



ANNUAL REPORT

2009



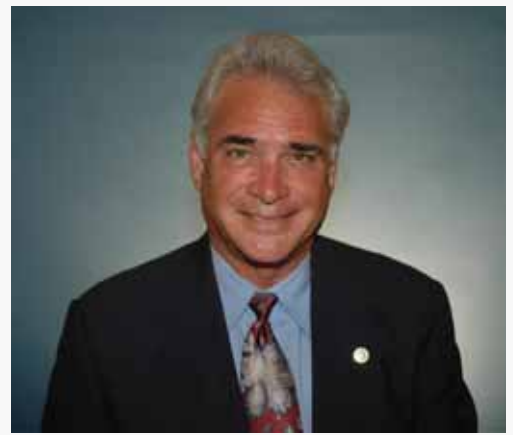
ALOHA TOWER
DEVELOPMENT CORPORATION



TABLE OF CONTENTS

	Page
1. LETTER FROM THE CHAIRPERSON	1
2. MISSION STATEMENT	2
3. ALOHA TOWER DEVELOPMENT CORPORATION	3
• BOARD OF DIRECTORS	
• STAFF	
4. ALOHA TOWER COMPLEX AND PROJECT AREA	5
5. WATERFRONT DEVELOPMENT	11
6. FINANCIAL STATEMENT	15

CHAIRPERSON'S MESSAGE



On behalf of the Aloha Tower Development Corporation (ATDC) Board of Directors and staff, I am pleased to present you with ATDC's 2009 Annual Report.

This past July, I was elected Chairperson of the Board of Directors replacing Melissa Pavlicek, who presided over the ATDC Board for the past four years. We would like to extend our many thanks to Ms. Pavlicek for her hard work and dedication to ATDC during her five years as a public at-large member of the Board of Directors.

Large strides were made in 2009 in furthering the many Harbors Modernization Plan projects throughout the State of Hawaii in partnership with the Department of Transportation – Harbors Division. There remains a critical need to expand and modernize the harbors despite the economic recession. An efficient harbors system is vital to the State's economic growth. Moving these government projects forward also has the effect of providing much needed jobs and stimulating the economy.

This year the ATDC reached final settlement on the termination of a 2004 development agreement with Texas-based developer Kenneth Hughes. The ATDC looks forward to new opportunities for the project area.

Additionally, the ATDC Strategic Plan and Development Framework were completed and will help guide the agency toward fulfilling its statutory missions. The establishment of the mass transit project with projected transit stops adjacent to areas within ATDC's regulatory jurisdiction provides great transit oriented development potential for the downtown waterfront.

We would like to take this opportunity to thank the many individuals and entities that have contributed to our accomplishments during this past year. We welcome any thought and comments you may have and look forward to working with you to further the goals and mission of ATDC.

Sincerely,

A handwritten signature in black ink, appearing to read "Sidney A. Quintal". The signature is written in a cursive, flowing style.

Sidney A. Quintal

Chairperson

Aloha Tower Development Corporation



ATDC MISSION

- **Strengthen the international economic base of the community in trade activities;**
- **Enhance the beautification of the waterfront;**
- **Improve modern maritime uses in concert with the Department of Transportation; and**
- **Provide for public access and use of the waterfront property.**

HHP AND HMP MISSION

- **Expedite development projects that will provide short term relief by maximizing efficiencies at existing facilities;**
- **Acquire and quickly upgrade expansion areas; and**
- **Plan and execute major long-term redevelopment projects such as the former Kapalama Military Reservation.**

The 2009 Board of Directors

Chairperson

SIDNEY A. QUINTAL

Director

Department of Enterprise Services

Designee for: Mayor

City & County of Honolulu

Vice Chairperson

JASON OKUHAMA

Public At-Large Member

IAN BIRNIE*

Designee for: Mayor

County of Hawaii

EDWARD W. ENOS, JR.*

Public At-Large Member

MICHAEL FORMBY

Deputy Director – Harbors Division

Designee for: Director

Department of Transportation

GARY HEU*

Administrative Assistant to the Mayor

Designee for: Mayor

County of Kauai

GEORGINA K. KAWAMURA*

Director

Department of Budget and Finance

THEODORE E. LIU

Director

Department of Business, Economic

Development & Tourism

MAHINA MARTIN*

Community Relations and

Communications Director

Designee for: Mayor

County of Maui

GARY J. NORTH*

Public At-Large Member

NEAL M. OTANI

Public At-Large Member

MELISSA PAVLICEK**

Public At-Large Member

RUSSELL TSUJI

First Deputy

Department of Land & Natural Resources

Designee for: Chairperson

*Harbors Modernization Group Member

**2004-2009

ATDC STAFF

SANDRA PFUND
Chief Executive Officer

TOM OTAKE
Development Director

CHRIS SADAYASU
Development Manager/
Special Assistant

DANA YOSHIMURA
Development Manager

DEREK FUJIKAMI
Development Manager

SHARILYN IKEDA
Development Manager

DUNG VO
Chief Administrative Officer

DEIDRE HARRISON
Administrative Assistant

ALOHA TOWER COMPLEX AND PROJECT AREA

ATDC has the statutory mandate of redeveloping, renovating, and/or improving the Aloha Tower Complex and Project Area. The objective is to integrate development components within the area that will stimulate and enhance the commercial aspects and social events in the downtown business district. At the same time, ATDC seeks to transform the waterfront's urban core into a "people place" while being fully aware of and complementary with the demands of Honolulu Harbor's important maritime activities. In addition, new development in the area together with the infusion of capital in construction projects will further stimulate the local economy and provide many new jobs.

When it was first established, one of ATDC's major program objectives was to attract investment capital to the downtown waterfront. The first phase of the Aloha Tower Complex accomplished this goal as the Aloha Tower Marketplace was completed without any state funds. In addition, the developer provided public improvements such as the interim cruise facilities and refurbishment of Aloha Tower at no cost to the State. Today, with the proposed Honolulu High Capacity Transit Corridor Project moving forward, ATDC is positioned to oversee and manage a tremendous transit-oriented development opportunity in downtown Honolulu and along the beautiful waterfront within the Aloha Tower Project Area.





ATDC's Development Plan and Hawaii Administrative Rules

The ATDC Development Plan and the Hawaii Administrative Rules for the Aloha Tower Project Area and Complex were originally adopted in 1992 and reflected the full-scope of the master plan originally envisioned for the area. However, due to the economic downturn in the early 1990's many of the component development areas were never completed.

Beginning in 2008, ATDC held meetings with various stakeholders and community groups, including the Bishop Museum (operators of the Hawaii Maritime Museum), Hawaiian Electric Company, Inc., ATDC's Public Advisory Group and the Hawaii Harbors Users Group and gathered ideas and comments regarding proposed revisions to ATDC's master plan. In February 2009, ATDC issued its Summary Report regarding the Aloha Tower Master Plan Update. This planning effort set the stage for ATDC's Strategic Plan and Development Framework.



ATDC Strategic Plan and Development Framework

In May 2009, the ATDC Board established an Investigative Committee to spearhead efforts to develop and oversee a strategic planning process and establish goals and objectives for the agency. Incorporating short-term and long-term development concepts such as temporary parking improvements to filling in land within Piers 7 & 8, ATDC generated a draft Strategic Plan and Development Framework that was approved by the Board this past November. ATDC is currently soliciting public comments on the draft plan and framework and intends to revise the plan accordingly and present the final draft for Board approval in the first quarter of 2010. The current version of ATDC's strategic plan and development framework can be viewed at ATDC's website: www.alohatower.org.



Development of Piers 5 and 6

In June 2006, the ATDC Board conditionally approved a development concept proposed by Kenneth H. Hughes, Inc. for the development of a mixed-use condo-hotel project. ATDC's approval was subject to successful negotiation of a mutually acceptable Development Agreement and Ground Lease. In October 2007, Hughes filed a demand for arbitration seeking to move forward with the development of the project on his terms, or in the alternative, compensation for the termination of the project. Key points of contention included the fair value of the lease rent for Piers 5 & 6 and resolution of parking issues. The arbitration proceedings took place between August 2008 and January 2009. In April 2009, the Arbitrator issued his decision and after cross-motions to confirm and to vacate the decision before the U.S. District Court for the District of Hawaii were heard, both parties agreed to settle all legal issues. ATDC will seek legislative approval of the settlement in the 2010 Legislative session.





Legislative Audit

Pursuant to House Concurrent Resolution No. 245, H.D.1, S.D.1 of the 2008 Legislative Session, the Office of the Auditor began conducting a management, performance and financial audit of ATDC. Staff worked closely with the audit staff and responded to their requests in a timely manner. After conducting numerous interviews with current and past Board members and staff and reviewing ATDC's many documents, the Office of the Auditor informed ATDC that they expected to issue their preliminary report in the Fall of 2009, but no report has been received as of mid-December 2009.



Aloha Tower Marketplace



Aloha Tower Marketplace has continued to allocate significant resources to market the retail center to visitors and Hawaii residents. Tenant occupancy levels for the year averaged 83%, and the center is working hard to maintain and improve occupancy, however, economic conditions are a real challenge.

In 2009 Aloha Tower Marketplace retained the management and leasing services of PM Realty Group, LP. The focus for the first year was to elevate the property's profile, and increase consumer awareness of the center's unique tenant mix and dining experiences. Operationally the new management team worked hard to uncover and correct a number of operating inefficiencies and will continue to seek new opportunities for improvement.

In efforts to rebrand the center and invigorate new life into the property, a focus was placed on creative marketing and leveraging relationships and partnerships with various public, private and non-profit organizations. Cross promotion and partnerships will continue to be pursued to provide trade opportunities to maximize the marketing budget and maintain "top-of-mind" awareness with residents and visitors alike.

Due to the challenging economic climate, aggressive leasing efforts became an important function to attract new tenants and retain the existing unique mix of tenants that are not typically available at other traditional shopping centers. Those efforts resulted in the ability to secure the following new tenants:

- Holokai Gifts
- The USS Missouri Store
- Segway Hawaii
- Chin's Szechwan Restaurant (To open in summer 2010)





The center's success has been hampered by the size and costs associated with the surrounding property and land area which must be operated and maintained by Aloha Tower Marketplace, although not available for its exclusive use. The current cost structure limits the center's ability to monitor and regulate expenses and in a market where lease rates are more competitive it is increasingly difficult for the center to generate adequate operating returns. With many Harbors activities, which increase expenses yet bring no revenue to the center, and the loss of use of a portion of the covered parking area on cruise ship days, it becomes increasingly crucial to work together with ATDC and Harbors to prepare for and adapt to the demands made on the center by the non-cruise ship vessels. The center's original design included the benefit of built-in foot traffic and the support of neighboring developments to share in the expenses created by a property and land area of this size.

To temper these physical and financial challenges, Aloha Tower Marketplace will strive to create a stand-alone destination attraction which offers an experience other centers can't duplicate. A concerted effort will be made to continue reducing operating inefficiencies and expenses, and working toward creating a self-sustained center in keeping with the trend to preserve Hawaii's limited resources and create renewable alternatives. The expansion of the center's offerings would include a community theater, more one-of-a-kind unique-in-Hawaii retailers, and maintaining its status as Hawaii's Best of the Best for live entertainment.

The Aloha Tower Marketplace was designed as a festival marketplace and a visitor attraction located on Honolulu's bustling commercial harbor, adjacent to a historic icon, the Aloha Tower. In 2010 we will also seek the addition of a major attraction component that will generate a one-of-a-kind draw to the center and exemplify the marketable destination envisioned for Honolulu's historical waterfront.

- Report by Aloha Tower Marketplace



WATERFRONT DEVELOPMENT

The ATDC is authorized under its enabling statute, HRS Chapter 206-J to plan, develop or redevelop lands located seaward of Nimitz Highway between Pier 4 and the Honolulu International Airport.

In 2005, there was an urgent need to respond on a priority basis to pressing demands for infrastructure improvements in Honolulu Harbor. A partnership between ATDC and the Department of Transportation, Harbors Division (DOT-H), was formed by the Administration to address these concerns.

The ATDC was selected to collaborate with DOT-H due to its compatible mission, statutorily established jurisdiction with Honolulu Harbor, its economic development mission under DBEDT and experienced staff in the development of state-owned property.



This short-term arrangement was strategized as a way to provide focused and prioritized development assistance to the DOT-H to alleviate strong demands for action due to reduced cargo and other maritime-related space as a result of sharply increased harbor activity.

Having the government projects move forward also has the effect of providing much needed jobs and stimulating the economy.

The commercial harbors are the State's economic lifeline. Statistical facts include:

- 80% of Hawaii's consumer goods are imported.
- 98% of these goods pass through our commercial harbors, including consumer goods, vehicles, fuel, and construction materials.
- Cargo container volume is expected to double by 2020.



Hawaii Harbors Project (HHP)



The ATDC-DOT-H partnership became known as the Hawaii Harbors Project, which focused on expediting projects that could quickly provide expansion of cargo handling areas. Approximately 40 acres of land within Honolulu Harbor were made available for cargo handling operations. The HHP also focused on the long-term development of the Kapalama Military Reservation by engaging consultants to complete a development plan for the new Kapalama Container Terminal.

In 2007, the Legislature recognized the expedited accomplishments of the partnership and supported the concept of providing continued additional infrastructure development support to the DOT-H as evidenced by the passage of Act 127, Session Laws of Hawaii 2007, which formalized the partnership between the DOT and ATDC for Honolulu Harbor.

2009 HHP Projects initiated, completed or underway include:

Oahu

- Development of the New Kapalama Container Terminal, Honolulu Harbor, Oahu
- General Engineering Services for the Development of the New Kapalama Container Terminal, Honolulu Harbor, Oahu
- Various Site Improvements at the Proposed Kapalama Container Terminal-Demolition of Building 923 Slab
- Rehabilitation of Buildings and Yard Areas at Piers 34/35, Honolulu Harbor, Oahu
- Demolition of Structures at the Kapalama Military Reservation, Honolulu Harbor, Oahu
- Environmental Assessment and Other Pre-Development Studies for Renovation of Facilities at Piers 34/35, Honolulu Harbor, Oahu
- Development Plan for Relocation of Tenants from Kapalama Military Reservation, Honolulu Harbor, Oahu

Development Plan for Relocation of University of Hawaii Marine Center to Piers 34/35



2009 HMP PROJECTS



**Development Plan for The New
Kapalama Container Terminal**

The positive progress of the ATDC-DOT-H partnership under HMP resulted in policy makers moving forward with extending the partnership to a statewide authorization.

In 2008, Act 200, Session Laws of Hawaii 2008, was passed by the Legislature. The Act partners ATDC with DOT-H for implementation of the Harbors Modernization Plan (HMP), a comprehensive plan to improve the commercial harbors statewide. The legislation is effective from July 1, 2008 to June 30, 2016 and calls for expedited development of critically needed port infrastructure. The current plan calls for \$618 Million in projects to modernize and expand Hawaii's commercial harbor system.



Kawaihae Harbor, Hawaii

Projects being undertaken by the Harbors Modernization Group include the development the new Kapalama Container Terminal, Honolulu Harbor; expansion and upgrade of Kahului Harbor, Maui; improvements to Hana Harbor, Maui; a new inter island terminal in Hilo Harbor and improvements to Kawaihae Harbor, Big Island.

**Development Plan for Parcel Acquisition
Kahului Harbor, Maui**





Hilo Harbor, Hawaii



Kawaihae Harbor, Hawaii

2009 HMP Projects (The projects currently identified for inclusion in the HMP do not necessarily include all of the projects authorized by the Legislature and approved by the Governor per Act 200.)

Oahu

- Kapalama Military Reservation Improvements - Pier 39 Shed Demolition and Yard Lighting Improvements, Honolulu Harbor, Oahu
- Building Improvements at Pier 35, Honolulu Harbor, Oahu
- Appraisal of Existing Tenant Improvements at Pier 35, Honolulu Harbor, Oahu
- Piers 12 and 15 Improvements, Honolulu Harbor, Oahu



Honolulu Harbor, Oahu

Maui

- Development Plan for Hana Harbor, Maui
- Statewide Commercial Harbors Plans and Development Project Kahului Harbor, Maui



Hana Harbor, Maui



Kahului Harbor, Maui

Hawaii

- Pier 4 Inter-island Cargo Terminal, Hilo Harbor, Hawaii
- Improving New Terminal Cargo Facilities at Kawaihae Harbor, Kawaihae Harbor, Hawaii
- Pier 2 Terminal Improvements, Kawaihae Harbor, Hawaii
- Kumau Street Entrance Improvements at Pier 4 Inter-island Cargo Terminal, Hilo Harbor, Hawaii



Kumau Street, Hilo

FINANCIAL INFORMATION

STATEMENT OF APPROPRIATIONS, EXPENDITURES, ENCUMBRANCES AND BALANCES FOR Fiscal Year Ending June 30, 2009

Appropriation (Budget) Act 213, SLH 2007	\$1,530,554
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ALOHA TOWER FUND

BEGINNING CASH BALANCE	\$3,556,135
REVENUES	\$1,070,345
EXPENDITURE	(\$1,445,760)
ENCUMBRANCES	<u>(\$387,401)</u>
END OF YEAR BALANCE	\$2,793,319

ONGOING LEGAL MATTERS

In the Matter of the Application of Honolulu Construction and Draying Company, Limited, Land Court Application No. 787, Circuit Court of the First Circuit, State of Hawaii. ATDC filed an application in the Land Court of the State of Hawaii to remove the restrictive covenants in the indenture that conveyed the Irwin Memorial Park property to the State of Hawaii. The judge has issued a written Findings of Fact, Conclusions of Law and Order in favor of the opposing parties but no final judgment has been filed. A hearing on a motion to recover attorney's fees was held in March 2009 and the decision remains pending.

Aloha Tower, L.P. and AHI Aloha Limited Partnership v. Aloha Tower Development Corporation, State of Hawaii (including its Department of Transportation), Civil No. 02-1-2694-11, Circuit Court of the First Circuit, State of Hawaii. The owners of the Aloha Tower Marketplace sued ATDC and the State of Hawaii for allegedly failing to fulfill promises it made before they acquired the ATM resulting in financial losses. This action has not progressed beyond the filing of the Complaint as all parties are participating in settlement negotiations. An action in federal district court with very similar claims was dismissed with prejudice on December 31, 2008.



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