
 The blog of South Bronx farmers  
<http://t.co/CZimlqv>

**Christine Irizarry** | 7 min 27 sec  
 Who will direct Citizen Murdoc? "Murdoch's malign influence must die with the News of the World" <http://t.co/BJkyEmh> via @jeffjarvis

**Texas Tribune** | 9 min 48 sec  
 TribTomorrow: Part 2 of @eramshaw's "Life in the Colonias" project. Also in @nytimes! Top-notch journalism.

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[#pigsfly](http://nytimes.com/qTrzla)

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 Vigil about to begin for teens killed by alleged drunk driver 1 year ago. The suspect has fled the country: <http://bit.ly/old75j>

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 @nytimes editorial praises TX juvenile justice gains <http://nytimes.com/qTrzla>

**Houston News** | 17 min 32 sec  
 Another protest today: Group gathers to protest HEB, blaming the CEO for blocking the sanctuary cities bill in #xlge: <http://bit.ly/pgNw3k>