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Hawaii News

Rent waiver is state's latest grant to affiliated shipyard firms

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PACIFIC SHIPYARDS INTERNATIONAL / FACEBOOK

The nearly \$900,000 in rent discounts at the waterfront property over the past three years is the latest example of the unusual benefits the Pacific Shipyards International family of companies has received from state government.

State officials have granted hundreds of thousands of dollars in discounts to a family of companies affiliated with Navatek Ltd. as part of a deal to settle claims that included

alleged "loss of business opportunity" on state-owned waterfront land where the companies operate under a month-to-month permit.

The rental reductions were negotiated by officials in former Gov. Neil Abercrombie's administration as part of a larger settlement at a time when officials with Navatek and its affiliated companies were sprinkling the Abercrombie campaign with contributions to help with his unsuccessful 2014 re-election effort.

The nearly \$900,000 in rent discounts at the waterfront property over the past three years is the latest example of the unusual benefits the Pacific Shipyards International family of companies — including Navatek — has received from state government. Pacific Shipyards is a ship repair company; Navatek is an affiliated ship-building company.

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State lawmakers earlier this year approved a special \$7.5 million tax credit that may apply only to Pacific Shipyards, and Gov. David Ige allowed that new tax credit to become law July 12 without his signature.

The state Legislature also awarded \$1.25 million in grants-in-aid to Navatek in 2014 and 2015, money that is normally reserved for nonprofit organizations that deliver health or social services or other community benefits. Lawmakers acknowledged it is unusual for those grants to be awarded to a privately owned, for-profit company.

The officers and employees of Pacific Shipyards, Navatek and other affiliated companies have been generous campaign contributors, donating more than \$120,000 to state lawmakers and two governors since 2009, according to state campaign spending records.

That includes more than \$10,000 company officials contributed to Abercrombie's re-election campaign in June and July 2014 as negotiations got underway to resolve contract issues, including how much rent would be paid to the state by Pacific Shipyards.

In all, company officials and the Navatek political action committee have donated more than \$74,000 to Abercrombie campaigns since 2009, according to state campaign spending records.

A verbal pact

Darrell Young, deputy director for harbors in the state Department of Transportation, said his office honored a "verbal agreement" on the rental discounts with Pacific Shipyards after Young took over the Harbors Division as part of Gov. David Ige's administration.

Pacific Shipyards occupies the Pier 41 area under a month-to-month permit that was issued in 1984. The permit language states it can be terminated by the state or the company with 30 days' notice, but the permit also indicates the tenant can remain at the site until a new lease is issued.

Ann H. Chung, the registered lobbyist for Navatek, said in an emailed response to questions that negotiations with the state regarding rent and other issues began in about June 2014 after the state issued an eviction notice to Pacific Shipyards.

Pacific Shipyards and Navatek are being required to move out of the Pier 41 area to make way for a \$450 million container yard that is planned for the old Kapalama Military Reservation. That project is a key part of the Department of Transportation's multiyear statewide harbors modernization plan.

Chung said the state and Pacific Shipyards reached an agreement Nov. 7, 2014, that resolved "multiple outstanding legal issues — a fair, interim rent rate while the state relocation planning and lease agreement terms were hammered out, including recognizing our existing rights under earlier contracts which the state had to honor."

The deal also included "state refunds for overcharges and the loss of business opportunity" caused by a lightning strike on a power transformer, she said.

Chung said the state owned the transformer, but Young said the state and Pacific Shipyards disagreed about who actually owned the transformer and was responsible for the repairs. Chung said Pacific Shipyards paid to repair the transformer because the company needed power and could not wait months for the state to complete the job.

"We have hundreds of employees whose jobs depend on us staying open for business," she wrote. "All these were part of a global settlement."

To resolve the various disputes, Harbors officials agreed to forgo the monthly rent of \$32,375 on the property for nine months beginning July 1, 2014, and then reduce the monthly rent to \$10,000 from \$32,375 per month thereafter, according to a summary of charges and credits provided by transportation officials.

Chung said the state and the company did not expect the settlement to be in effect for long because the state was supposed to issue a new lease that would allow Pacific Shipyards to relocate by June 2015. However, the new lease has still not been finalized, and Pacific Shipyards was notified only earlier this month that the settlement over rent and other issues is ready to be signed, Chung said.

That settlement with Pacific Shipyards has not yet been finalized because some environmental issues are being negotiated in connection with the Pier 41 area where the company operates, Young said last week.

"They agreed verbally on the monetary part. It's the environmental part that we have to get finished," Young said of Pacific Shipyards.

When asked whether he would have agreed to the same settlement, Young replied, "I'm not going to speculate." The agreement was negotiated by the previous administration, "and we were just honoring that," he said.

Special tax credit

Steven Loui, chairman of Navatek Ltd., said in a written statement that in addition to the "huge costs" of moving from Pier 41, the state is requiring the company to drain fluids from state-owned electrical transformers on the property in order to prevent environmental spills.

To help with those moving costs, lawmakers this year approved a special tax credit worth up to \$2.5 million a year that the company can claim for up to three years to help offset the costs of the move. Pacific Shipyards and Navatek successfully lobbied lawmakers for the tax credit to help the tenants relocate, but it is unclear whether anyone other than Pacific Shipyards can benefit from the credit.

The new tax credit law applies only to tenants that still operate or have equipment at the former Kapalama Military Reservation, and will be relocated by the state to Piers 24 through 28. Critics have said that appears to limit the potential beneficiaries to Pacific Shipyards, which, according to state records, is slated to relocate from the old military reservation to areas at Piers 24 through 26.

Some lawmakers have said that tax credit might amount to special-interest legislation because it appears to benefit only one entity. However, Chung has argued it is "fair and appropriate" for the state to help relocate Pacific Shipyards because it is being forced to move at great cost from a site it has occupied for 33 years.

When asked whether campaign contributions by the Pacific Shipyards family of companies helped to obtain the rental discounts or the tax credit and the grants-in-aid that were approved by state lawmakers in recent years, Chung described those queries as "leading, biased questions."

"Our contributions are legal and transparent," Chung wrote. "We support those who recognize the importance of Hawaii's maritime industry, and its essential contribution to the state's economic growth and good-paying jobs."

She added that the agreement that reduced the rents on the Pier 41 property "was negotiated with state employees familiar with the circumstances and no legislators or elected officials knew or were involved with the settlement."

Payola denied

Abercrombie also dismissed the possibility that political donations might have helped Pacific Shipyards to win benefits from the state or his administration, saying the impact and influence of campaign donations are "way overrated."

The former governor said he was unaware of any rental discounts granted to Pacific Shipyards during his administration but said the public focus ought to be on what that company and Navatek have accomplished.

"I supported them when I was a member of Congress because I would call them the leading naval architects in the whole damn United States," he said. "That's why I supported them, and if they supported me, they should have. I was a hell of a good representative."

Abercrombie described Navatek as a "great company" and said he worked with the firm after his term as governor ended to try to promote a project at Pearl Harbor. That effort was not successful, he said.

Officials with the Pacific Shipyards family of companies have also made political donations to Ige, and contributed more than \$6,000 to the Ige campaign in 2014, according to state campaign spending records.

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