



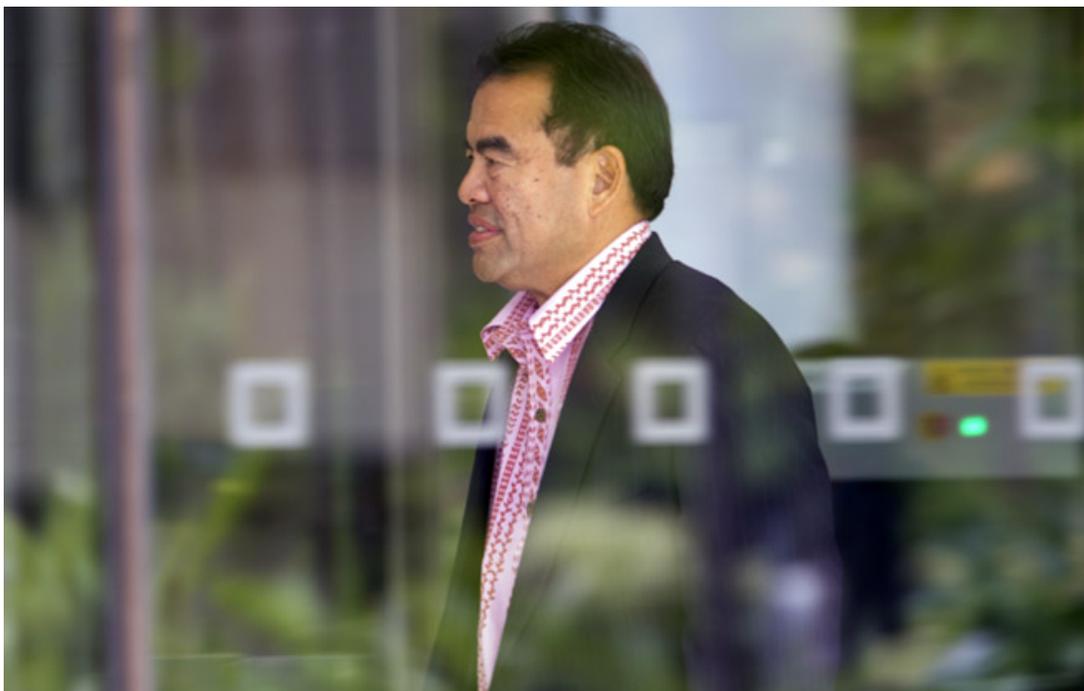
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## Hawaii News

# DHHL looks for fallout from crimes

By [Kevin Dayton](#)

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GEORGE F. LEE / GLEE@STARADVERTISER.COM

Albert Hee, seen here exiting a federal courtroom July 10, was found guilty of tax fraud Monday for using his company to pay more than \$2 million in personal expenses.

The criminal convictions of politically connected telecommunications entrepreneur Albert Hee on federal tax charges this month has triggered a “review and assessment” by the state Department of Hawaiian Homes Lands to determine whether legal problems linked to Hee could affect services for homesteaders.

Hee in 1995 founded Sandwich Isles Communications Inc., which has the statewide

license to provide telecommunications services on all Hawaiian homelands.

Over the years, Sandwich Isles has borrowed millions of dollars from the U.S. Department Agriculture's Rural Utilities Service to install buried fiber-optic cable to serve Hawaiian Homes customers, and federal records show the company received more than \$242 million in federal subsidies since 2003 to support its phone and data network.

Hee has been a generous source of funding for federal political campaigns over the years, donating more than \$45,000 to federal candidates and their committees since 2000, and contributing more than \$60,000 to the Obama Victory Fund in 2011 and 2012. He also donated more than \$50,000 to various Democratic Party organizations since 2008, with most of that money going to the DNC Services Corp., which supports the Democratic National Committee.

On July 13 Hee was convicted in federal court in Honolulu of six counts of filing false income tax returns and one count that he corruptly impeded the IRS from correctly calculating and collecting his taxes, offenses that could draw prison terms of up to three years on each count.



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**Albert Hee:**  
*The telecommunications entrepreneur funded political campaigns*

Those charges revolve around expenses claimed by a company called Waimana Enterprises Inc., which Hee founded in 1988. Sandwich Isles, which provides services on Hawaiian homelands, is a subsidiary of Waimana, according to Federal Communications Commission records.

Hee, 61, was convicted of concealing from the IRS that his company deducted \$2.75 million as business expenses that it had paid to cover Hee's personal expenses. Hee was also convicted of filing false federal tax returns because he failed to list those payments as personal income.

Among the supposed business expenses cited by prosecutors were \$718,559 the company paid for college tuition and living expenses for Hee's three children, \$92,000 in payments for massages for Hee and \$121,878 in credit card charges made by Hee for personal expenses, according to the federal indictment.

The indictment also listed \$722,550 in payments by Waimana as "wages" to Hee's children, who the indictment alleged actually did little or no work for the company. The indictment also alleged Waimana claimed as wages \$590,201 that was paid to Hee's wife, when she allegedly did no work for the company.

Paula Aila, DHHL information and community relations officer, said in a written statement that the agency "is reviewing the impact of the case on DHHL and its beneficiaries and will withhold comment until its review and assessment is concluded."

DHHL does not have any formal reporting requirements for Sandwich Isles, Aila said, but Hee has appeared before the Hawaiian Homes Commission several times in recent years to discuss issues with the commission.

Janeen-Ann Olds, who is now chief executive officer of Sandwich Isles Communications, said in a written statement that Hee's court case "involved a personal tax matter and it is important to underscore that Sandwich Isles Communication was not involved in that case. The personal tax issues have had no impact on Sandwich Isles Communications' operations or our ability to serve our customers."

"We are optimistic about what the future holds for Sandwich Isles Communications. We continue to seek opportunities to offer landline and broadband services to grow our residential and business customer base," Olds said. Sandwich Isles was serving 3,659 subscribers as of 2013, according to FCC records.

Hee complained in federal court this year that federal investigators had been scrutinizing his tax filings and company records for nine years, and the family of companies Hee created has struggled with financial and other issues:

>> Sandwich Isles has been coping with major cuts imposed by the FCC on the federal subsidies the company receives from the Universal Service Fund. Those subsidies to Sandwich Isles were reduced from nearly \$26.8 million in 2012 to less than \$16.2 million last year, according to Universal Service Administrative Co. records.

The Universal Service Fund provides subsidies to telecommunications companies operating in rural areas to ensure residents have access to services at rates that are comparable to urban areas, but the FCC recently capped those payments for companies with particularly high per-line costs.

Sandwich Isles in 2011 asked the FCC for a 10-year exemption from that cap, arguing that unless it received a waiver, it would "be forced into insolvency without justification, and with the result that residents of the Hawaiian Home Lands will no longer be assured of continuation of voice and broadband service." That request by Sandwich Isles was rejected by the FCC's Wireline Competition Bureau in a scathing 2013 decision. The FCC found that the company "has certain expenses that appear grossly excessive and unreasonable. In particular, Sandwich Isles has spent millions of dollars with affiliated and related entities for services that appear unrelated to the provision of a broadband-capable network."

As an example of what it called "unreasonable expenses totaling many many millions of dollars," the FCC ruling specifically cited payments by Sandwich Isles to Waimana Enterprises from 2009 to 2011. The amounts and purpose for those payments were redacted from the documents that were made public, but the FCC said in the ruling the payments were "ongoing."

That same ruling also criticized Sandwich Isles for its high corporate operations expenses, which the FCC said were 623 percent higher than the average for similar high-cost companies.

Olds said in a written statement that "Sandwich Isles Communications continues to work diligently with the Federal Communications Commission and other appropriate federal agencies, including the USDA, to work out issues resulting from a change in the law and regulations, which have affected other rural telecommunication carriers."

>> Last year Deutsche Bank Trust Co. Americas sued Sandwich Isles for allegedly failing to pay rent for an interisland fiber-optic cable the company leases from a firm called Paniolo Cable Co.. As of early 2014, Sandwich Isles had fallen \$20 million behind on its quarterly lease payments to Paniolo, according to the lawsuit.

That case stems from plans Sandwich Isles launched in 2007 to build and operate a 358-mile interisland fiber-optic cable linking the islands of Kauai, Oahu, Molokai, Maui and Hawaii, according to federal court records. Paniolo borrowed more than \$180 million from lenders represented by Deutsche Bank to finance the interisland cable project, according to the lawsuit.

Paniolo completed the fiber system in 2009 and leased it out to Sandwich Isles for 20 years, but the two companies are closely affiliated. Sandwich Isles is a subsidiary of Hee's company Waimana Enterprises, and Paniolo is owned by a company called Blue Ivory Corp. Shares in Blue Ivory are held by private trusts established for the benefit of Hee's three children, according to FCC records.

Sandwich Isles reported to the FCC in 2010 that its lease of the fiber from Paniolo cost Sandwich Isles \$15 million a year, with those lease payments scheduled to increase over time. Paniolo relied on Sandwich Isles' lease payments to repay the loans to Deutsche Bank, but Sandwich Isles fell behind on those lease payments, according to the Deutsche Bank lawsuit and FCC records.

Olds said in a written statement that Sandwich Isles was dismissed from the Deutsche Bank lawsuit in 2014 and is no longer involved in the case. When asked through her spokesman about the status of the \$20 million in lease rent payments that Sandwich Isles allegedly failed to pay to Paniolo, Olds did not respond.

>> Sandwich Isles filed with the National Exchange Carrier Association to try to recoup much or all of its lease payments to Paniolo for the interisland fiber system but also ran into problems there. NECA administers a system of federal subsidies that are paid out to small, rural telecommunications exchanges.

The FCC ruled in 2010 that "only a very small portion of the capacity" of the fiber that Sandwich Isles leased from Paniolo was actually being used, and decided that NECA should only be required to pay half of the annual cost of the lease, according to FCC records.

NECA later complained to the FCC it had discovered it was paying subsidies to Sandwich Isles for lease rent payments that Sandwich Isles had not actually made to Paniolo in 2012 and 2013, according to a filing this year with the FCC.

>> The federal indictment of Hee on tax charges last year also revealed details of a dispute between a company affiliated with Sandwich Isles called ClearCom Inc. and the Honolulu Board of Water Supply. That disagreement involves lease payments that ClearCom allegedly failed to make to BWS.

The FCC in 2013 specifically flagged payments by Sandwich Isles to ClearCom that the FCC said appeared to be "excessive and therefore unreasonable," but the details of those payments were redacted from the documents made public by the FCC.

According to federal records, Hee created ClearCom Inc. in 1997, and the company signed a lease with BWS in 2002 for the right to run telecommunications lines through abandoned water mains owned by the city. That license required ClearCom to pay the Water Board \$48.75 million over 30 years for use of the abandoned water mains, according to federal court records.

Shawn Nakamoto, information officer for BWS, said in a statement that the license agreement between ClearCom and BWS has a "guaranteed fee" of \$5 million during the first five years of the agreement, but ClearCom so far has paid the Water Board only \$1.24 million.

Nakamoto added that "the parties disagree about what amounts remain owed under the license agreement. BWS has been pursuing payment for the past year, and is presently in discussions with ClearCom to see if the matter can be resolved short of litigation."

Lyle Hosoda, attorney for ClearCom, said in a written statement that "ClearCom has worked collaboratively with Board of Water Supply and Department of Transportation to reach an agreement in principle and are moving forward."

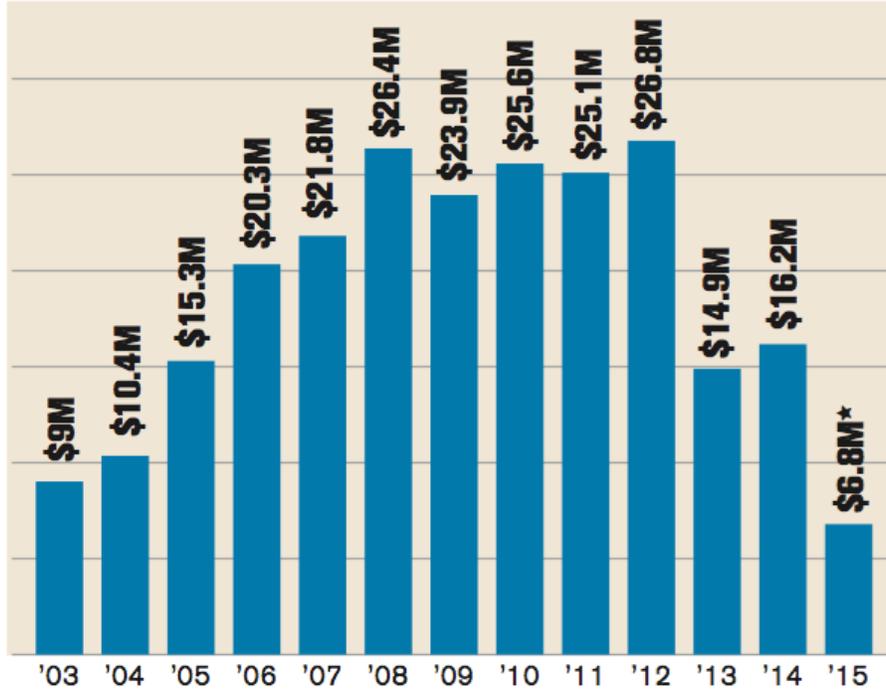
In spite of those legal and other difficulties, Olds said in a written statement that Sandwich Isles has a good working relationship with DHHL and will continue to explore how the company can serve the telecommunications needs of homesteaders.

"For the past 18 years, Sandwich Isles Communications has been committed to carrying on our mission to provide access to telecommunications services to improve the quality of life for Native Hawaiians who live on Hawaiian Home Lands, including rural areas throughout our state," she said.

She also said Sandwich Isles is part of a "highly regulated industry" that has been subject of various government-sponsored audits. "We have welcomed and fully cooperated with these audits, and are pleased to report that we have not been subject to material findings from such audits," she said.

## DECLINING SUBSIDIES

*Federal subsidies paid to Sandwich Isles Communications declined in recent years after the Federal Communications Commission capped the amounts it will pay per line to high-cost rural telecommunications providers. A total of \$242.5 million has been paid since 2003.*



\*2015 subsidies through May

Source: Universal Service Administrative Co.

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