REVIEW AND ANALYSIS

OF THE

ALOHA TOWER REDEVELOPMENT PROJECT

A Report to the Legislature of the State of Hawaii

Submitted by the

Legislative Auditor of the State of Hawaii
Honolulu, Hawaii

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FOREWORD

In accordance with legislative direction, the Office of the Legislative Auditor maintains a budget review and analysis program to assist the Legislature in its consideration of programs and budget requests.

This report focuses on the Aloha Tower redevelopment project authorized under Chapter 206J, Hawaii Revised Statutes. The Aloha Tower Development Corporation was established in 1981 to undertake the redevelopment of the area surrounding the Aloha Tower. Numerous changes have occurred in the past six years. In this report, we examine the impact of some of these changes on the feasibility and desirability of redeveloping the area under the Aloha Tower Development Corporation.

In Chapter 1, we review the history and provide background information on the project. In Chapter 2, we present our analysis including our findings and recommendations.

We appreciate the cooperation and assistance given to us by personnel of the Department of Planning and Economic Development, the Department of Transportation, and other private and public individuals we contacted in preparing this report.

Clinton T. Tanimura
Legislative Auditor
State of Hawaii

February 1987

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Chapter 1

REVIEW OF THE ALOHA TOWER REDEVELOPMENT PROJECT

The redevelopment of portions of downtown Honolulu's waterfront area has been an issue for years. More than a decade ago, the state administration proposed to redevelop the area around the Aloha Tower and to establish a World Trade Center to promote Hawaii as a center for international trade. The project would include facilities for the regional headquarters of multinational corporations, general purpose office space, commercial shops for tourists, and a downtown hotel.

Act 236, SLH 1981, established the Aloha Tower Development Corporation (ATDC) as a public body corporate and instrumentality of the State to undertake the redevelopment of the Aloha Tower complex. The corporation is assigned to the Department of Planning and Economic Development (DPED) for administrative purposes.

The ATDC was initially authorized to issue up to $33,260,000 in revenue bonds to finance the public participation portion of the project. In 1986, the ATDC requested and received an increase in revenue bond authority to $200 million to finance the full cost of redevelopment, including the construction of a hotel, concessions, parking, and renovation of existing structures on the site.

Numerous changes have occurred since the concept of redeveloping Aloha Tower was first broached. The most significant has been the increase in maritime use at the site. In view of the current legislative interest in planning for the entire waterfront area from Ala Moana Park to Sand Island, a budget review and analysis was conducted to assess the appropriateness of the increased bond authorization and the continued viability of the ATDC.

Early Concepts and Planning Efforts

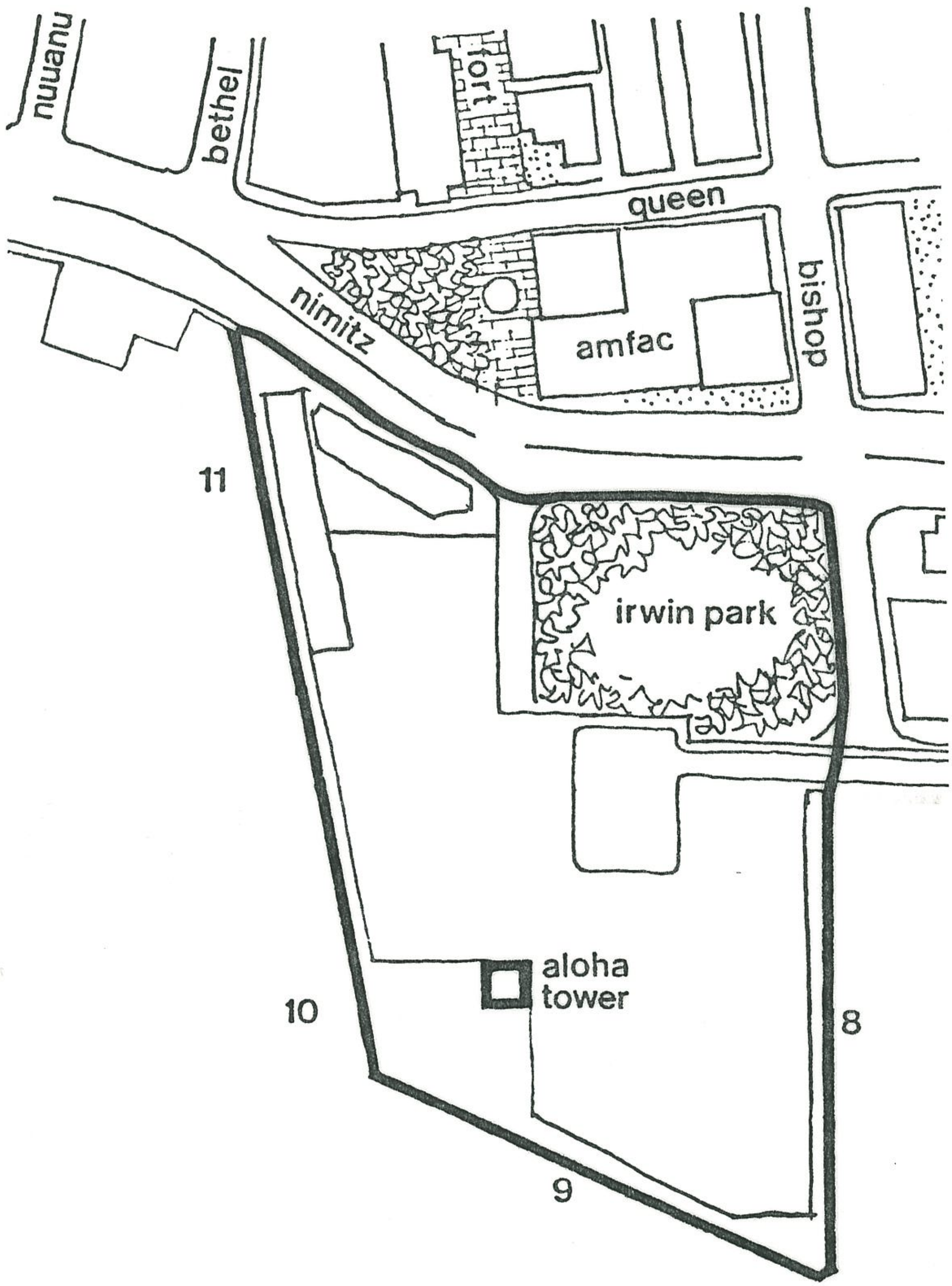
The original concept was to promote international trade in Hawaii by establishing a world trade center. The concept was not connected to any particular site. In 1961, Governor William F. Quinn proposed a privately operated "International House" where international relations, world trade developments, and publicity could be carried out. Traders and travelers would also have at their disposal an exclusive business club and a library.

Support for the concept continued under Governor John A. Burns. In 1970, the Legislature appropriated $100,000 for DPED to conduct studies on the concept of an "International Trade and Conference Center." Studies conducted by DPED in the 1970s identified the Aloha Tower complex as the first choice for the location of the center. The recommended site was approximately 13 acres west or makai of Nimitz Highway at the foot of Bishop Street. It included Piers 8 through 11, the Aloha Tower, and Irwin Park. [See Figure 1.1.]

Once the Aloha Tower complex was selected as the most desirable site for a world trade center, subsequent studies expanded the original concept of a world trade center to redevelopment of the entire site by adding a hotel and commercial and visitor facilities, renovating existing maritime facilities at Piers 8 through 11, and restoring the Aloha Tower.

Figure 1.1

Aloha Tower Development Site
Piers 8—11



Source: Hawaii, Department of Planning and Economic Development, *The Aloha Tower Plaza*, Honolulu, March 1981.

A feasibility study conducted between 1975 and 1979 proposed a total redevelopment of the 13-acre site in three increments. The first phase, amounting to approximately $50 million, would include an eight-story building, commercial areas, shopping arcades, and a skybridge to Fort Street Mall. It would also include parks and open space, renovation of Aloha Tower, a new visitor center, and a major renovation of the passenger terminal at Pier 11. The second and third increments would provide more office space and a hotel of 400 to 720 rooms.

In 1979, the state administration requested an appropriation of $8.5 million for the first increment of an international trade center within the Aloha Tower complex. In reviewing the request, the Legislature found that proper analysis of the project had not been conducted. The objectives were unclear and alternative means, such as development by the private sector, had not been considered. The Legislature deferred the bulk of the appropriation pending answers to some basic questions relating to the project. The Legislature requested the Legislative Auditor to review the project's feasibility.[1]

Legislative Auditor's 1979 Evaluation

The evaluation conducted by the Legislative Auditor found serious deficiencies with both the world trade center concept and the proposed redevelopment of the Aloha Tower piers.[2]

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1. Conference Committee Report No. 34 on House Bill No. 1, H.D. 1, Tenth Legislature, 1979, State of Hawaii.

2. Hawaii, Legislative Auditor, *Evaluation of the Proposed Hawaii World Trade Center,* Special Report 79-4, Honolulu, November 1979.

Problems with the world trade center concept. The evaluation found several flaws with the world trade center concept. *First,* there was no evidence that the international trade activities proposed for the center would help to diversify or expand Hawaii's economy. *Second,* the demand for office space in the world trade center by those engaged in international trade would be quite small. And *third,* the size of the office building proposed for the Aloha Tower site was out of proportion to the space needed to implement the proposed world trade center concept.

Problems with redeveloping the Aloha Tower complex. The evaluation found that redeveloping the Aloha Tower site had little to do with attracting multinational corporations to establish regional headquarters in Hawaii. Coupling the concept of promoting international trade with redevelopment was dysfunctional and served only to cloud the issue. The commercial space proposed in the redevelopment was excessive, and the feasibility of a downtown hotel had not been established. The first increment would not be financially feasible, and the public financing implications of the subsequent increments were not known.

The evaluation concluded that it was premature to create an independent authority to implement a deficient plan. It was also premature to authorize demolition and construction under the proposed plan. Instead, much more work was required before redeveloping Piers 8 through 11. In particular, the important question of future maritime needs and the availability of the piers for redevelopment had not been studied. The purpose of redeveloping the area had not been clearly identified nor had priorities been established among competing objectives. Also, the kind of agency that should be responsible for planning and implementing redevelopment had yet to be identified.

The Aloha Tower Development Corporation

Despite these unresolved issues, the state administration submitted legislation to the 1981 regular session to establish the ATDC to redevelop the Aloha Tower complex. The Director of DPED testified that planning for the project had been under way since 1973. He stated that the project would "enhance Hawaii's future as a transpacific center for business and trade and regional headquarters; modernize maritime facilities; convert a key segment of the downtown Honolulu waterfront into people-oriented promenades and plazas; maximize the economic and social benefits of the State's valuable waterfront property."[3]

The project would include an office building, a 500-room hotel, retail outlets and restaurants, open space, modernized maritime facilities, a pedestrian overpass across Nimitz Highway, and 1,000 parking spaces.

The director made a commitment that no state funds would be needed for the project. It would be a public/private joint venture under which the ATDC would issue revenue bonds only to finance the public portion of the redevelopment. The office building and the hotel would be financed by the private developer.

The Department of Transportation (DOT) testified that it supported the establishment of the ATDC as the first step towards implementing the project which would better serve the economic needs of the community while retaining essential maritime activities. According to DOT, planning and feasibility studies were

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3. Statement on House Bill No. 1874 and House Bill No. 1875 submitted by Hideto Kono, Director, Department of Planning and Economic Development, to the House Committee on Water, Land Use, Development and Hawaiian Affairs, March 2, 1981.

continuing on such matters as jurisdiction, financing, and operational characteristics; and these matters would be worked out with DPED.[4]

Act 236, SLH 1981, codified as Chapter 206J, Hawaii Revised Statutes, established the ATDC. The corporation consists of a seven-member board of directors chaired by the Director of DPED. Other members are the directors of DOT and the Department of Land and Natural Resources (DLNR), the Mayor of the City and County of Honolulu, and three public members appointed by the Governor.

The ATDC is authorized to plan for and oversee the redevelopment of a site of approximately 13 acres at the Aloha Tower complex. The site is part of a parcel that had been transferred by executive orders to DOT and remains under the jurisdiction of DOT.

The purpose of redevelopment is to:

- strengthen the international economic base of the community in trade;
- beautify the waterfront;
- better serve modern maritime uses; and
- provide for public access and use of the waterfront property.

The Legislature found that, properly developed, the Aloha Tower complex could serve as a stimulant to the commercial activities of the downtown business community and transform the waterfront into a "people place."

Several limitations are placed on the ATDC. It must preserve the Aloha Tower and not sell, remove, demolish, deface, or alter the structure in a way which would lessen its historical value. It is required to maintain Irwin Park, and it has no

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4. Testimony on House Bill No. 1874 presented by the Department of Transportation, March 2, 1981.

jurisdiction over any of the replacement facilities necessary for maritime use. Such facilities remain under the jurisdiction of DOT. The law also specifically requires the ATDC to reimburse DOT annually for any losses in revenues caused by the ATDC and to provide replacement facilities for maritime activities at no cost to DOT.

The ATDC has the power to develop the Aloha Tower complex (incorporating the needs of DOT), to assign or lease any portion of the complex except those portions required for maritime activities, to impose and collect fees and other charges, to assign or pledge any revenues or proceeds from the project to the harbor special fund for the loss of revenues or expenses incurred by DOT because of any action taken by the corporation, and to issue bonds in amounts authorized by law.

The Legislature authorized $33,260,000 in revenue bonds for the public participation portion of redeveloping the complex with the proviso that no bonds could be issued and no demolition or site improvements could take place until development proposals were backed by firm contractual commitments.

Activities of the Aloha Tower Development Corporation

The board held its first meeting in September 1981. The following year, it requested and received an appropriation of $500,000 to cover predevelopment costs. These funds were used for the hiring of an executive secretary and other operating expenses.

The prospectus for development. Most of the board's efforts were directed at preparing a plan for development. The board contracted with ROMA architects of San Francisco for design guidelines and to develop an implementation program.

In May 1983, some 450 prospectuses were mailed throughout the world seeking proposals from qualified developers. The prospectus offered for private development a 65-year lease on a 4.8-acre site within the 13-acre Aloha Tower complex. The proposed development parcel contained two building sites: a 3.4-acre L-shaped site for a hotel and a 1.4-acre site for an office building. [See Figure 1.2.] A completion date of November 1986 was projected.

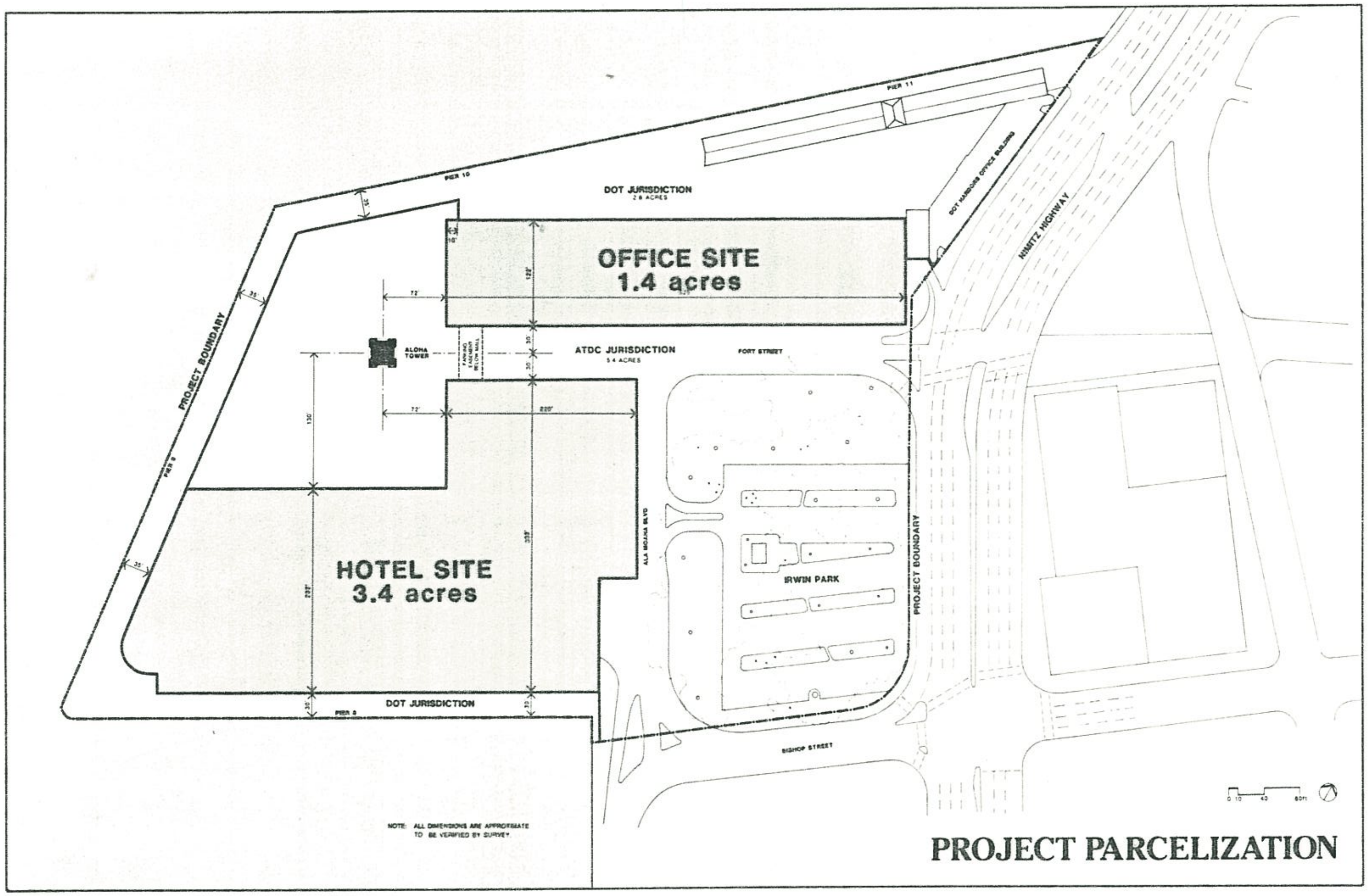
The objectives of the development were seen as:

- creating a major public gathering place and attractions at the historic waterfront;
- creating strong pedestrian links between downtown and the Aloha Tower and eliminating physical and visual barriers;
- maintaining and enhancing passenger ship operations;
- maintaining the 65-foot Capitol District Zone height limitation and ensuring an appropriately scaled development; and
- creating a financially feasible and self-supporting project.

The developer would be responsible for providing a 400 to 500 room hotel, 600 to 1000 seat restaurant, 100,000 to 150,000 square feet of office and retail space, and sufficient parking to support these activities.

The developer was also expected to construct replacement facilities to meet the maritime needs of DOT. These facilities would be leased back by the ATDC at a rate that would compensate the developer for the costs. According to the prospectus, the maritime space requirements consisted of a main cruise ship terminal at Piers 10 and 11, a back-up cruise ship facility at Pier 9, and an additional facility along Pier 8, amounting to a total of 44,000 square feet.

Figure 1.2
Public and Private Parcels



Source: Aloha Tower Development Corporation, *Aloha Tower Plaza Development Prospectus,* Honolulu, May 1983.

The ATDC would be responsible for certain public improvements at the site. It would invest approximately $13 million in revenue bonds for demolishing and preparing the site, providing open space and pedestrian improvements, building a pedestrian bridge over Nimitz Highway, improving access roads, and rehabilitating Aloha Tower.

The ATDC planned an ambitious open space program. A landscaped mall—60 feet wide—would extend the Fort Street Mall to a 1.5-acre waterfront plaza providing views of the harbor and ocean. [See Figure 1.3.]

Negotiations with developers. In November 1983, the ATDC selected Southern Pacific Development Company (SPDC) as its designated developer from a field of five semifinalists. An agreement was executed giving SPDC the exclusive right to negotiate a land lease and development agreement.

Negotiations with Southern Pacific continued through most of 1984. A preliminary agreement had also been reached with the Peninsula Group Hotels for a 415-room hotel. It was hoped that construction could begin by the summer of 1985. However, during this same period, SPDC merged with Santa Fe Railroad. In October 1984, the new corporation decided to withdraw from the project because the project did not meet with the new corporation's development objectives.[5]

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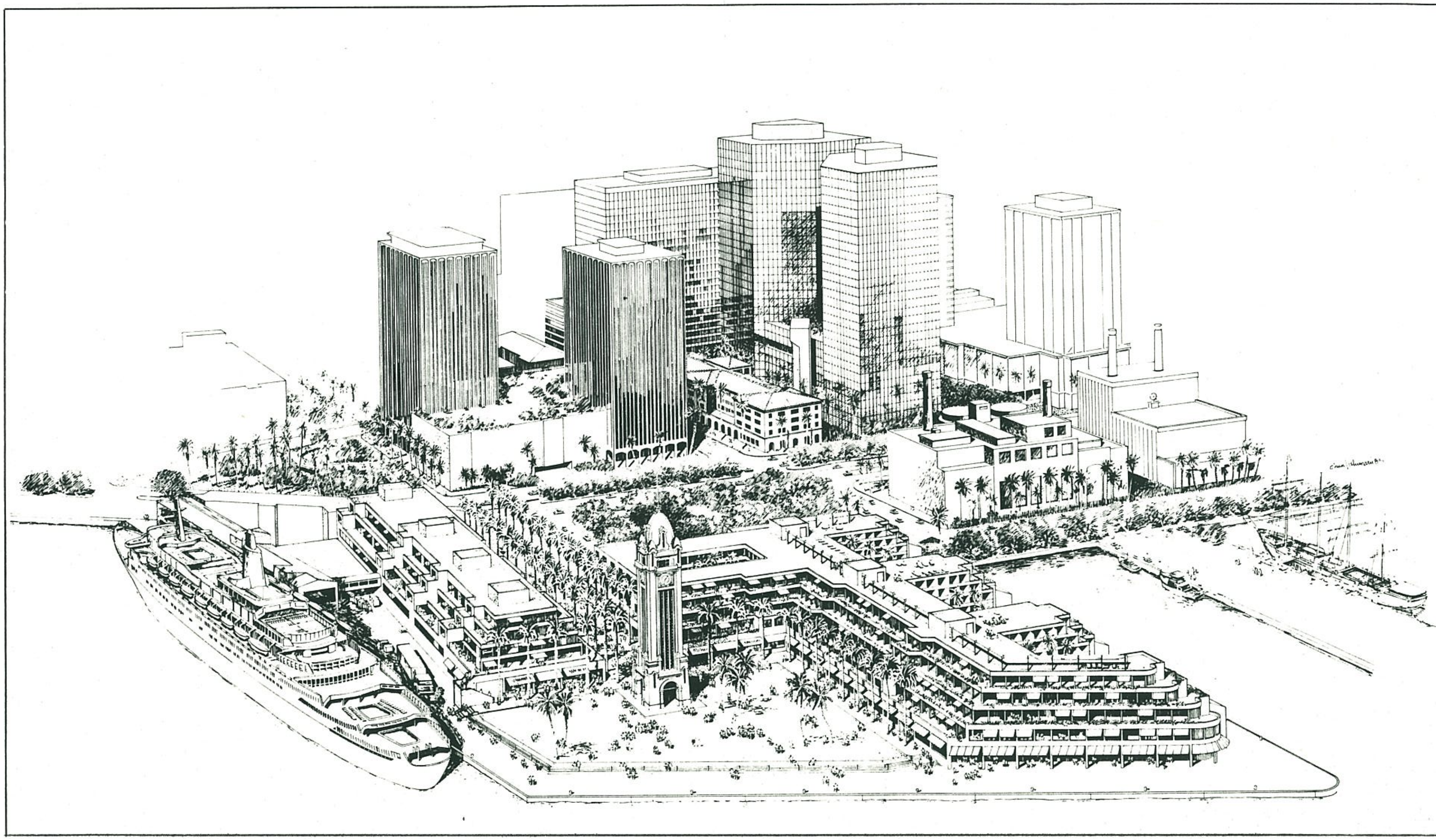
5. Aloha Tower Development Corporation, Minutes of Meeting, October 11, 1984.

Figure 1.3
1983 Design Concept



Source: Aloha Tower Development Corporation, *Aloha Tower Plaza Development Prospectus,* Honolulu, May 1983.

Following the withdrawal of SPDC, the ATDC granted a three-month contract to the Warnecke Corporation to assist in selecting another developer for the project. At the beginning of 1985, Warnecke reported to the ATDC that maritime use at the site had increased since the 1983 prospectus was issued and that prospective developers should be advised of this. According to DOT, there were now two cruise ships homeported at the Aloha Tower piers and requests for a third berthing space. Its amended space requirements were now 127,000 square feet.

The ATDC then entered into negotiations with several developers who expressed interest in the project. In April 1985, the ATDC selected a joint venture partnership of Cordish Embry and Associates of Baltimore and American Hawaii Cruises-Island Navigation Corp. An interim development agreement was executed with the joint venture partnership giving them the exclusive option to negotiate a development agreement and a land lease. The term of the interim agreement extended to April 1986.

The agreement stated that the developer would pay $100,000 to the ATDC. In return, the ATDC would obtain an interagency lease to the property from DOT. The ATDC would provide evidence of clear title to the property and title insurance in the amount of $2 million.

The agreement listed some of the key points to be negotiated: the design and operations of the hotel, commercial and retail, maritime, and public facilities; establishing policies and procedures for the design, construction, management, and maintenance of public open spaces and physical facilities; and determining who will bear the burden of constructing, repairing, and maintaining areas designated for use by DOT.

As negotiations continued with the developer, the unresolved problems began to surface. They related primarily to the constraints placed on the project by expanded maritime needs and increased reimbursements to be made to the harbor special fund for the loss in revenues because of the project. It was estimated by DOT that its maritime needs had increased to 171,400 square feet instead of the 44,000 square feet stated in the prospectus. The department also estimated that revenues lost to DOT that must be reimbursed would be substantially more than the $400,000 estimated in 1984.

There was also the problem of possible claims against the project by the Office of Hawaiian Affairs (OHA) or other native Hawaiian groups. Although the sites designated for private development were not ceded lands, there was ceded land within the 13-acre parcel. There was a question as to whether OHA would be entitled to 20 percent of the revenues from the project each year.

According to the developer's analysis, the project was not economically feasible. The only part of the project that would make money was the commercial and retail space. This would have to be greatly increased to underwrite the maritime, public, and hotel uses. Some of the alternatives considered in order to increase the financial viability of the project were to expand the commercial and retail space, eliminate the hotel, and provide public funds.

The developer's suggestion was to finance the project 100 percent with state revenue bonds. Since revenue bonds are tax exempt, they can be sold at lower interest rates. The reduced debt service costs would reduce the cost of the project.

In September 1985, the developer drafted an Assistance Agreement for the ATDC in which the ATDC, to the extent permitted by law, would issue not more than $200 million in revenue bonds for the development. In October 1985, the

ATDC board adopted a resolution authorizing the Assistance Agreement with the developer.

In 1986, the administration submitted a request to the Legislature for authorization to issue revenue bonds up to $200 million. The Director of DPED testified that the financial viability of the project depended to a great extent on the availability of industrial development bonds to finance the entire project.[6] Act 129, SLH 1986, gave the ATDC the increased bond authorization.

Because of the various delays, the board agreed in April 1986 to extend the interim agreement with the developer for an additional three months to July 1986. The board also agreed to delay payments from the developer until issues relating to ceded lands had been clarified by the Attorney General. After an initial payment of $25,000, the developer had made no additional payments because of questions relating to OHA's claims.

In June 1986, American Hawaii Cruises–Island Navigation Corp. announced that it was dropping out of the project. Negotiations continued with the remaining company, Cordish Embry. A major stumbling block appeared to be the significant increases in maritime requirements. The DOT would not enter into an agreement with the developer unless maritime space was increased, this time to 248,400 square feet. Because DOT had increased its tariffs and wharfage fees, the revenues to be reimbursed to DOT were also increased to $721,000. To carry these costs, the developer was proposing 600,000 to 750,000 square feet of commercial and office space, five times the space allowed in the prospectus.

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6. Statement on Senate Bill No. 1960 and Senate Bill No. 1961 submitted by Kent M. Keith, Director, Department of Planning and Economic Development, to the Senate Committee on Housing and Community Development, February 19, 1986.

In July 1986, the ATDC signed a new agreement with the Honolulu Waterfront Limited Partnership consisting of Cordish Embry. The agreement stated that the ATDC would attempt to get a master lease from DOT. The partnership would be responsible for replacing and constructing new maritime facilities consistent with the operations of DOT's Harbors Division. The partnership would also build a first-class hotel, office buildings with not more than 400,000 square feet of leasable space, a retail complex, parking, and public improvements such as a waterfront plaza, promenade, and pedestrian overpass.

After the July 1986 agreement was executed, the board and the developer discussed the need for a second extension to the *interim* development agreement which had expired July 1986. The developer believed that the July 1986 agreement was a binding development contract which superseded the interim development agreement. The board stated that it had intended the July agreement to be a synopsis of the points still to be negotiated.

At its September 1986 meeting, the board requested an opinion from legal counsel as to whether a binding development contract existed. The board also discussed the feasibility of the project in view of the increase in maritime space requirements and the increase in commercial space requested by the developer. The board decided to approve a $19.8 million capital improvement request for the 1987-89 fiscal biennium to pay for the public and maritime use portions of the project.

Two meetings of the board were held in November 1986. At the first meeting, the legal counsel for the ATDC provided the board with an opinion that neither the interim agreement nor the July agreement between the developer and the ATDC were binding development agreements because a master lease from DOT transferring the site to the ATDC had not been executed. Consequently, the ATDC could not enter into a binding development agreement.

The board then decided to offer the developer a six-month extension for negotiations in the form of a second supplement to the interim development agreement. This second supplement would extend the exclusive right to negotiate until January 1987. The board also decided to request an additional $50,000 to be paid by the developer, as well as require schematics by January 1987 for presentation to the Legislature in support of the $19.8 million appropriation request.

At the second November meeting, the board and the developer met to discuss the second supplement and its conditions. The developer's counteroffer was to extend negotiations to April 1987 and pay an additional $25,000 and to make fixed lease payments equal to $821,000 plus debt service. Since the board and the developer could not agree on the fixed lease payments, the supplement was not ratified and negotiations stalemated.

The current situation. The ATDC met on January 27, 1987, under its new chair, the recently appointed Director of DPED. The chair asked the ATDC legal counsel to provide a synopsis of board actions to orient the new board members representing DOT and DLNR. The board then met in executive session to discuss the legal ramifications of its agreements with Cordish Embry.

Later in the meeting, the board adopted a motion to notify the developer that no current agreements exist between the ATDC and the developer and to withdraw the supplemental agreement it had offered in November 1986. The chair stated that he would be meeting with the new DOT and DLNR board members to discuss the maritime and financing issues. Finally, the chair informed the board that the issue of ceded lands would be discussed at the next board meeting.

Chapter 2

ANALYSIS OF THE ALOHA TOWER REDEVELOPMENT PROJECT

Six years after the Aloha Tower Development Corporation (ATDC) was established, the redevelopment project is at a standstill with no formal agreement with any developer. In this chapter, we examine the reasons for the lack of progress.

Summary of Findings

The Aloha Tower redevelopment project is a concept that is flawed, and it should be shelved:

1. The Department of Planning and Economic Development (DPED) originated the concept of an Aloha Tower redevelopment project as a vehicle for accomplishing the department's economic development mission. The department has tried to implement the concept without confronting and resolving the problems on financing and maritime use pointed out in our 1979 review of the project. It has never studied or clarified the broader issues relating to redeveloping the site, such as those relating to waterfront redevelopment, the primacy of maritime activities at the site, existing spatial constraints, and encumbrances on the site.

2. The plan for private commercial development of the site is in basic conflict with the site's dedicated use for maritime purposes.

3. Financing strategies for the project have been unrealistic and unworkable because of the faulty redevelopment concept.

4. The latest spatial configuration of the project that is being negotiated is likely to result in redevelopment that is undesirable.

Overview of the Problem

The project originated with DPED as a vehicle for carrying out its economic development mission. The Aloha Tower site was viewed primarily as an attractive location for certain economic development activities.

As DPED saw it, the goal of economic development could be accomplished at that site by private commercial development including hotel, office, retail, and restaurant space. The project would provide employment and business opportunities and attract international trade to Hawaii. This mixed-use type of project would generate profits from the underutilized maritime areas within the Aloha Tower complex. These profits would then pay for the public improvements that would be needed to enhance the site.

The plan called for the Department of Transportation (DOT) to retain essential maritime facilities. Certain portions of the pier area would remain operational and would be integrated into the commercial development. As part of the commercial development, maritime facilities would be modernized, enhancing pier areas serving the limited passenger cruise ship industry.

However, as a department responsible for planning and economic development, DPED is not an agency equipped to deal with problems and practices relating to land development or redevelopment. Consequently, DPED did not take a broader view of the attributes of the site such as its suitability for redevelopment, other activities occurring at the site, and certain advantages and constraints offered specifically by the Aloha Tower parcel.

The department's optimistic view of the site's potential to attract international business, support an executive hotel, sustain office and commercial space, and generate sufficient revenues to cover the cost of all the public improvements was without adequate substantiating analysis. Most importantly, the department did not develop a viable financing strategy for private development of the site.

Lacking the appropriate land development focus, DPED did not confront and resolve problems associated with redevelopment that were brought to its attention. For example, it did not take into account competing maritime uses. Instead, underlying the project was the assumption that it could simultaneously achieve the goals of providing greater public access, stimulate downtown business activities, transform and beautify the waterfront, while also serving modern maritime uses. It did not resolve the issues posed by DOT's overriding jurisdiction at the site, prior claims on revenues produced at the site under existing harbor revenue bonds, or claims on the land by native Hawaiian groups.

The department did not recognize that the administrative structure for redeveloping the site, the Aloha Tower Development Corporation, was unworkable. The corporation does not have the authority or the expertise to implement the project.

The department also did not recognize problems relating to the financial feasibility of the project. Our 1979 review had noted that the project failed to meet the stated objective of maximizing financial benefits or minimizing financial cost. At that time, the evidence indicated that the project would not be financially feasible or self-supporting.

Studies conducted by DPED's own consultants prior to the establishment of the ATDC had questioned whether aspects of the proposed redevelopment would be financially feasible or self-supporting. The use of revenue bonds to support the project was also projected to be unfeasible. Instead, the prospect was that it would have to be supported by state general obligation bonds. Nevertheless, DPED made an inaccurate and unrealistic representation to the Legislature that no public funds would be used.

In the following sections, we examine some of the fundamental problems undermining the viability of the Aloha Tower redevelopment project.

Nonresolution of Issues

Relating to the Aloha Tower Site

Issues relating to waterfront use. From the beginning, there appeared to be a lack of understanding by DPED of the Aloha Tower complex as a port facility. Many ports today operate as public utilities, requiring large amounts of public capital investment. Historically, ports have been self-supporting enterprises operating from revenues generated by the users.

Redevelopment of ports is useful if maritime use in the area is *obsolete.* The factors that determine waterfront redevelopment at ports revolve around the answers to such questions as: what forces have historically shaped waterfront uses and are they still active; what is the projected demand for maritime use; how should other uses, such as recreation, be balanced with maritime demands; and how does the changing role of waterfront economies affect their potential for other uses?

Another factor to be considered is that competition for waterfront land is often between uses that are incompatible. Redevelopment of a waterfront site must consider the extent to which the proposed uses will be complementary. Location of commercial and industrial enterprises may not be compatible with the unique and often historically significant qualities of waterfront sites. Residential developments may not be feasible when ownership of the property is still retained by a government entity. While recreational use of waterfront sites has increasingly been made a part of port redevelopment, it is generally nonrevenue producing, and this must be considered in developing strategies for financing the redevelopment.

The redevelopment of ports such as Boston and Baltimore was motivated by the abandonment of active maritime use at the sites. These redevelopment projects took blighted, underutilized sites and constructed mixed-use commercial and residential developments to meet other needs of the area, while preserving the waterfront environment.

The Aloha Tower site is not characterized by obsolescence or blight. Instead, it is the last remaining undeveloped parcel of that size in downtown Honolulu. It is a prime piece of real estate. In addition, it is the focal point of Honolulu Harbor, Hawaii's most important transportation center. The State imports 80 percent of its consumer goods, and 98 percent of these goods are distributed through the state harbor system. The bulk of the goods arrive at Honolulu Harbor, making it the most active and important port in the state harbor system.

Piers 8 through 11 at the Aloha Tower complex have historically been used for passenger ships. These piers have been assigned for cruise ship berthing because of the existing infrastructure for handling passenger and baggage movement, as well as customs and security. According to the *2010 Master Plan for Honolulu Harbor* which has been adopted by DOT, Piers 8 through 11 at the Aloha Tower complex will be retained for passenger cruise ships because of the current demand and projected increase in the number of homeported vessels at Honolulu Harbor.[1]

Jurisdication over Honolulu Harbor. The ATDC actually has little authority and power to develop the site. According to Chapter 266, Hawaii Revised Statutes, DOT is authorized to control and manage all harbors, harbor and waterfront improvements, ports, docks, and wharves belonging to or controlled by the State.

The law establishing the ATDC allows DOT to retain control and jurisdiction over the site. The law specifically restricts redevelopment by maintaining maritime jurisdiction in the following areas: the development plan prepared by the ATDC *must* incorporate the needs of DOT; the ATDC *does not* control the areas used for maritime purposes; the DOT *must* be compensated for the loss of revenues from areas which are leased to and developed by the ATDC; and the ATDC development rules *must* insure that necessary maritime activities are not impaired. Further, pursuant to statute, the ATDC *must* provide DOT with replacement maritime facilities at *no cost* to DOT.

Since DOT retains the master lease to the site, the ATDC cannot enter into any development agreements without first receiving release of the property through an interagency lease with DOT. Such a lease has yet to be executed. In fact, DOT refused to be a party to the July 1986 agreement between ATDC and the developer. The chairman of the ATDC notified board members that the agreement with DOT

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1. Hawaii, Department of Transportation, State Harbors Division, and Chamber of Commerce of Hawaii, Maritime Affairs Committee, *2010 Master Plan for Honolulu Harbor – October 1986,* Honolulu, 1986.

had to be deleted. Instead, the ATDC would use its best efforts to try to obtain a master lease from DOT.[2]

Based on their statutory responsibility for state maritime needs, DOT's current position is that active maritime space cannot be given up for private commercial development as long as maritime space is in demand. The *2010 Master Plan for Honolulu Harbor* makes clear that Piers 8 through 11 will continue to serve as the port's main passenger ship facility.

Constraints due to maritime costs. The law states that the ATDC shall reimburse DOT for any losses in revenues caused by the development. The ATDC must also provide replacement facilities for maritime activities at no cost to DOT. These two provisions are necessary based on the statutory requirements of the harbor special fund. However, they also confuse the issue of funding for maritime improvements and place an unreasonable financial burden on the developer.

Harbor special fund. The state harbor system is a self-supporting enterprise financed by the harbor special fund. The fund is supported by three major categories of revenues: (1) service revenues from wharfage and dockage; (2) rental income from wharf space, land, storage, pipelines, and auto parking; and (3) other charges for utilities, vendor permits, and supplies. Almost 80 percent of the total operating revenues for the harbor special fund are generated from the operations at Honolulu Harbor.

The revenues of the harbor fund are dedicated to the three major categories of expenses of the port: debt service for harbor improvement bonds, operational costs,

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2. Memorandum to ATDC Board Members from Kent M. Keith, Subject: New Draft of Proposed Letter Agreement, June 30, 1986.

and debt service for general obligation bonds. The rates charged to users of harbor facilities are based on the expenses to be covered by the fund. In the past ten fiscal years, tariffs have been increased five times to support associated increases in operating expenses. This increase in revenues means that any action by the ATDC affecting harbor revenues would, in turn, require increased reimbursements to DOT.

Revenue bonds are authorized to fund harbor system improvements and operations. The bonds are repaid from revenues generated by the harbor system. According to the bond covenants, DOT must collect sufficient tariffs to be self-supporting and yield net revenues: (1) at least equal to one and one-half times the total amount of principal and interest for 12 months on all bonds outstanding; (2) to make minimum payments into the sinking fund on the bond accounts for 12 months; and (3) to provide a reserve equal to 24 months of interest on all bonds outstanding.[3]

The DOT also maintains a $2 million cash reserve as a contingency for operating expenses. Any cash accumulated beyond the bond requirements, covenant reserves, and operating contingency is used for capital improvements in order to avoid further debt issuance. Any surplus that could be contributed by DOT to the Aloha Tower project would have to be for specific harbor improvements necessary to maintain operations at the site. Expenditures for purposes other than those specified by law are not allowed.

Responsibility for cost of maritime improvements. The issue of who should be responsible for the cost of maritime improvements remains unsettled.

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3. Hawaii, Department of Transportation, "Harbor Capital Improvement Revenue Bonds, Series of 1986," Official Statement, Honolulu, October 15, 1986.

Despite the legal requirement in Chapter 206J, HRS, that DOT is to be provided with replacement facilities at no cost, there have been discussions about having DOT assume some of the costs. For example, one of the items listed in the interim development agreement that was to be negotiated between the ATDC and the developer was the determination of who will bear the burden of constructing, repairing, and maintaining areas designated for use by DOT. The July 1986 agreement also stated that the ATDC will explore the possibility of having DOT pay for the costs of the maritime facilities.

The cost of maritime improvements is a serious burden on the developer, particularly since there is no clear indication from DOT or the ATDC on what maritime improvements are really needed. The DOT has indicated that it would not need the types of enhancements provided under the redevelopment design. However, the project includes improvements that would benefit DOT operations at the piers. Further, DOT anticipates improvements will be necessary in the near future and is bound by law to provide improvements necessary to sustain the harbor system and, in turn, charge the users for such improvements.

Structure of the Aloha Tower Development Corporation inappropriate. The administrative structure devised to implement the redevelopment project is unworkable. The statute appoints the Director of DPED as the chair of the ATDC. Based on the original intent of the project, the assignment of the director to the chair reflects the department's perspectives on the importance of economic development at the site.

The structure of the ATDC was designed to accommodate the interests of various parties with responsibilities for the site. Consequently, the ATDC board includes the directors of DPED, the Department of Land and Natural Resources

(DLNR), and DOT, as well as the Mayor of the City and County of Honolulu and three public members.

However, the ATDC lacks the authority to implement any redevelopment project. The Director of DPED has no authority over the other state department directors who represent different interests for the State. Thus, while the Director of DPED is primarily interested in furthering economic development through the project, the Director of DOT must first consider transportation needs and interests, and the Director of DLNR must consider appropriate uses and values of state lands. Because each departmental board member has a different statutory interest to protect, the board has not been able to subsume individual interests and achieve consensus on various aspects of the project.

Other waterfront redevelopment projects such as those in Savannah, Seattle, Philadelphia, San Francisco, Baltimore, Boston, and New Orleans have involved more than one administrative entity during various phases of redevelopment; yet the redevelopment projects succeeded. Generally, this is because the areas which are to remain within maritime jurisdiction were separated out to be administered by the controlling port authority. The port authority continues to retain responsibility for any maritime improvements and uses or leases the property to a public redevelopment corporation which works directly with a private corporation on the redevelopment plan. Usually the redeveloped area is publicly-owned or purchased, and the infrastructure is provided by the public entity. Public improvements are considered a public cost in the private/public redevelopment partnership.

The important difference between successful waterfront redevelopment projects and the Aloha Tower project is twofold: (1) maritime uses were not actively being pursued in projects elsewhere; and (2) the financing of maritime improvements were not assumed by the private partner in the redevelopment.

Conflict Between Redevelopment and Maritime Use

The compatibility of the commercial enterprise with maritime activities is the most necessary element underlying the uses at the Aloha Tower site. However, DPED has not addressed issues relating to maritime use at that site. It has not studied potential maritime demand, and it has never received a firm commitment on maritime needs from DOT.

Our review of correspondence and activities of the ATDC board indicates that the primary obstacle to redevelopment has been the lack of agreement between the ATDC and DOT about maritime space requirements and the amount of revenues owed to DOT as a result of development at the site.

Table 2.1 shows the changes in maritime space required by DOT since 1983. They have increased from the 44,000 square feet in the 1983 prospectus to 248,400 square feet in June 1986, more than a fivefold increase.

Although preliminary studies were conducted before the 1983 design prospectus was issued, the ATDC and DOT have disagreed about maritime needs from the beginning. In the early 1980s, only one cruise ship used the site regularly. Based on the relative inactivity at the piers at that time, the ATDC design consultants estimated maritime needs as one active berth and back-up space totaling approximately 45,000 square feet.

Table 2.1

Changes in Maritime Space Requirements
(In Square Feet)

	1983 Prospectus	1985 ATDC Estimate	1985 DOT Estimate	1986 DOT Estimate
Baggage/Customs	17,000	37,500	37,500	37,500
Passenger Space	13,500	9,000	9,000	9,000
DOT Offices	5,000	28,000	33,400	33,400
Back-up	8,500	40,000	79,000	116,000
Terminal		12,500	12,500	12,500
Aprons				40,000
TOTAL	44,000	127,000	171,400	248,400

Sources: Aloha Tower Development Corporation, Aloha Tower Plaza Development Prospectus, Honolulu, May 1983, Project Summary; Charles R. Sutton, Maritime Passenger Terminal, Aloha Tower Plaza, March 1985, p. 7; Memo HAR-EP 3591 to Kent M. Keith, Chair, Aloha Tower Development Corporation, from Director of Transportation, April 1985, pp. 1-5; and Memo HAR-S 4425 to Kent M. Keith, Chair, Aloha Tower Development Corporation, from Director of Transportation, June 1986, pp. 1-3.

The DOT requested three operating berths, one terminal in the office complex and two terminals within the space the ATDC had allocated for hotel development for a total of 50,000 square feet. Despite this unresolved issue, the design prospectus used the figure of 44,000 square feet for maritime facilities.

The winning proposal submitted by the Southern Pacific Development Corporation (SPDC) in 1983 closely followed the 1983 prospectus issued by the ATDC, but DOT commented that it did not agree with the SPDC proposal because it reduced the maritime space allocated in the prospectus, eliminated DOT office space and employee parking, and did not provide for relocation space during the construction of the development.

During 1984, negotiations with SPDC continued with DOT asking for direct negotiations with the developer on maritime requirements. After SPDC withdrew in 1984, DOT reported that there were now two cruise ships homeported at the Aloha Tower piers, and there were requests for berthing space for a third to begin operating within two years.

Along with the increased demand for berthing space, DOT reported an associated need for more space to accommodate baggage handling, customs, security, and passenger movement. Thus, DOT reassessed maritime use at the piers and submitted amended space requirements for three operational berths for a total of 127,000 square feet.

In 1985, the ATDC retained a consultant to provide an independent estimate of DOT's maritime needs. The consultant agreed that a total of 127,000 square feet would be required. There were significant increases in the amount of space needed for back-up, baggage handling, customs, and offices for DOT.

When negotiations began with the latest developer, Cordish Embry, DOT once again reassessed maritime space requirements. The last figures presented by DOT amount to 248,400 square feet. It should be noted that the entire redevelopment project is planned to comprise only five acres within the Aloha Tower site. The amount of space DOT says it now needs will exceed the square footage of five acres.

A national market survey of U.S. and Canadian ports indicated that cruise ship activity has increased 400 percent since 1970 and anticipates an annual growth rate of at least 10 percent per year for the future.[4] The survey also noted that while

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4. John H. Leeper, "Measuring and Understanding the Cruise Ship Marker," *American Association of Port Authorities, 1986 Annual Convention,* Panel Discussion Presentation, Miami, Fl., September 1986, pp. 1–3.

the Miami/Caribbean routes receive the most business, the next major cruise port in terms of passenger flow is Honolulu. A 1986 market study of Hawaii's commercial harbors conducted by a DOT consultant also indicated that the cruise ship industry could be the port's greatest source for potential expansion and future revenues.[5] With existing port facilities, Honolulu Harbor can accommodate three cruise ships. The State's ability to expand this area of economic activity will be contingent on the future capacity of the site.

Unrealistic Financing Strategies

Commitment to no public funds. The initial commitment of DPED to not use any public funds for the project has led to financing strategies that are inappropriate and unworkable. To meet this commitment, the original financing strategy was to allow the ATDC to issue $33 million in revenue bonds to pay for the cost of the public infrastructure such as harbor improvements, public parks and spaces, parking, and state offices. Revenue bonds are not a direct obligation of the State. They are repaid by revenues generated by the project.

Initially, the ATDC expected the developer to be responsible for financing the commercial portion of the project and meeting the cost of retiring the revenue bonds issued for the public improvements. This meant that the private developer would have to carry the cost of the entire project, public and private.

It is unrealistic for the State to require parks, open space, and a low-scale development when it does not plan to spend any public money to attain these goals.

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5. Reed, Kaina, Schaller Advertising Inc., "A Plan to Promote Hawaii's Commercial Harbors," Honolulu, 1986.

As the public improvements increase, the financial feasibility of the project becomes questionable because public improvements such as parks and pedestrian malls do not generate any revenue. Restrictions on the project size in the design prospectus limit the area producing commercial revenues, thus further eroding the financial profitability of the project.

A second problem is the failure to foresee maritime use. Initially, maritime use at the site was sporadic. The plan was for the redevelopment to incorporate part of the underutilized maritime space and reimburse DOT for any loss in revenues. As the project progressed, however, activities at the piers within the Aloha Tower complex increased. Correspondingly, the revenues at these piers increased and contributed more to the harbor special fund. The estimated amount that would have to be reimbursed to DOT for the loss in revenues incurred by the project grew from the $400,000 estimated in 1983 to $721,000 in 1986.

With DOT's increased demand for maritime space and for revenues that must be reimbursed, the project became financially unwieldy. In addition, there are currently claims in the courts against DOT by the Office of Hawaiian Affairs (OHA) that revenues are owed to OHA because of DOT's use of ceded lands. If OHA's claims are ordered to be paid, there would be an additional drain on the commercial revenues of the project.

Financial studies of the project conducted in 1985 and 1986 projected that the hotel portion of the project would be insolvent and that the only profitable part of the project would be the commercial complex. In order to support the hotel, the office portion of the complex would need to be increased. However, any increase in the amount of commercial space would increase the total size of the project and most likely exceed the Capitol District Zone height restriction of 65 feet.

Questionable use of revenue bonds. Industrial development revenue bonds historically have been used for economic development to assist manufacturing or industrial enterprises in areas that may be unattractive to business. These bonds are tax exempt issues and thus can be bought and sold at lower interest rates.

Given the increased demand for maritime space, the most recent developer indicated that the use of revenue bonds is the only strategy which would lower the cost of financing the project, allow for the development to provide DOT with improvements at no cost, and also allow for a profitable commercial development within the design specifications of the ATDC.

Although the board had no financial data to substantiate the $200 million figure suggested by the developer, the ATDC requested the Legislature to increase the bond authorization of $33 million to $200 million to fund the project. During the 1986 legislative session, the ATDC was given the increased bond authorization based on testimony from the board that these bonds were necessary to meet increased maritime needs and make the project financially attractive to a developer.

However, the use of revenue bonds for the entire project is questionable for two reasons: (1) under federal tax law, there are restrictions on the amount of tax exempt bonds that may be issued by a state as well as the amount which can be used for private purposes; and (2) revenue bonds could entail potential risks to the State.

Federal tax law. In 1986, the Federal Tax Reform Act reduced the amount of industrial development bonds that can be issued by the states and removed the tax exemption for these bonds when they are used for private purposes. The ATDC was successful in receiving an exemption from the 1986 restrictions, but there is still some question as to whether certain portions of the commercial development will be allowed under tax provisions applicable prior to the 1986 act.

Public purpose developments at government-owned piers and wharfs are exempt under the provisions of the tax law, and certain private developments subordinate and related to wharf and pier operations are considered appurtenances to the public development. However, primary development at the pier or wharf must be for maritime purposes. If the primary purpose of the development becomes commercial, then the project shifts from a public purpose development to a commercial enterprise. A project that takes away maritime space from the operation of the pier and replaces it with a commercial enterprise may not qualify for tax exemption as a related public purpose development under the tax laws.

In view of the tenuous nature of the use of revenue bonds for the entire project, the ATDC proposed to request an appropriation of $19 million in general funds for the 1987-89 fiscal biennium to pay for public improvements at the site.

This figure was derived from the last financial analysis of the project, which indicated that the public improvements constituted approximately 20 percent of the cost of the entire project. This would be a shift in financing policy in which the State would pay for the public improvements, and the developer would pay for the commercial enterprise through private financing and profits of the commercial development.

However, the 1987-89 executive budget does not show any request for that amount. According to the current DPED director, there will not be an additional request by the new administration.

Potential risks to the State. The ATDC has adopted the developer's recommendation that the entire project be funded with $200 million in revenue bonds. The State has authorized ATDC to issue this amount. The revenue bonds would be guaranteed by the assets and revenues generated by the project. Although repayment on revenue bonds are not a legal obligation of the State, as are general obligation bonds, they still constitute a potential risk and liability to the State.

It is important to note that financial analyses of the Aloha Tower redevelopment project have consistently questioned its financial feasibility. This means that the project is highly speculative. One developer has already turned the project down because it did not meet the developer's corporate development objectives.

Should revenue bonds be issued, the State would be seriously jeopardized in the event of a default. Even though the revenue bonds would not be an official obligation of the State, their failure could reflect on the State's bond rating. In addition, holders of the bonds would undoubtedly sue the State.

For its part, the State would have to consider carefully its credit worthiness in the national credit markets and decide whether it can risk having its credit standing jeopardized. Even though revenue bonds impose no *legal* obligation on the State in the event of default, there is still the question whether the State has a *moral* obligation to make good on its debt. That question remains unanswered, but it should be considered *before* making a commitment to incur debt through revenue bond financing.

Redevelopment May No Longer Be Desirable

The latest negotiations with the developer concern a project that is entirely different from the small, low-scale development presented to the Legislature in 1981. Over the years, the configuration of the project has changed significantly.

The prospectus issued by the ATDC in 1983 was based on a 1981 study presented as the first redevelopment plan for the Aloha Tower site. In the 1981 proposal, maritime space requirements were low. Consequently, the space allocated for commercial and retail development was 422,000 square feet, approximately ten times the maritime space. [See Table 2.2.] A substantial portion of the project was dedicated to an office structure. The preliminary design of a low-rise, small scale project was an important feature because of the limited space at the site as well as the desire to preserve the Aloha Tower structure as the focal point of the development.

Table 2.2

Changes in Projected Size of Project

	1981	1983	1986
Commercial/Other	372,000 sq ft	100-150,000 sq ft	150-200,000 sq ft
Retail/Restaurant	50,000 sq ft		40-100,000 sq ft
TOTAL	422,000 sq ft	100-150,000 sq ft	190-300,000 sq ft
Hotel	500 rooms	400-500 rooms	0-100 rooms
Parking	1112 stalls	450-550 stalls	550-750 stalls
Maritime	40,000 sq ft	44,000 sq ft	90,000 sq ft

Sources: Hawaii, Department of Planning and Economic Development, The Aloha Tower Plaza, Honolulu, March 1981, p. 5; Aloha Tower Development Corporation, Aloha Tower Plaza Development Prospectus, Honolulu, May 1983, Project Summary and p. 17; and financial analysis by Aloha Tower Development Corporation consultants, Sanford Murata, June 1986, and Hal Edwards, July 1986.

After the ATDC was established in 1981, further studies were conducted in order to create the design prospectus to solicit proposals from developers. Based on studies by the design consultant, and negotiations between DOT and the ATDC, the

1983 design prospectus modified the original space allocations. The commercial and retail portion was decreased significantly. The design emphasized a small scale project because of the limited space and the ATDC's wish to maintain the low-rise character of the development.

Once the prospectus had been issued and a developer selected, extensive revisions were proposed, primarily by DOT which considered the maritime space in the 1983 prospectus to be inadequate. Financial analyses at that time indicated that the amount of rent needed to compensate DOT could jeopardize the feasibility of the project if the size of the project was constrained to the 1983 design specifications and size.

Negotiation with the second developer, Cordish Embry, during 1985 and 1986, indicated that the requests for increased space by DOT would have to be met with increases in the commercial space. The developer asserted that he could not pay for the maritime space with revenues from the commercial space unless the commercial space was increased or the State provided a subsidy. The developer suggested that in order to accommodate DOT's maritime needs, the commercial space would have to be increased to 750,000 square feet, five times the amount reflected in the 1983 prospectus.

The ATDC did not want to increase the size of the project because it would increase its height beyond the Capitol District Zone restriction of 65 feet which had been agreed to during the development of the 1983 design prospectus.

At this point, ATDC contracted for economic feasibility studies using various project size scenarios. However, the figures provided by the ATDC to the consultants were arbitrary and did not reflect either the developer's or DOT's demands. Instead of the 750,000 square feet the developer said it would need, the

ATDC used a figure of 190,000 to 300,000 square feet. Instead of the 127,000 square feet that DOT then said it would need (and it would go still higher), the ATDC used a figure of 90,000 square feet.

Both consultant studies showed that the hotel portion of the project would be the least profitable and would have to be supported by the commercial and retail space in the same manner as the public improvements. The last design plan considered by the ATDC increased commercial and retail space from 190,000 to 300,000 square feet or more than twice that allowed in the 1983 prospectus, doubled the maritime space, increased the parking structure, and reduced or eliminated hotel space.

During the last negotiations with the developer, the ATDC agreed to go as high as 400,000 square feet of commercial space. If DOT continues to insist that it will need 248,400 square feet of maritime space, then the commercial development must be built above the maritime space. The only commercial developments in downtown Honolulu today that approximate 400,000 square feet are the towers in Bishop Square, Grosvenor Center, and the Amfac Center. All of these are over 20 stories tall. A development of that size will completely overshadow the 10-story Aloha Tower. It will bear no resemblance to the small, low-scale, parklike, open vista waterfront plaza that was originally proposed.

Failure to Inform Legislature of Status of Project

The Legislature relies on the information presented by the executive agencies to assist it in making decisions on proposed expenditures. When the information presented is insufficient, inaccurate, or unreliable, an intelligent decision cannot be made.

We find that DPED has been less than candid in its budget presentations before the Legislature on the Aloha Tower redevelopment project. It has not informed the Legislature of problems with the project or its current status, and it has not presented alternatives for its consideration.

The DPED has not informed the Legislature of problems with the project such as the effect of increased commercial space on the project design. Neither has DPED informed the Legislature of the impact of the increased demand for maritime space on the feasibility of commercial development at the site.

In testimony before the Legislature in 1986, DPED's director at that time testified that the redevelopment would consist of new maritime facilities, an executive hotel, a trade center, and a commercial and retail center. The Legislature was assured that the plan was to build on only five acres so that the site would be open to the public with promenades, plazas, and parks.

The testimony noted that the major concern had been over the adequacy of the maritime facilities to be built at the site. However, it was stated that the board had approved, in concept, a significant increase in the square footage to be allotted for maritime activities which would address this concern.[6]

The director did not advise the Legislature that economic consultants had informed the ATDC that a hotel would not be feasible, that the developer was

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6. Statement on Senate Bill No. 1960 and Senate Bill No. 1961 submitted by Kent M. Keith, Director, Department of Planning and Economic Development, to the Senate Committee on Housing and Community Development, February 19, 1986.

demanding 750,000 square feet for commercial office space, and that this demand was incompatible with DOT's demand for 248,400 square feet for maritime use. In fact, DOT did not concur with the projections established by the ATDC. And the ATDC still did not have a lease from DOT for the redevelopment project nor a clear title to the property.

It is difficult to know what view DPED actually holds on the project. In response to a 1986 legislative request that DPED conduct a "feasibility study of international and local business activities to include state-owned sites for the operations of functions such as finance, marketing, trading, sales, and handling of goods,"[7] DPED issued a *Hawaii International Trade Center Market Analysis.* The report reviews the activities of trade centers around the world, the feasibility of an international trade center here in Honolulu, and examines the feasibility of several sites for such a center including the Ala Moana Hotel, Executive Center, Pioneer Plaza, and One Waterfront Plaza. There was no discussion on the relationship between this new international trade center and the Aloha Tower project.[8]

Conclusion

It is apparent that the Aloha Tower redevelopment project as proposed by the ATDC is not feasible if the given constraints on size and financing are observed. If

7. Section 21B, Act 345, SLH 1986.

8. David Cheever Marketing, *Hawaii International Trade Center Market Analysis,* Honolulu, Department of Planning and Economic Development, December 1986.

the constraints are removed, then the project may be undesirable. It is also incompatible with the increased maritime use that is occurring at the piers.

This is not to say that the site need not be beautified or that Aloha Tower should not be restored or that a better interface is not needed between downtown and the Aloha Tower complex. These are desirable public benefits that should continue to be sought.

The Aloha Tower complex is of immeasurable value to the State. It is a historically significant site. It has a unique and strategic waterfront location. It is also the only remaining prime parcel of undeveloped land of that size in downtown Honolulu. It deserves to be protected from any hasty and ill-conceived commercial development. Any redevelopment of the parcel deserves a more thoughtful and enlightened plan for development than it has received to date.

It would be desirable for redevelopment of the site to be considered within the context of planning for the entire waterfront area from Ala Moana Park to Sand Island which is currently being considered by the Legislature. There have been numerous redevelopment proposals ranging from a Kakaako waterfront park to proposals for an aquarium and convention center. Proposed legislation on this matter notes that "the area between Ala Moana and Sand Island has tremendous potential as a center for growth for the Pacific Basin. To fully utilize the dynamic potential of the area we must develop our resources to best serve the people of Hawaii."[9] To allow full legislative consideration of waterfront use, the law establishing the ATDC should be repealed.

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9. House Bill No. 39, Fourteenth Legislature, 1987, State of Hawaii.

Recommendations

We recommend that:

1. Chapter 206J, Hawaii Revised Statutes, establishing the Aloha Tower Development Corporation, be repealed.

2. The Legislature consider the redevelopment of the Aloha Tower complex within the context of redeveloping the entire waterfront area from Ala Moana to Sand Island.