

The background of the cover is a photograph of the Aloha Tower in Honolulu, Hawaii. The tower is a tall, white, classical-style clock tower with a green-tiled dome. The word "ALOHA" is visible on the tower's facade. The tower is framed by palm trees on both sides. The entire image is enclosed in a thick blue border.

**ALOHA TOWER DEVELOPMENT
CORPORATION
ANNUAL REPORT 2005**



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LETTER FROM THE CHAIRPERSON



I am pleased to present you with this Aloha Tower Development Corporation (ATDC) Annual Report for the year 2005. Since its establishment in 1981, the ATDC has experienced years of great productivity as well as years of challenge as the State economy experienced cyclical changes that affected ATDC's development objectives. This year, the robust State economy has resulted in the receipt of some exciting development proposals and opportunities. We hope you find this report interesting and informative.

The ATDC has completed a busy year in which the agency considered various development proposals by private developers for the Aloha Tower Project Area. The ATDC continues to remain focused on moving forward with quality projects that will enhance the viability and success of the Aloha Tower Marketplace.

The ATDC also began a new phase of meeting its mission by partnering with the Department of Transportation – Harbors Division to expedite the development of maritime improvements for Honolulu Harbor. We are very excited to play a part in this vital endeavor to upgrade and enhance our State's commercial hub.

Many individuals and organizations have contributed greatly to the work at ATDC. On behalf of the Board of Directors, I would like to take this opportunity to express our appreciation to all who have helped to further our mission.

As always, we welcome your feedback and look forward to working responsibly to achieve the program objectives of ATDC.

Sincerely,

A handwritten signature in cursive script that reads "Melissa T. Pavlicek". The signature is written in black ink and is positioned above the printed name.

MELISSA T. PAVLICEK
Chairperson
Aloha Tower Development Corporation



MISSION STATEMENT

- **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.**

ALOHA TOWER DEVELOPMENT CORPORATION

JURISDICTION

The Aloha Tower Development Corporation (ATDC) was established in 1981 to oversee the redevelopment of State-owned properties located along the Downtown Honolulu Waterfront. The boundaries of the project area, called the Aloha Tower Complex, include land areas makai of Nimitz Highway from Piers 4 through 6, Piers 8 through 23, and portions of Nimitz Highway and Iwilei.

ORGANIZATION

The ATDC is managed by a Board of Directors. The composition of the seven-member Board as described in its enabling statute, consists of three ex-officio state members from the Department of Business, Economic Development & Tourism, Department of Land and Natural Resources and the Department of Transportation, the Mayor of the City and County of Honolulu or his representative, and three citizens from the community.

The 2005 Board of Directors:

Chairperson

MELISSA T. PAVLICEK

Attorney

Hawaii Public Policy Advocates

(July 1, 2005 to Present)

THEODORE E. LIU

Director

Department of Business, Economic

Development & Tourism

Vice-Chairperson

SIDNEY A. QUINTAL

Director

Department of Enterprise Services

City & County of Honolulu

Mayor's Representative

BARRY FUKUNAGA

Deputy Director, Harbors Division

Department of Transportation

DAVID M. LOUIE

Attorney

Roeca Louie & Hiraoka

(Chairperson to June 30, 2005)

ROBERT MASUDA

Deputy Director

Department of Land & Natural Resources

NEAL M. OTANI

President

Y. Fukunaga Products, Ltd.

STAFF

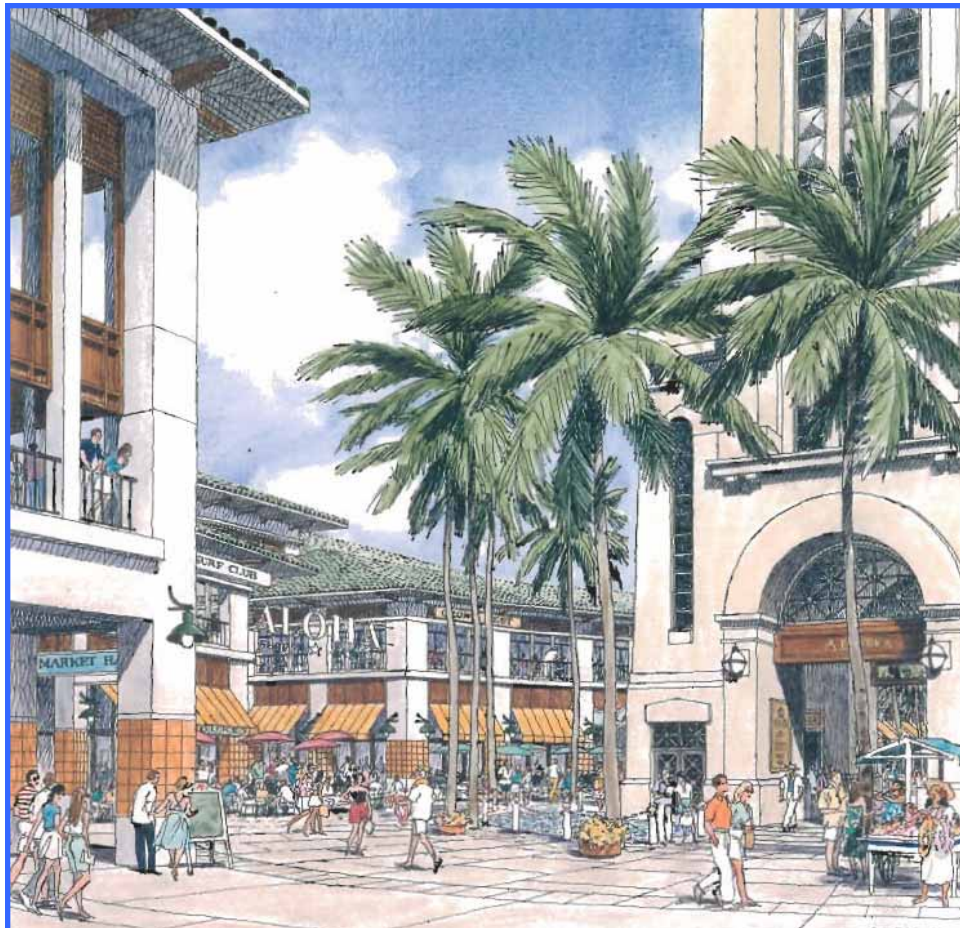
DANIEL ORODENKER
Acting Executive Officer
(to June 30, 2005)

SANDRA S. PFUND
Acting Executive Officer
(July 1, 2005 to present)

CLEIGHTON GOO
Development Manager

DANA YOSHIMURA
Development Manager

HARUMI LEONG
Administrative Assistant





HISTORY OF THE ALOHA TOWER

The Aloha Tower is one of Honolulu's oldest and most recognizable landmarks. It symbolizes hospitality and memories of the old "Boat Days" when passenger ships were welcomed warmly to Honolulu Harbor.

During the 19th century, Honolulu Harbor was a gathering place for whaling and merchant ships. The 20th century saw sailing ships rapidly replaced by steamships and piers and warehouses began springing up all along the waterfront. The city decided it was time to come up with an appropriate iconic structure to create a memorable impression of aloha to its visitors.

Piers 8, 9 and 10 were completed in April 1918 and were made of concrete cylinders. Freight and passenger sheds were constructed shortly before completion of the Tower.

In 1924, C.W. Winstedt and the National Construction Company began construction on the Tower. The project took a year and a half to complete at a cost of \$351,053. At 184 feet, 2 inches tall, it was the most imposing building in the Territory of Hawaii and offered a spectacular view of Honolulu Harbor.

The Aloha Tower was designed with modern Spanish architecture. The exterior involved 6,000 barrels of cement, 15 gallons of light green paint and 1,400 gallons of white paint. On the roof of the Aloha Tower is a 40 foot mast with a cross arm and cables which are used to hang flags and triangles to guide ships.

Aloha Tower opened in 1926. The first occupants were local artist James A. Wilder and Aloha Tower architect, Arthur Reynolds. The first floor contained Customs offices. The second floor was the arrival and departure space for passenger steamships. The Harbor Master and his staff were housed on the 3rd floor and the Harbor pilots on the 4th floor. Floors 5 through 9 were planned for office rental. The 10th floor housed the great clock which weighed seven tons and was manufactured by E. Howard Clock Company of Boston. The 11th floor was designed for the pilots lookout and public viewing balconies.



By the 1930's, luxury liners like Matson's Lurline and S.S. Monterey were bringing visitors by the thousands to Honolulu. "Boat Days" symbolized the romance of the era and had all the pageantry of a Hawaiian holiday. On these festive occasions, crowds gathered, the Royal Hawaiian Band played, graceful hula dancers swayed, colorful streamers flowed, and youngsters dove into the harbor to seek coins tossed by arriving passengers on cruise ships.

World War II resulted in the complete camouflaging of the Tower with netting and khaki green paint. The tower was closed to the public during the war and reopened in 1948.

In July 1994, a 30-foot high wall connecting the Pier 10 Terminal to the Aloha Tower was torn down and the landmark stood alone for the first time. The action marked the start of the construction of the present day Aloha Tower Marketplace.



Source: Honolulu Star Bulletin - July 14, 1994



The first phase of the Aloha Tower Marketplace was the Marketplace at Piers 8 and 9. The Marketplace, together with interim cruise ship terminals at Piers 9, 10 and 11, and the refurbished Aloha Tower, opened in November 1994. The Marketplace is a simple, but elegant structure, offering a two-story mix of retail specialty shops and restaurants.



ALOHA TOWER COMPLEX AND PROJECT AREA

Development of Piers 5 and 6 and Piers 10 and 11

The ATDC continued to explore public/private partnerships for the development of Piers 5 and 6 and Piers 10 and 11. Additional parking is deemed crucial for the success of the area and the various proposals being entertained involve mix-use developments inclusive of additional parking.



In September 2004, ATDC entered into a Development Agreement with developer Ken Hughes, Inc. for the redevelopment of the Aloha Tower Project Area that included a master plan requiring public and private participation to develop the various project components. In January 2005, several legislative initiatives were sought including the authority to sell state land in fee simple, funding for traffic improvements and funding for the partial removal of the Hawaiian Electric Co., Ltd. Honolulu Power Plant. These legislative measures were not realized, and the ATDC continues to explore other options to further redevelopment.

The ATDC focused on private/public partnerships for development of the Aloha Tower Project Area as a realistic approach to reducing funding requirements to the State. However, financial viability has proven a challenge without the ability to sell land in fee simple to offset public improvement costs. The issue of selling state lands is of public concern and the ATDC recognizes that this avenue appears foreclosed. The ATDC must continue to look for other development options to bring about necessary redevelopment.

New World Divers International Dive Center at Pier 6

The ATDC entered into a Development Agreement with New World Divers, Ltd. to develop and construct a state-of-the-art full service scuba training facility and dive center at Pier 6. The project is targeted to provide a convenient location for educational training, scuba certification and diving adventure experiences.



The facility will contain a retail showroom, men and women showers and restrooms, a scuba gear rental area, compressor room, video center and classrooms. The project will also include its own dock and pier with an in-water confined open water scuba training area.

Planning and design of the facility commenced in the Summer of 2005. Construction of the facility is scheduled to begin in Spring 2006.



Aloha Tower Marketplace

In April 2005, the Aloha Tower Marketplace emerged from a three-year bankruptcy with the sale of its assets to AHI Aloha Associates (AHI) for \$25 million. AHI assumed the ground leases and made payment to creditors holding approximately \$380,000 in claims. The ATDC's pre-petition debts and attorney fees were completely satisfied.

The Aloha Tower Marketplace continues to be managed by MMI Realty Services, Inc. (MMI), which aggressively promoted marketing and special events in 2005. Vibrant entertainment events included Mardi Gras, Pro Bowl, St. Patrick's Day, Cinco de Mayo, Independence Day Celebration and New Year's Eve Fireworks. The Marketplace enjoyed near 100% tenant occupancy in 2005 with over 70 great stores and award winning restaurants. Tenant revenues for 2005 were up approximately 9.9% over revenues generated in 2004.

New stores that opened in 2005 included Honolulu Nail Bar, Sunglass King, Sacred Treasures, Urban Rejuvenation, Golf Gadgets, Miracle Hawaii Collection and 99 Boarding Company. Additionally, five existing tenants expanded their spaces.

The volume of traffic to the Aloha Tower Marketplace increased in 2005 as evidenced by the following indicators:

Performance Measure	2004	2005
Cruise Ships Entering Port at Piers 10 and 11	94	121
Number of Riders on Pier 2 Shuttle to Aloha Tower	3,335	3,434
Number of Riders on Shuttle from Waikiki to Aloha Tower	9,443	11,804
Number of Visitors to the Star of Honolulu	366,574	402,157
Number of JTB Visitors	159,634	191,721

The lack of adequate parking continues to be a challenge for the Marketplace. Local customers find it difficult or inconvenient to park at the site, particularly on days when a cruise ship is in port, as almost one-third of the available parking stalls are reserved for ship servicing needs. The ATDC continues to discuss options to develop more parking with private developers.



WATERFRONT DEVELOPMENT

Hawaii Harbors Project

In April 2005, the Governor's Office initiated the formation of the Hawaii Harbors Task Force to respond on a priority basis to the pressing demands for infrastructure improvements in Honolulu Harbor. It was determined that the overall volume of cargo processed through Hawaii's commercial harbor system continues to increase on an annual basis and that the State must take expeditious action to implement improvement projects to redevelop existing facilities and provide expansion areas for harbor use. There is a looming shortage of port facilities in Honolulu Harbor. Reserve capacity has been depleted for foreign cargo this year and capacity for domestic cargo is expected to be depleted by the year 2011.

The ATDC was tasked to work in partnership with the Department of Transportation, Harbors Division, and has been assigned the lead in implementation efforts to develop harbor infrastructure on a priority basis. The partnership, now known as the Hawaii Harbors Project, has the following goals and objectives:

- 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.

Clearly, the need to improve harbor infrastructure has gained considerable support and attention. The maritime community has formed a proactive coalition of members from the marine transportation industry to develop priorities for future port development and to assist the Department of Transportation, Harbors Division, to obtain mandates, approvals and financing of port improvements.

This year also saw the formation of the Economic Momentum Commission (EMC), established with the goal of developing an action plan to sustain the state's current economic momentum. The EMC promotes projects that can be achieved within a six-year period of time to address identified challenges. Improvement of the state's commercial harbor system surfaced as one of the Commission's top challenges for prioritized focus and attention.

The Hawaii Harbors Project achieved the following in 2005:

In cooperation with the Department of Transportation, Airports Division, a dilapidated warehouse in the Kapalama Military Reservation was demolished and an acre of adjacent land was acquired from the Department of Land and Natural Resources (DLNR) to provide an expansion area of approximately 4 acres for cargo container yard operations.



Approximately 30 acres of land adjacent to the major cargo terminals on Sand Island were acquired from the DLNR for cargo container yard expansion. Pre-development land entitlements and approvals were pursued. The property will be leased to major shipping companies for cargo handling operations. Construction of site work is targeted to begin in the second quarter of 2006.

At Piers 1 and 2, Honolulu Harbor, design funds were released and design of improvements is underway, consisting of demolition of a warehouse shed, relocation of existing overhead lines that impede cargo operations and new lighting to provide a cargo yard expansion area of approximately 5.7 acres.





At Kapalama Military Reservation, \$1 million in planning funds was released by the Governor to establish a development plan for a new cargo container terminal. Three requests for qualified consultants were issued for this state-owned property which is approximately 70 acres in size. A national solicitation was made for a consultant with expertise in port terminal development and cargo operations. The work will also include financial proformas and a business plan for

development. A consultant was also sought to complete a historic review and documentation of this former military site used during World War II and the Vietnam War. Lastly, a general engineering consultant will be brought into the project, focusing on infrastructure, environmental, surveying and subdivision work. The selections are expected to be completed by the first quarter of 2006.

FINANCIAL INFORMATION

Aloha Tower Development Corporation
STATEMENT OF APPROPRIATIONS, EXPENDITURES, ENCUMBRANCES
AND BALANCES
For Fiscal Year Ended June 30, 2005

Appropriation (Budget) Act 41, SLH 2004	1,525,689
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REVENUES

Carryover Balance – Aloha Tower Fund	2,311,232
Prior Year-End Encumbrance	89,094
Revenues	1,042,224

Total	3,442,550
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EXPENSES

Expenditures	403,476
Encumbrances	428,347
Transfer to General Fund*	750,000

Total	1,581,823
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Cash Reserve Balance	1,860,727
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*Act 52, SLH 2004