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NORTHWEST AIRLINES

Jeff N. Davidman
Director Government Affairs

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January 6, 2005

The Honorable Steve Murphy
Minnesota State Senate
306 State Capitol
St. Paul, MN 55155

Dear Senator Murphy:

Northwest Airlines has received your invitation to attend the Minnesota Senate Transportation Policy and Budget Division hearing scheduled for Tuesday, January 11. However, it is with utmost respect for both you and your committee that we must decline your invitation to testify at the hearing.

Our understanding is that the purpose of the January 11th hearing is in part to discuss the business relationship between Northwest Airlines and the Aircraft Mechanics Fraternal Association (AMFA). It is the practice of Northwest Airlines not to discuss our labor relationships and union contracts in public forums. In addition, Northwest Airlines has requested federal mediation with AMFA under the Railway Labor Act which would also make any public discussions regarding this matter inappropriate at this time.

It is also our understanding that during the hearing the committee will be discussing the proposed 2020 expansion plan at Minneapolis/St. Paul International Airport (MSP). Since MSP is currently at capacity, Northwest Airlines believes that expansion is necessary in order to accommodate the projected growth in air traffic at MSP over the next 15 years. We have shared our comments on this proposal with the Metropolitan Airports Commission (MAC) and are now awaiting the MAC's action. Since this expansion plan would be under the MAC's jurisdiction, we believe that it is most appropriate for the MAC to answer any questions related to this matter.

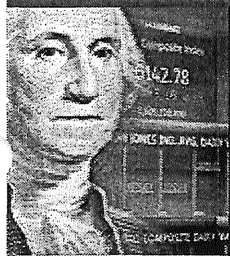
We believe that there are many issues that the State of Minnesota and Northwest Airlines can work on in partnership to strengthen the state's transportation infrastructure and to ensure that the people of Minnesota receive the highest quality of air service. We look forward to working with you on these issues in the future in your role as Chair of the Senate Transportation Committee. However, for the aforementioned reasons we will not be able to participate in your committee's hearing on January 11.

If you have any questions or would like to discuss this matter further please feel free to contact me at 612-726-2828.

Sincerely,

Jeff Davidman

Jeff Davidman
Director
State & Local Government Affairs



Last update: January 4, 2005 at 10:44 PM

NWA seeks federal mediation

Liz Fedor, Star Tribune
January 5, 2005

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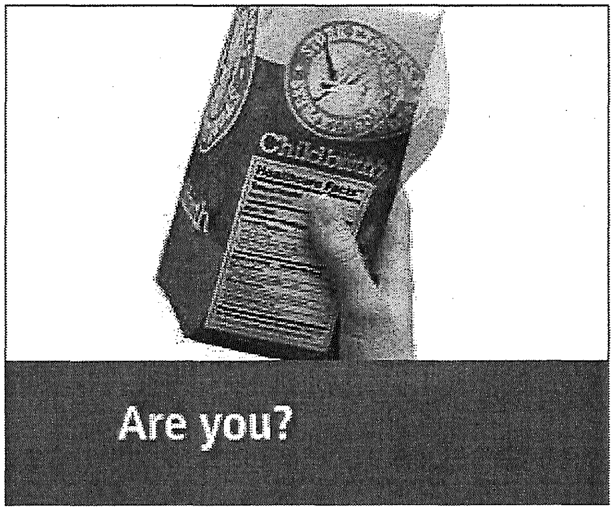

In a bid to accelerate negotiations with its mechanics, Northwest Airlines asked the federal government Tuesday to bring mediators into the bargaining sessions.

The request comes less than two months after Northwest presented its initial proposal to the Aircraft Mechanics Fraternal Association (AMFA).

"These are not ordinary times in the airline industry. Time is of the essence if we are to ensure that Northwest Airlines avoids the fate of many of its peers," Robert Brodin, Northwest's senior vice president of labor relations, wrote in a letter to the National Mediation Board.

Three of the nation's 10 largest airlines -- United, US Airways and ATA Airlines -- are in bankruptcy, and major carriers are continuing to lose money.

Jeff Mathews, a spokesman for AMFA, expressed "regret" that Northwest requested a mediator so early in the process.

"AMFA is committed to working with Northwest management to achieve equitable contract terms that reflect the realities of the marketplace," Mathews said.

The last time the airline negotiated a contract with the mechanics, it took more than four years and a change of unions to reach an agreement.

After losing more than $2 billion on operations since 2001, Northwest now wants to quickly forge concessionary pacts with its mechanics, flight attendants and ground workers.

Since early 2003, Northwest management has said it needs to reduce its labor costs by $950 million a year.

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So far, the pilots have agreed to cut their costs by $265 million a year and Northwest reduced management compensation by $35 million a year.

Northwest has asked the mechanics to meet weekly until a tentative agreement can be reached. Northwest told the mediation board that AMFA has agreed to seven days of talks during January and February. "This schedule is insufficient to allow for timely progress to be made in the face of the significant challenges faced by Northwest," Brodin wrote.

Mathews said that AMFA has been flexible in discussing meeting dates but noted that it is also in talks with other airlines. At United Airlines, management is seeking court approval to nullify labor agreements if concessionary contracts are not reached soon.

At Northwest, management and the union also have been feuding over the subject of observers. As it did in the last round of bargaining, AMFA wants up to 25 rank-and-file members to watch the talks. Northwest has refused to bargain with AMFA negotiators if observers are in the room.

The Professional Flight Attendants Association also wants observers to be present for its talks and recently sued Northwest over the airline's unwillingness to permit them.

Collective bargaining at airlines is governed by the Railway Labor Act. Airline workers cannot strike until 30 days after a federal mediator has declared negotiations to be at an impasse and binding arbitration has been declined.

Liz Fedor is at lfedor@startribune.com.

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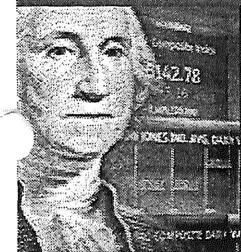

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Will it fly?

Terry Fiedler and Liz Fedor, Star Tribune
January 9, 2005

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Word started to leak out last summer: A plan to expand Minneapolis-St. Paul International Airport was in the works.

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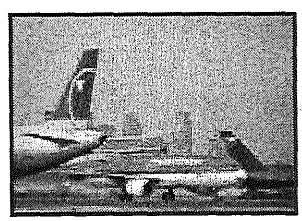
That was news to Dan Boivin, a member of the Metropolitan Airports Commission (MAC), which owns and operates the airport. Most big airlines have lost billions in recent years, and many U.S. airports were shrinking, not growing. Boivin asked around, but he and fellow commissioners "couldn't get any details."

The details came in September, when Gov. Tim Pawlenty stepped before a bank of microphones at the Humphrey terminal and unveiled an $862 million plan that he said would ensure a strong future for aviation in Minnesota. To draw up that plan, Pawlenty turned to the company he believes the state needs to secure that future: Northwest Airlines.

The proposal, which the MAC will vote on this month, is more than a decision about whether to expand the airport: It's about the economic future of the state.



Whose plan?
Glen Stubbe
Star Tribune

Pawlenty is determined that one of Minnesota's oldest companies and a provider of 16,000 high-paying jobs not fail on his watch. And Northwest, having lost more than $2 billion since 2001, is eager to secure any competitive advantage it can during a global shakeout of the aviation industry.

Northwest, which records show planned the Pawlenty news

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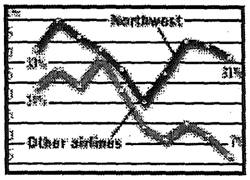
conference, portrayed the expansion project as an investment in Minnesota's economic future.

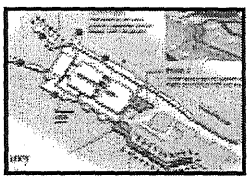


MSP fares that were higher than national average fares

"We believe that this plan is an 'airport' plan and not a Northwest plan," an airline spokesman said. "It is intended to best meet the needs of all airlines and passengers using the airport and not just the needs of Northwest Airlines."

But some legislators, airport commissioners and competitors say the plan favors Northwest. And they question whether Minnesota is gambling too much on the ailing airline.

The turmoil of last week, which saw a fare war break out among the major airlines, illustrated again the fragile financial condition of most carriers. A bankruptcy or merger could leave the state with big bills and a shell of an airport.



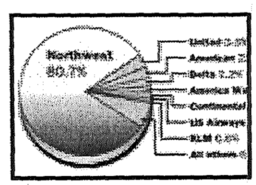
Phases 1, 2 and 3

On Tuesday, the Minnesota Senate Transportation Committee will discuss the plan.

Northwest's competitors are skeptical that a plan drawn up by Northwest would be good for them. Northwest carries eight of every 10 passengers and controls more than 80 percent of the airport's gates. Numerous studies over the years have shown that travelers out of MSP pay some of the highest average fares in the country.

In the middle is the MAC staff, which ordinarily plans airport projects but now must respond to Northwest's. The decision on whether to go ahead with the plan rests with the 15 airport commissioners, most of whom were appointed by Pawlenty.

A vote on the first phase of the plan is set for Jan. 18.

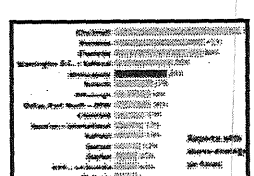


Northwest dominates market

MAC Chairwoman Vicki Tigwell acknowledged that some of her colleagues are angry at having to react to a plan dictated by Northwest rather than by its own staff. But she makes no apologies for that and says that the agency will review the plan thoroughly.

"You could say, 'Northwest came forward with a plan, isn't that awful?' " she said, or "you could say, 'Boy, Northwest has saved us a quarter of a million [dollars] in design work, isn't that great?' "

The plan



If the MAC approves the first phase of the 15-year plan, travelers will notice changes as early as 2007. By then, most airlines -- including United, American and AirTran -- would have been moved

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from the Lindbergh to the Humphrey terminal, which eventually would be expanded from 10 to 20 gates.

Difference from average national fare, 2nd quarter of 2004:

The main Lindbergh terminal, meanwhile, would be remodeled and expanded for Northwest and its alliance partners, which include KLM, Delta and Continental. The second phase of the plan, dubbed 20/20 Vision, would include demolishing maintenance hangars on the west side of the airport and building a new H Concourse. The plan also includes a 400-room hotel next to the terminal and 153 gates at Lindbergh, up from 117. Northwest currently leases 101 gates. **More...**

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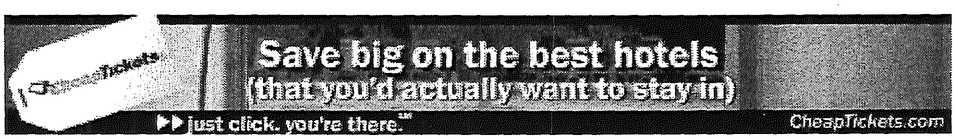

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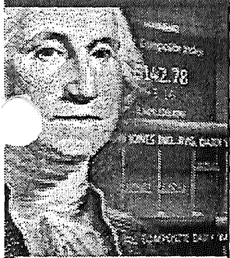

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NWA will not testify at airport hearing

Liz Fedor, Star Tribune
January 11, 2005

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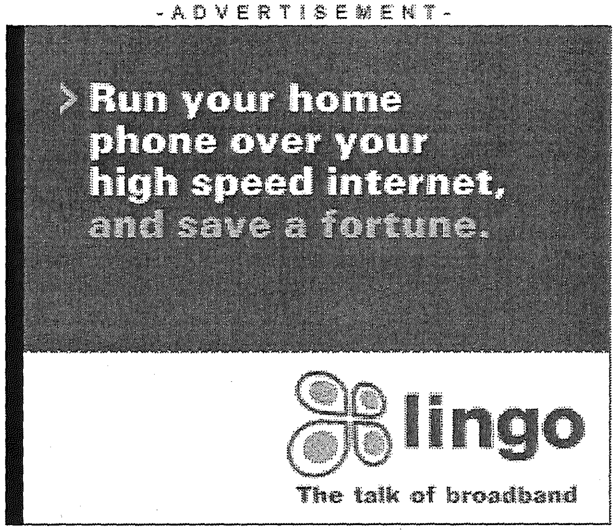

Northwest Airlines, the architect of a 15-year plan to expand the airport, will not testify today at the Minnesota Senate hearing scheduled to scrutinize that proposal.

The airline bowed out of the hearing in part because of the active role played by members of the Aircraft Mechanics Fraternal Association (AMFA). Labor leaders urged senators to hold a hearing because they fear the expansion project at Minneapolis-St. Paul International Airport will cause the loss of up to 2,000 mechanic jobs.

In a letter to the chairman of the Senate Transportation Committee, Northwest said that it's unable to testify because the airline does not want to "discuss our union labor relationships and union contracts in public forums." Last week, Northwest requested that a federal mediator join the contract negotiations with its mechanics.

It's unclear what role, if any, state legislators can have in shaping the expansion of the airport, which is owned and operated by the Metropolitan Airports Commission (MAC).

Sen. Steve Murphy, the committee chairman and Red Wing DFLer, said Monday that he had hoped that Northwest still could appear at the hearing to talk about the airline's future "and the direction the airport has to go in to match up with that business plan."

The 2020 growth plan that Northwest has proposed to the MAC would increase the number of gates at the Lindbergh terminal from 117 to 153. Northwest wants to reserve Lindbergh for itself and its business partners and shift low-fare carriers and other Northwest competitors to the Humphrey terminal, where Sun Country Airlines operates. The Humphrey terminal would be increased from 10 to 20 gates.

The MAC is scheduled to vote on the first phase of the project on Jan.

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Vicki Tigwell, MAC chairwoman, said the commission is expected to consider the initial steps that would be needed to allow more carriers to move into the Humphrey terminal by 2007.

Tigwell plans to testify at today's Senate hearing. "I routinely appear at the Legislature before different committees on what I'd call an informational basis," Tigwell said.

Northwest, in its letter to Murphy, said: "Since this expansion plan would be under the MAC's jurisdiction, we believe that it is most appropriate for the MAC to answer any questions related to this matter."

One committee member, Sen. Satveer Chaudhary, DFL-Fridley, is supporting the mechanics union in its quest to extract answers directly from Northwest.

Chaudhary introduced a bill Monday that essentially places a moratorium on the 2020 expansion project until Northwest demonstrates that it has complied with existing agreements with the state of Minnesota and other parties.

His bill also requires that Northwest identify the impact on Northwest's workforce of demolishing Building B. Under Northwest's expansion plan, Building B would be torn down so gates could be added. Mechanics now perform short-term, line maintenance work on Northwest planes in Building B.

But Ted Ludwig, president of AMFA Local 33, said mechanics are worried that Northwest will shift that line maintenance work to another building on airport property, where Northwest mechanics now do long-term, heavy maintenance work. They view Northwest's expansion plan as a signal that the airline wants to outsource more heavy maintenance jobs.

Chaudhary's bill would force Northwest to provide the Legislature with a report on maintenance work that has been and will be outsourced. Northwest deferred comment on that bill, and Chaudhary did not have co-sponsors when the bill was introduced.

Ludwig said Monday that up to 150 mechanics might attend today's hearing, where they'd hoped to get answers from Northwest about the expansion project and further job losses. With Northwest's decision not to attend, "it will be almost impossible now" to use the hearing to secure those answers, Ludwig said.

He stressed that mechanics will continue to work with state legislators to try to slow the expansion project.

As of Monday, Murphy said he wasn't sponsoring a bill. But he said, "If there's any way possible that we can keep those [mechanic] jobs here, then the state should be working towards that goal."

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Murphy said he doesn't want to get into any turf battles with the MAC.

"We are talking about the growth of the entire state," he said. "We are not going to try to push anybody around," but the Legislature wants to be part of the debate before decisions are made about airport expansion, he said.

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EDITORIALS

PHASE 1

Airport upgrade should proceed

When a key Metropolitan Airports Commission committee meets Wednesday, members will hear staff recommendations to proceed with up to $10 million in design work on an expansion at Minneapolis-St. Paul International Airport. The plan for Phase 1 of the upgrade should go forward. It is necessary work to make the airport meet the year 2007 with adequate capacity and ease of use.

The first phase envisions $135 million in improvements, which would be paid for out of identified revenue, such as parking fees, concessions, leases and passenger facilities charges, plus federal money. It would require no borrowing.

Regardless of whether two subsequent longer-term expansion projects are needed, and no matter what Northwest Airlines' fiscal health is, this first project of the so-called 2020 Vision plan makes sense.

The whole plan, announced in September by Gov. Tim Pawlenty and MAC Chairwoman Vicki Tigwell, addresses the growing demand the airport faces to meet the region's needs through 2020. MSP is *the* hub airport in the five-state area. Growth over time has been at an average 3 percent a year. Doing nothing to accommodate certain growth would be short-sighted.

We had been concerned that the MAC was springing something on the public with haste and without due input. Those concerns were more in appearance than fact. Staff work on a deliberate plan has been going on methodically and hearings along the way have been open to the interested.

What the committee and probably the full airports commission will consider this month is to allow design work to proceed so the commission will be prepared by summer to decide whether to authorize construction.

Phase 1 would allow more room for Northwest Airlines and its partners at the Lindbergh Terminal and provide better service for other airlines and charters at a spiffed-up Humphrey. Included is a much-needed second security checkpoint and other internal improvements at Humphrey to make the travel experience more efficient and, presumably, pleasant for folks coming in and out of the Twin Cities.

The plan calls for expanding the number of gates at the Humphrey Terminal from 10 to 18 and further improving the amenities, such as concessions for travelers. It is important to remember that the Humphrey, while still the stepson of terminals to the favored son Lindbergh, is not the old plastic-seats and no-services charter terminal of yore.

The opportunity to increase capacity and ambience at both terminals should not be lost. It's time to get cracking on Phase 1 improvements to MSP.

F

James R. Spensley, for the Board of Directors and Members of the South Metro Airport Action Council

Minnesota Senate Transportation Committee, January 11, 2005.

Testimony: The Legislature's broad view of Minnesota's economic and transportation needs rightfully should be compared in two spheres with Northwest Airlines' (NWA's) business plans One sphere is NWA's very large business operations in Minnesota: a substantial part of our economy and valuable differently, not as transportation, but rather as payrolls, direct purchases, direct taxes, employee purchases, employee taxes, etc. If expansion of the terminal at MSP displaces the skilled jobs and industrial purchases related to aircraft maintenance, and adds mostly jobs paying wages much lower, as seems likely, it is an economic contraction. But you have other witnesses testifying about this.

SMAAC has for over 30 years been concerned with the peripheral costs of MSP and the trade-offs made with neighbors, businesses, and taxpayers supposedly as an investment to support economic growth in Minnesota. It seems to us, frankly, that NWA received as much or more help from Minnesota as any other large corporation doing business here, and on top of that ***additional*** aid: competitive advantages and cost subsidies from State, MAC, and local government contributions to their MSP hub. Many folks have a stake in NWA's business plan, and you are rightfully looking over MAC's shoulder at the costs and benefits to us and to the Minnesota economy. What gains can Minnesota expect compared to the risks?

NWA forecasts increased demand for passenger and cargo flights from MSP, but their proposal is not so much airport (air operations) expansion as ***hub expansion***. Financing hub expansion is more speculative for Minnesota and for MAC than ***airport*** expansion. Both hub expansion and airport expansion are capital intensive, both require up front spending, and ***both hypothesize increased air transportation demand***. However, hub expansion relates to overall demand, not local demand. Business success at MSP for NWA ***assumes*** a good share of the international market, competing with other nations, other legacy airlines, and, to some extent with communications and the Internet as business alternatives to overseas travel. Business success at MSP for NWA ***assumes*** a good share of the US domestic market, competing against low-cost and legacy airlines, ground transportation, and corporate, timeshare, charter, and air-taxi services. Business success at MSP for NWA ***assumes*** some share of the local market, where ***NWA now controls more than 72% of supply and proposes to further increase their dominance to more than 90%.***

In the current MSP expansion, NWA added gates and increased flights 35% since 1996, and the new runway is under construction. More gates allowed NWA to increase the number of flights operating at peak-use hours (banks), that is, ***flights serving connecting passengers*** at least as much, probably quite a bit more than local passengers.

NWA revenue projections and their money available for investments here and at other airports (and for equipment) are possibly overly optimistic. NWA is losing market share and around a billion dollars a year and desperately slashing operating costs. NWA is large enough to have different tactics for different markets, but rarely change its competitive tactics. ***Their basic business strategy is unchanged: they are a high-cost, major-hub airline.*** So, what if the additional expansion proceeds; and A] NWA prospers or B] NWA fails to prosper?

Alternative B is a risk. If you had no conflict of interest, would you go out and buy NWA revenue bonds or shares in Pinnacle or Mesaba? I certainly haven't. I wouldn't do it with public money either.

Alternative A is not all that rosy. NWA's contributions to our economy outside the transportation sphere could be reduced. Airline crews, purchased services, or maintenance might be re-located. Salaries are being cut. Expenditures and tax revenues might be reduced. ***Breaking even is prosperity for Corporations in or near bankruptcy.***

SMAAC represents neighbors who would be negatively impacted by more flights, particularly more peak-hour flights. Noise and pollution would be increased – proportionally more than operations. More airliners would be flying closer together, we understand twice as close. Most air crashes are near airports, many caused by following too closely. ***We do not favor hub expansion, especially not at our expense.***

You represent people living further away, but many of them fly from MSP. Because of the hub, terminal congestion at peak hours increases their inconvenience and requires more patience and more staff and equipment cost at MSP. They would board crowded airliners piloted by less experienced officers, and taxi faster in a cramped field populated by more planes, tow vehicles, baggage trains, and snow plows. I doubt you or your constituents want ***MSP expanded as cheaply as possible or even at the low cost-share NWA can afford under adverse circumstances.***

SMAAC also represents Minnesota small-business people. They look at air transportation as providing access to markets and suppliers in a global economy. The service needed is affordable business – short notice – travel, ***compared to our competitors in other States and other countries.*** This is no different than resort businesses, who want tourists to have a little pocket money left after flying to MSP. And what is MAC giving us and them?

I went to NWA's web site this morning and found the best business fare available to Tokyo next Monday, round trip: $8,027. The fare from Indianapolis to Tokyo, connecting with my flights at MSP on the same days, was $7,823. Either traveler could have saved over $5,000 if they could wait until March for the trip and flew Economy Class. Of the money MAC would spend on Northwest's behalf at MSP, $35,000+ would in effect subsidize out-of-state businesses on a single international flight every day?

At Indianapolis, NWA recently added direct flights (to Denver) because another domestic airline added that service, and now "competes" with them – and with itself because a fair amount of Indianapolis-to-Denver traffic used to fly via MSP. But it makes more room for those guys headed to Tokyo.

MAC says low-cost airlines can come into MSP. If they do, at the MAC's minimum 20 to 25 flights a week for a gate, a single airline -- with, say a 75% load factor, a 150-seat airliner and $200 fares would have $25,740,000 annual revenue. Since NWA fares are 30 % higher and the hubbing factor is supposedly 1:1, the competitor would reduce NWA's remaining revenue by ($25.74 million X 0.50 X 1.30) $16.7 million dollars. Why would NWA want this? Would a bank loan NWA $92 million in this situation? ***In other words, it must not work that way.*** Some of the "facts" are wrong:

Leasing, improving, and staffing a gate at Humphrey could cost more than at Lindbergh, and MAC isn't offering move-in loans to Southwest or Jet Blue. The hubbing factor could be 3:2 favoring connecting passengers. NWA might match fares and make connecting to their Denver flight easier or harder to book, manipulating the hubbing factor for this one leg, making the NWA load-factor higher and the competitors' lower. [This has happened before, MAC's unused new gates cost us, not NWA.]

The NWA business plan is to keep local seats scarce compared to demand, charge us more, pay MAC less for services, and somehow cover the fuel and crew costs expended to fly every connecting passenger 300 or 400 miles out of the way to compete with low-cost domestic (direct) routes. ***Worse than being unfair, it isn't likely to work.***

We don't think MAC can fix it up, or even that they should try. ***Only so many flights can be safe and affordable at a site as small as MSP.*** It's one thing to have 700 flights a day for us and 800 for connecting passengers; it's another thing entirely to have 500 for us and over a thousand for hub users.

6

Making Sure the "20/20 Vision" Plan Works for Minnesota

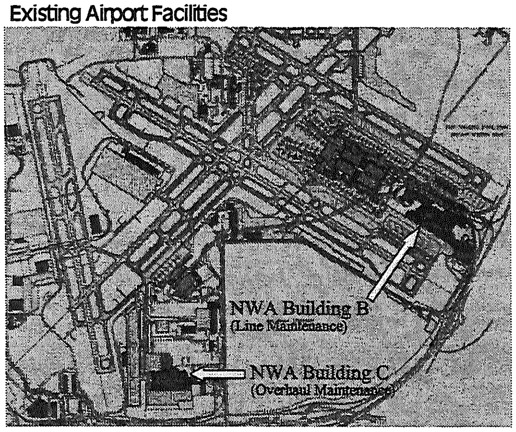
Aircraft Mechanics Fraternal Association Local 33

Presentation for Senate Transportation Committee
January 11, 2005
Ted Ludwig, President

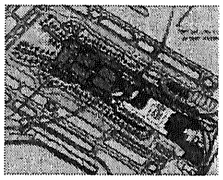
"20/20 Vision" Plan

- Metropolitan Airports Commission (MAC) has taken only four months to consider a 15-year plan with decades-long consequences
- Airport expansion is necessary, but this plan has undesirable and unnecessary consequences
- MAC should delay its decision in order to make a more detailed study of the plan

Existing Airport Facilities

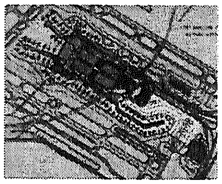


20/20 Plan Calls for Building B Demolition



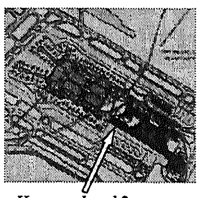
Phase 2

Hangars 3, 4 and 5 demolished



Phase 3

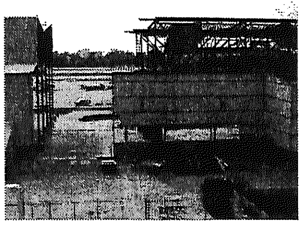
Hangars 6, 7 and shops (including engine shop) demolished



Hangars 1 and 2, now demolished

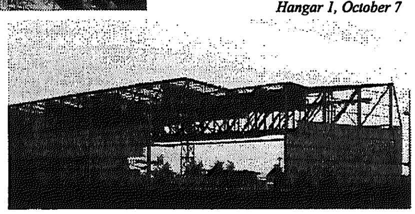
NWA tore down hangars 1 and 2 this past summer in anticipation of moving forward with their 20/20 plan, not yet announced at the time.

Side of hangar 1, July 15



Between hangars 2 and 3, October 7

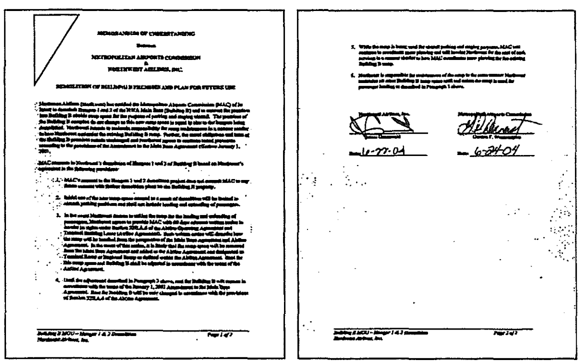
Hangar 1, October 7



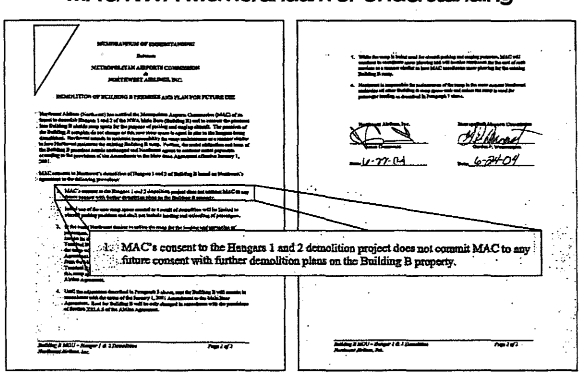
MAC Has Authority Over All Changes to Airport Facilities

- NWA Building B is built on land leased from MAC, and the lease explicitly gives MAC control over what is done with the space.
- NWA began demolition of Building B in early June 2004, prior to getting approval from MAC.
- MAC asked NWA to sign a Memorandum of Understanding at the end of June; NWA acknowledged MAC's authority over the facility and MAC granted permission to demolish hangars 1 and 2.

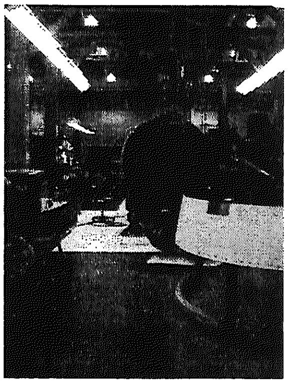
MAC/NWA Memorandum of Understanding



MAC/NWA Memorandum of Understanding



Building B: A Valuable Facility



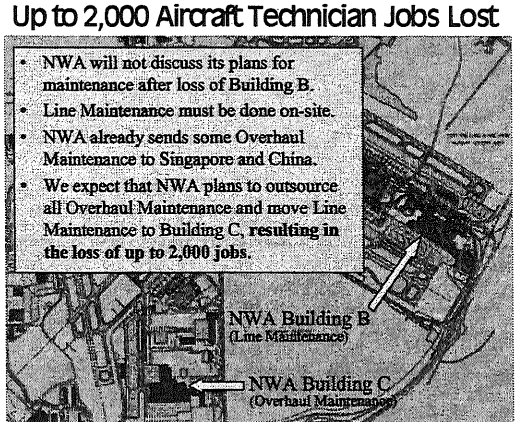
The engine shop and accompanying test cell represent a large investment, and are technically advanced.

Building B: A Valuable Facility

Building B's hangars handle line maintenance on Northwest's fleet.

Up to 2,000 Aircraft Technician Jobs Lost

- NWA will not discuss its plans for maintenance after loss of Building B.
- Line Maintenance must be done on-site.
- NWA already sends some Overhaul Maintenance to Singapore and China.
- We expect that NWA plans to outsource all Overhaul Maintenance and move Line Maintenance to Building C, **resulting in the loss of up to 2,000 jobs.**



Implications of Technician Job Loss

- As Gov. Pawlenty said in an March 2003 letter, two additional Minnesota jobs are immediately lost for each technician job cut.
- Average age of technician workforce is 53; presents problems for retraining.

Positive Economic Impact of Current 20/20 Plan Overstated

- Gov. Pawlenty predicts creation of 40,000 new jobs over course of 15 years as a result of plan.
- This projected job creation is based on assumptions and has almost no hard data behind it.

The Loss of 2,000 Technician Jobs Should Be Considered and Addressed

- These 2,000 jobs are already supporting Minnesota families today.
- The jobs foreseen by the plan are speculative.
- Preserving good-paying jobs and preparing the airport for the future are not mutually exclusive.

Other Concerns About 20/20 Plan

- Lack of maintenance facilities could hurt MSP's competitiveness.
- NWA monopoly on main terminal may drive away competition.
- Increased ground congestion as a result of extra runway crossings.
- Overhaul Maintenance on our aircraft outsourced out of Minnesota, possibly out of U.S.

Other Concerns About 20/20 Plan: *Lack of Maintenance Facilities*

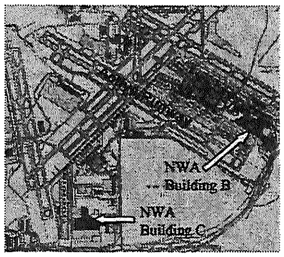
- It will be more difficult to attract new service without sufficient maintenance facilities.
- Maintenance facilities are essential for operating even a small hub.
- Attracting new hub activity would be essential if NWA were to scale back or cease its operations.

Other Concerns About 20/20 Plan: *Less Airline Competition*

- Moving all airlines not in NWA's alliance to the Humphrey Terminal will make airport less competitive.
- Humphrey Terminal is a less desirable facility; other carriers may be less inclined to start service or have a harder time competing.

Other Concerns About 20/20 Plan: *Increased Ground Congestion*

- NWA aircraft now go to Building B, adjacent to the terminal, for daily maintenance checks.
- If Building B is eliminated, they will have to cross an active runway on their way to Building C, increasing ground congestion.



Other Concerns About 20/20 Plan: *Risks of Outsourcing Maintenance*

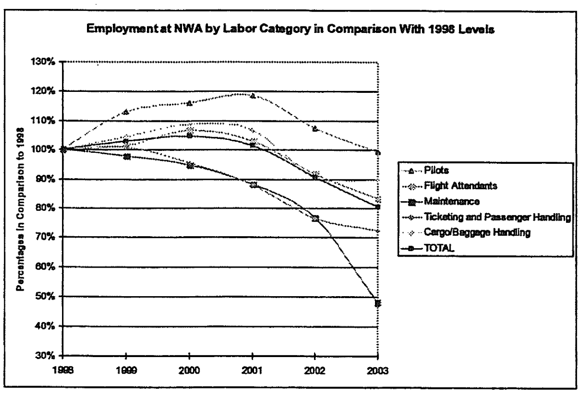
- Workforce at MSP secure, with FBI background checks required.
- Background checks *not* required for employees of outsourced repair stations.

Other Concerns About 20/20 Plan: *Risks of Outsourcing Maintenance*

- *Far* less FAA oversight of outsourced repair stations.
- U.S. DOT Inspector General report, July 2003: An unidentified major airline underwent about 400 inspections of its own facilities, while its outsource vendors had a total of 7 inspections. The airline spent 44% of its maintenance dollars on outsourced maintenance that year.

Other Concerns About 20/20 Plan:
Risks of Outsourcing Maintenance

- NWA already outsources Overhaul Maintenance to Singapore (DC-10s, 747s) and China (747s).
- As a result of Building B demolition, domestic fleet Overhaul Maintenance would probably be sent to Mexico, South America and the southern U.S.

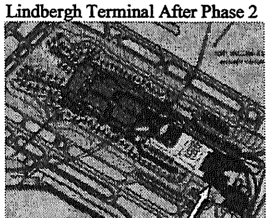


Source: Bureau of Transportation Statistics

Ways to Improve 20/20 Plan:
Omit Last Phase of Demolition

- Retain hangars 6 and 7, engine shop and test facility.
  - Most valuable parts of Building B.
- This portion of Building B is slated for destruction in Phase 3 to make way for 10 small regional jet gates.
  - Could be placed elsewhere on terminal.

Lindbergh Terminal After Phase 2



Hangars 6 and 7 and engine shop.

Ways to Improve 20/20 Plan: *Build Replacement Facilities*

- MAC should build hangar and shop space to replace those being demolished for expansion.
- Sun Country, UPS and FedEx hangars were all rebuilt by MAC as part of new runway project.

Ways to Improve 20/20 Plan: *Pause for More Careful Consideration*

- Above all, MAC must take more time to consider this plan.
- Economic impact, negative airport impacts and financial feasibility must all be taken into account.
- It has been less than four months since the September 21 introduction of NWA's plan; MAC should not already be voting to approve the first phase at its January meeting.

Legislature Must Ask NWA to Keep Its Commitments to Minnesota

- The State of Minnesota gave NWA a generous financing agreement in the 1990s.
- AMFA members at NWA were *required* by the State deal to take pay cuts, and we did.
- NWA agreed to make several commitments to Minnesota in exchange for help, but they have not kept them.

Legislature Must Ask NWA to Keep Its Commitments to Minnesota

- NWA requirements from State deal:
  - Maintain headquarters and hub at MSP.
  - Must employ a minimum of 17,883 people in Minnesota.
  - Maintenance facility in Duluth to employ at least 350 technicians.
  - Reservations center in Chisholm to employ at least 500 people.

Legislature Must Ask NWA to Keep Its Commitments to Minnesota

- NWA is not meeting the minimum employment level of 17,883—it currently has just over 15,000 employees in the Minnesota.
- Because NWA is aggressively outsourcing aircraft maintenance, it could easily comply with the agreement by bringing some of the work back in-house.

Legislature Must Ask NWA to Keep Its Commitments to Minnesota

- NWA is bound by the agreement until it pays off its loan from MAC, on which it still owes \$260+ million.
- The State of Minnesota contributed \$24 million in state-backed bonds to the deal.
- The City of Duluth and St. Louis County also helped fund the deal.

We Must Secure the Future of the Airport and the State

- Expansion of MSP Airport will undoubtedly occur sometime in the near future.
- There is, however, no immediate capacity crunch.
- This huge project must be carefully evaluated, planned and executed in the best interest of the airport, workers, Northwest and Minnesota.

(H)

MEMORANDUM OF UNDERSTANDING

Between

METROPOLITAN AIRPORTS COMMISSION
&
NORTHWEST AIRLINES, INC.

DEMOLITION OF BUILDING B PREMISES AND PLAN FOR FUTURE USE

Northwest Airlines (Northwest) has notified the Metropolitan Airports Commission (MAC) of its intent to demolish Hangars 1 and 2 of the NWA Main Base (Building B) and to convert the premises into Building B airside ramp space for the purpose of parking and staging aircraft. The premises of the Building B complex do not change as this new ramp space is equal in size to the hangars being demolished. Northwest intends to maintain responsibility for ramp maintenance in a manner similar to how Northwest maintains the existing Building B ramp. Further, the rental obligation and term of the Building B premises remain unchanged and Northwest agrees to continue rental payments according to the provisions of the Amendment to the Main Base Agreement effective January 1, 2001.

MAC consents to Northwest's demolition of Hangars 1 and 2 of Building B based on Northwest's agreement to the following provisions:

1. MAC's consent to the Hangars 1 and 2 demolition project does not commit MAC to any future consent with further demolition plans on the Building B property.

2. Initial use of the new ramp space created as a result of demolition will be limited to aircraft parking positions and shall not include loading and unloading of passengers.

3. In the event Northwest desires to utilize the ramp for the loading and unloading of passengers, Northwest agrees to provide MAC with 60 days advance written notice to invoke its rights under Section XIII.A.6 of the Airline Operating Agreement and Terminal Building Lease (Airline Agreement). Such written notice will describe how the ramp will be handled from the perspective of the Main Base Agreement and Airline Agreement. In the event of this notice, it is likely that the ramp space will be removed from the Main Base Agreement and added to the Airline Agreement and designated as Terminal Ramp or Regional Ramp as defined within the Airline Agreement. Rent for this ramp space and Building B shall be adjusted in accordance with the terms of the Airline Agreement.

4. Until the adjustment described in Paragraph 3 above, rent for Building B will remain in accordance with the terms of the January 1, 2001 Amendment to the Main Base Agreement. Rent for Building B will be only changed in accordance with the provisions of Section XIII.A.6 of the Airline Agreement.

5. While the ramp is being used for aircraft parking and staging purposes, MAC will continue to coordinate snow plowing and will invoice Northwest for the cost of such services in a manner similar to how MAC coordinates snow plowing for the existing Building B ramp.

6. Northwest is responsible for maintenance of the ramp in the same manner Northwest maintains all other Building B ramp space until and unless the ramp is used for passenger loading as described in Paragraph 3 above.

Northwest Airlines, Inc.	**Metropolitan Airports Commission**
James Greenwald	Gordon P. Wennerstrom
Date: 6-22-04	**Date:** 6-24-04

STATE OF MINNESOTA

Office of Governor Tim Pawlenty

130 State Capitol • 75 Rev. Dr. Martin Luther King Jr. Boulevard • Saint Paul, MN 55155

March 25, 2003

The Honorable Elaine Chao
Secretary of Labor
U.S. Department of Labor
200 Constitution Avenue NW
Washington, DC 20210

Dear Secretary Chao:

Thank you for the information you have provided my office. Enclosed please find Minnesota's request for a National Emergency Grant (NEG) to provide assistance and services to the thousands of Minnesotans employed by Northwest Airlines and ancillary businesses who are facing immediate layoffs as a result of the initiation of military action in Iraq.

Our prayers go out for our brave men and women in uniform. They are on America's front line in the war on terrorism. As the mass layoffs at Northwest Airlines clearly demonstrate, however, the war will also directly impact airline industry employees.

After the terrorist attacks of September 11, 2001 the airline industry was particularly hard hit. In Minnesota alone, Northwest, Sun Country, and Mesaba Airlines laid off over 4,500 workers. Tangentially linked businesses, such as LSG/SkyChef, car rental agencies, travel agencies, and a host of other hospitality and retail industries also suffered severe losses. Our research indicates that for every job lost from Minnesota's airline industry, an additional two from supporting and related companies were lost as well. In Minnesota the total job loss due to September 11th is estimated to be 12,000 to 14,000. The economy of Minnesota, and the airline industry in particular, have yet to fully recover from the loss of these jobs.

On March 21, 2003, Northwest Airlines announced the layoff of 4,900 additional employees. The Worker Adjustment and Retraining Notification (WARN) Act notice received from Northwest Airlines on March 21, 2003,

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announced the permanent loss of 1,990 Minnesota jobs between March 21 and May 1. (Layoffs were immediate for 1,913 Northwest employees.) Published reports have stated that 3,700 of the 4,900 positions abolished by Northwest Airlines could eventually be in Minnesota. This grant request is based on the layoffs announced in the March 21, 2003, WARN Act notice. However, I would respectfully like to reserve the right to amend this grant request should the number of layoffs increase beyond the 1,990 covered by the WARN Act notice we received.

Using the two-to-one multiplier that our research shows results from airline industry job losses, the total loss of employment in Minnesota could approach 6,000 jobs. The loss of these jobs will have a further devastating impact on the economy of this state. Combined with the previous terrorist related job losses, Minnesota has lost, or will loose, upwards of 20,000 jobs as a direct result of terrorism and the subsequent necessitated military actions.

In response to the job loss from September 11, Minnesota received only $8 million of the $24 million applied for in the September 25, 2001, NEG grant request. In this new grant request, Minnesota is requesting $13.9 million to provide services to 3,600 of the estimated 6,000 workers who could be affected by this layoff. This represents the approximate 60 percent of the total affected population we expect to serve. It is our hope that more assistance can be provided this time to facilitate Minnesota's recovery from this severe economic setback.

Should you need further information regarding this request, please feel free to contact Matt Kramer, Commissioner of the Department of Trade and Economic Development at 651-296-6424, or Paul D. Moe, Director of the Dislocated Worker Program at 651-282-9814.

Respectfully,

Tim Pawlenty
Governor

REPORT TO THE

MINNESOTA LEGISLATURE

ON THE

MINNESOTA-NORTHWEST AIRLINES

FINANCING AGREEMENT

NORTHWEST AIRLINES
St. Paul, Minnesota
February 1999

INTRODUCTION

In 1994, Northwest Airlines, Inc. (Northwest) and the state of Minnesota entered into financing agreements which provided public financial incentives to Northwest for the construction of two economic development projects in northeastern Minnesota: an aircraft maintenance facility in Duluth and a reservation center in Chisholm. In return, Northwest made a series of commitments designed to ensure that the state and its communities attain their public policy objectives in the transaction.

This year, Northwest will hire the 1000th employee at these fully operational facilities, exceeding the commitment made in 1994 to hire 854 people at these sites by the year 2000. These projects have now progressed sufficiently to allow an assessment of the extent to which:

- The state has realized the benefits for which it bargained;
- Northwest has met its commitments to the state and the communities which participated in this transaction.

This report demonstrates that Northwest has met its commitments, and that Minnesota has attained the objectives that the state hoped to attain by this point in time. It also addresses some basic misconceptions regarding the financial incentives provided by the agreements.

Summary of Key Findings

- Northwest has met all of its commitments to the state of Minnesota and the other parties under the provisions and covenants of the agreements, and the state and communities involved in the transaction have attained their objectives.
- Today, the Duluth Aircraft Maintenance Facility and the Iron Range Airline Reservation Center in Chisholm employ 976 full-time workers;
- When Northwest hires the 1,000th employee in 1999 for these two facilities, the airline will exceed the requirements of the agreements' employment covenants;
- Compared with the original 1992 agreement, the 1994 modification reduced the overall construction cost per guaranteed job from $233,333 to $66,393. By December 1999, the construction cost per actual job created will be $56,700;
- Northwest today maintains a larger presence in Minnesota than it did in 1992, employing 20,492 people, compared with 17,883;
- The total amount of state and local financing in the 1994 agreement was $371.7 million (a frequently cited amount of $838 million is inaccurate). This sum breaks down as follows:
  - $47 million in bonds were sold to build the maintenance facility in Duluth; Northwest is responsible for repayment through lease payments.
  - A $9.7 million loan was made to Northwest by the IRRRB to build the reservation center in Chisholm. The loan will be forgiven when Northwest maintains 100 jobs over the original goal covenant.
  - $270 million was raised by MAC through the issuance of airport general obligation revenue bonds and loaned to Northwest. Since 1992, Northwest has paid MAC approximately $128 million in interest. During the 30-year term of loan ending in year

2020, Northwest will pay MAC a total of approximately $350 million in interest plus principal;

- A separate $45 million was loaned to Northwest from the MAC construction account. The proceeds were used to further secure the $270 million loan. Northwest fully repaid this loan in 1997.

The Terms and Conditions of the Financing Agreements

In 1986, Northwest decided to expand its fleet of Airbus aircraft. The airline planned to purchase over 100 new Airbus aircraft, including A320s and A340s. In order to meet the anticipated service needs of the new aircraft, Northwest planned to build a new maintenance facility and a new engine repair facility. While the previous management declared that it was "virtually certain" the airline would not build the bases in Minnesota, the new management agreed in 1990 to consider Minnesota as a possible development site if the state were to offer the airline a development proposal which was economically competitive with proposals from other states. Because facilities of this nature generate significant employment and other economic benefits, the airline's plan attracted the attention of Minnesota as well as more than 30 other states.

In April 1991, the state of Minnesota, MAC, and the Office of the Commissioner of the Iron Range Resources and Rehabilitation Board (IRRRB), St. Louis County and the cities of Duluth and Hibbing offered Northwest a package that would provide the airline financial and tax incentives to locate maintenance bases in Duluth and Hibbing. An agreement with Northwest was reached early in 1992. The original financing agreement included a loan of $270 million from MAC designed to compete with incentives offered by other states, some of which included facilities already in existence, as well as a commitment to help provide $350 million in construction financing for the Duluth and Hibbing bases.

In 1994, the financing agreement was modified to reflect changes in Northwest's fleet plan that occurred during the restructuring by the airline in 1993. As modified, the agreement provided:

- Approximately $47 million in construction financing provided by the state of Minnesota, city of Duluth, and St. Louis County to build the Duluth maintenance facility, and a $9.7 million loan from the IRRRB to construct the reservation center in Chisholm;
- A $45 million loan from the MAC construction fund, to be used as a reserve fund;
- A fully secured loan in the amount of $270 million provided by MAC; and
- Covenants, or commitments, requiring Northwest to meet certain public policy goals, which reaffirmed those agreed to in 1992 subject to adjustments for Duluth and Chisholm employment capacities at the new facilities.

Construction Financing Incentives

Duluth Aircraft Maintenance Facility

The state of Minnesota issued $47 million in revenue bonds that are backed in varying amounts by the state, city and county. The state backed about $24 million in bonds, and St. Louis County, $2.7 million. Northwest committed to operate the facility under a 30-

year lease. The airline's lease payments will retire these state-, city-, and county-backed revenue bonds that financed construction. Of the remaining $19 million in bonds, $7.8 million will be repaid by Northwest through tax increment financing, and the city of Duluth is responsible for the balance.

Construction was financed entirely by these revenue bonds and did not involve any state general fund dollars. Northwest provided $5 million as a capital contribution to the project in lieu of additional bonds. Supporting the state-guaranteed bonds is collateral provided by Northwest that is valued at not less than 125 percent of their principal amount. Northwest agreed to guarantee the bonds and secured them with its collateral and assets in the event of default, further reducing the risk to the state and the other governmental parties.

Northwest made a commitment to employ 350 workers at the Duluth facility by December 31, 2000, a requirement included as one of the public policy covenants. Open since October 1996, this $47 million, 189,000-square-foot aircraft maintenance facility now employs 416 people, including 293 aircraft mechanics earning an average of $54,000 per year. The annual payroll, including benefits and taxes, at the Duluth facility was $18 million in 1998. Employees at the facility perform heavy maintenance on Northwest's fleet of Airbus A320, MD80 and DC9 aircraft.

(See Appendix I for more complete information about construction financing.)

Iron Range Reservations Center, Chisholm

In Chisholm, Northwest Airlines operates a $9.7 million, 41,000 square foot, state-of-the-art airline reservation center with 560 full-time employees. These employees, 95 percent of whom were recruited from the Iron Range, earn annual salaries ranging from $19,000 to $35,000 per year, plus benefits. Their job is to handle travel arrangements for Northwest's *WorldPerks* members, including reservations and mail.

The IRRRB financed the construction of the center from taconite taxes, a levy that is specifically intended under Minnesota law to be used for job creation on the Iron Range. Accordingly, neither state general fund dollars nor state bond proceeds were involved. The IRRRB built the center, but Northwest owns and operates it. Today, Northwest has met its commitment to create 504 full-time jobs by the year 2000, a requirement that is one of the public policy covenants. If Northwest creates additional 100 jobs, for a total of 604, and that level of employment is maintained for at least 10 years, the IRRRB loan will be forgiven in its entirety.

Key features of the center, which began operations in April 1996, include:

- 1998 annual payroll was $10.6 million (excluding managers);
- The annual operating costs of the center total $13.7 million;
- Another 175 full-time employees are scheduled to be hired by year-end 1999, bringing the center's total employment to more than 700, allowing for attrition;

- Through a partnership with local community colleges, Northwest offers training to area residents to enhance their employment opportunities at the center;
- The facility has the highest rate of employee attendance among the nine Northwest reservation centers, and the lowest rate of attrition.

(See Appendix I for more complete information about construction financing.)

MAC Loans

Under separate terms of the original 1992 agreement, Northwest received a fully secured loan from the MAC in the amount of $270 million. Financed through the issuance of airport general obligation revenue bonds, the loan carries an interest rate of 8.9 percent for a term of 30 years. The loan was collateralized with Northwest assets exceeding 145% of the loan principal including the Northwest pilot training center, NATCO.

Since 1992, Northwest has paid MAC approximately $128 million in interest (through Jan. 1, 1999). During the 30-year term of the loan agreement, Northwest will pay MAC a total of $350 million in interest.

The principle benefit of the MAC loan to Northwest is the interest rate. MAC can borrow funds at a lower interest rate than Northwest. This allowed Northwest to obtain a favorable interest rate on this financing.

Northwest also received a separate $45 million loan from MAC's construction account. The proceeds were deposited by MAC in a reserve account further securing payments on the $270 million bond issue and to pay certain costs of bond issuance. The loan carried an interest rate of 8.9 percent and was paid off in advance by Northwest in 1997.

Public Policy Covenants

The financing agreement included a number of covenants, or commitments, requiring Northwest to meet certain public policy goals relating to levels of employment, the size and nature of its operations in Minnesota, and noise abatement. These covenants are a clear, concrete expression of the state of Minnesota's goals for the financing agreements and constituted consideration for the financing from Northwest.

Northwest has fulfilled all of its commitments and obligations under the covenants:

- ***Covenant:*** Northwest committed to create 504 full-time jobs at the Chisholm Reservations Center and 350 positions at the Duluth Maintenance Facility, all by the year 2000, for a total of 854 jobs.

  Outcome: As of February 1, 1999, Northwest employs 560 workers in Chisholm, and 416 in Duluth. An additional 175 people are scheduled to be hired in Chisholm in 1999. The two facilities now employ a total of 976 people, with total employment expected to grow to over 1100 by 2000.

- *Covenant:* Northwest committed to maintaining employment levels at its Minnesota operations at then existing levels of 17,883.

  Outcome: Today, Northwest employs more than 20,000 workers in Minnesota (See Appendix III).

- *Covenant:* Northwest committed to maintaining its airline headquarters in the Twin Cities.

  Outcome: The airline's headquarters remain in Eagan, Minnesota.

- *Covenant:* Northwest committed to maintaining Minneapolis-St. Paul International Airport (MSP) as a major hub, as defined in the agreement.

  Outcome: MSP is a major Northwest hub, as defined.

- *Covenant:* Northwest committed to take certain noise abatement steps.

  Outcome: Northwest is in compliance with all noise abatement requirements in the agreement, including reducing the utilization of Stage 2 aircraft and observing a nighttime curfew on Stage 2 operations.

(See Appendix II for a complete text of the public policy covenants contained in the 1992 agreement.)

<u>1994 Modifications to the Finance Agreements</u>

The parties negotiated and completed the original agreements in 1992 and later modified the terms in 1994. The 1992 agreement required Minnesota to provide $350 million in construction financing. The 1994 agreement, as modified, substantially reduced to $57 million the amount of construction financing required. Both agreements included a $270 million MAC loan, a $45 million reserve account loan and public policy covenants.

Shortly after the parties signed the financing agreements in 1992, a lawsuit was filed asserting that the Minnesota constitution forbids the state from using state funds to aid a private company. The Ramsey County District Court dismissed the suit after the plaintiffs were unable to post $30 million bond, and the plaintiffs appealed the decision to the state Supreme Court. The Supreme Court affirmed the lower court's dismissal of the suit. However, during pendency of the litigation, the state was forced to delay the issuance of the bonds to finance the construction of the Hibbing and Duluth facilities.

In 1993, in the context of deteriorating industry economic conditions brought on by the Gulf War, rising energy prices, recession and a fare war, Northwest undertook a $2.2 billion restructuring plan. Included in the restructuring were $900 million in wage adjustments agreed to by the company's six labor unions, and debt deferrals by lenders and preferred shareholders. The restructuring also required the company to *defer indefinitely* its plans to purchase 74 new aircraft from Airbus, including 50 A320s and 24 A340s.

With this deferral, there was no longer an operational need for the northern Minnesota facilities as originally conceived. The state and Northwest began new discussions about how best to discharge their responsibilities under the 1992 financing agreement. Northwest continued to need a maintenance facility to service its existing fleet of Airbuses, as well as new Airbuses that were expected to be bought in the future (Northwest currently operates 63 A320s Airbus aircraft and will operate 70 by the end of 1999). The airline also was intent on honoring its obligations to the state and the northern Minnesota communities by ensuring that the state and the communities attained the benefit of their bargain even if some of the particular elements were modified.

In April 1994, the parties agreed to a redesign of the Duluth maintenance base, reducing its size (from three hangers to one) to reflect the airline's revised fleet plan, but making it expandable as those needs might grow. In place of the Hibbing engine repair facility, the parties agreed to construct a reservation center in Chisholm to meet the airline's need for a state-of-the-art facility to handle the travel arrangements for its *WorldPerks* members.

The table below presents the key provisions of the original agreements and the agreements as modified in 1994. More complete information on the construction financing can be found in Appendix I.

	Original Financing Agreements (1992)	Financing Agreements As Modified (1994)
Facilities	$250 million aircraft heavy maintenance facility with three hangers in Duluth $100 million engine repair facility in Hibbing	$52.5 million aircraft heavy maintenance facility with one hanger in Duluth $9.7 million reservations center in Chisholm
Total Construction Cost	$350 million	$62.7 million
Employment Obligation	Duluth: 1,000 Hibbing: 500 Total: 1,500	Duluth: 350 Chisholm: 504 Total: 854
Government-backed Financing	Duluth: $250 million in revenue bonds backed by the state, county and city Hibbing: $100 million in state and county backed bonds <u>Total financing: $350 million</u>	Duluth: $47 million in revenue bonds backed by the state, county and city Chisholm: IRRRB loans - $9.7 million <u>Total financing: $56.7 million</u>
Construction Cost per Guaranteed Job	$233,333	$66,393 (actual investment per job as of 12/99 - $56,700)
MAC Financing	$270 million operating loan	Same
Policy Covenants	Maintain corporate headquarters in Minnesota	Same
	Preserve approximately 17,000 jobs in Minnesota	Same
	Noise abatement measures	Same
	Maintain hub status at Minneapolis-St. Paul International Airport	Same
	Employment guarantees, as set forth above	Employment guarantees, as set forth above

When the parties agreed in 1994 to scale back the Duluth base and replace the engine repair facility with a reservation center, some expressed concern that the changes were to the detriment of the state of Minnesota. By the end of this year, the 1994 agreement will have produce about two-thirds as many jobs as the original agreements anticipated at one-sixth of the cost in public-backed construction financing. The 1994 agreement reduced the public financial exposure from \$350 million to \$56.7 million, and reduced the financing cost per guaranteed job by \$167,000, from about \$233,333 to about \$66,000. Thus, the 1994 agreement generated a better return on investment for Minnesota, at significantly less risk. Moreover, the jobs at the Chisholm reservation center are largely held by local area residents. In contrast to the proposed Hibbing engine repair base, for which job certification requirements would have limited local recruitment, the Chisholm reservation center is able to fill its positions through local recruitment. Iron Rangers hold a full 95 percent of the jobs there.

Conclusion

Northwest Airlines has fulfilled all of its commitments under the terms of the financing agreements, including the public policy goals set forth in the covenants. With the hiring in 1999 of the 1000th employee at its northern Minnesota operations, Northwest will have exceeded the requirements of the job covenants. Minnesota has attained the air transportation objectives it sought in 1991 and the employment objectives it accepted in 1994 at a significantly lower level of cost and risk than originally contemplated.

Appendix I: The Terms and Conditions of the Original Financing Agreement and the Agreement as Modified in 1994

DULUTH FACILITY

1992 Plan	1994 Actual
Facility	
Aircraft heavy maintenance facility at Duluth airport with three hangars; construction cost of approximately $250 million.	Aircraft heavy maintenance facility at Duluth airport with one hangar; construction cost of approximately $47 million.
Employees	
Approximately 1,000 at the Facility.	350 at the Facility.
Ownership and Construction	
MAC will own the facility on land leased from Duluth. MAC will lease the facility to Northwest.	Duluth Economic Development Authority will own facility and lease to Northwest; land leased from Duluth.
Financing	
<u>State Guaranteed Bonds.</u> State will issue State Guaranteed bonds in principal amount of $125 million. Bonds will be payable from net rental payments by Northwest pursuant to the Facility lease. Bonds will be backed by general obligation pledge of the State.	<u>State Guaranteed Bonds</u>. State issued State Guaranteed lease revenue bonds in principal amount of $23.73 million. Bonds are payable from net rental payments by Northwest pursuant to the Facility lease. Bonds are backed by general obligation pledge of the State.
<u>County Guaranteed Bonds.</u> State will issue bonds in principal amount of $12.6 million. Bonds will be payable from net rental payments by Northwest pursuant to the Facility lease. Bonds will by backed by a general obligation pledge from St. Louis County.	<u>County Guaranteed Books.</u> State issued County Guaranteed lease revenue bonds in principal amount of $2.71 million. Bonds are payable from net rental payments by Northwest pursuant to the Facility lease. Bonds are backed by a general obligation pledge from St. Louis County.
<u>Duluth Bonds.</u> State will issue bonds in principal amount of $47.6 million. The bonds will be payable from (i) the real estate tax increment produced by the project; (ii) Duluth sales tax revenue; (iii) payment in lieu of taxes based on 5% of certain Duluth utility revenues; (iv) franchise fee	<u>Duluth Bonds.</u> Bonds are issued in principal amount of $19.23 million, split into two series. The first series ($7.8 million) will be payable solely from the real estate tax increment produced by the project and payable by Northwest. The second series ($11.43 million) will be payable from other revenues of City of Duluth unrelated to the Facility or Northwest (as under the Act) in an amount of approximately $750,000 in 1996-99 and $850,000 per year thereafter.

First Mortgage Bonds. Northwest will be liable for First Mortgage Bonds of up to $64.8 million. Bonds will be payable from net rental payments by Northwest pursuant to the Facility lease.	First Mortgage Bonds. If issued, Northwest will be liable for First Mortgage Bonds of up to $5 million. Bonds will be payable from net rental payments by Northwest pursuant to the Facility lease. No First Mortgage Bonds have been issued and none are currently expected to be issued.
Northwest Capital Contributions. Undetermined amount sufficient to complete the facility and pay all cost thereof.	Northwest Capital Contributions. Northwest will make capital contributions of up to $5 million.
Tax Status of Bonds and Tax Credits. All bonds will bear interest excluded from gross income for federal income tax purposes to the extent possible. Northwest will be eligible for certain income tax credits for job creation and certain exemptions from sales tax.	Tax Status of Bonds and Tax Credits. Same. In fact, $4.89 million of the State Guaranteed Bonds were issued as taxable bonds because of federal tax law limitations.
Off-Site Improvements. City of Duluth will be obligated to pay costs of all off-site improvements and site preparation costs.	Off-Site Improvements. Same, except that the improvements have been redefined and $650,000 of the off-site improvements were paid from proceeds of the bonds.
Bond Security and Collateral	
Assignment of Lease Payments and City Pledges. The State Guaranteed bonds, County Guaranteed bonds and First Mortgage Bonds will be secured by an assignment of rent payments under the lease for the benefit of the bondholders. The Duluth Bonds will be secured by a pledge of tax increments and a pledge of the other city revenues.	Assignment of Lease Payments and City Pledges. Same.
Mortgage. All bonds will be secured by a mortgage and security interests on the entire Facility.	Mortgage. Same.
Other Collateral. Northwest will be required to pledge other collateral to the extent necessary to assure that the market value of the facility and other collateral is equal to not less than 125% of the State Guaranteed bonds.	Other Collateral. Same.

CHISHOLM FACILITY

1992 Plan	1994 Actual
The Facility will be a repair facility in Hibbing for airplane engines, engine components and/or electronic and mechanical components, with a construction cost of approximately $100 million.	Northwest will construct, own and operate a reservation center in Chisholm, with a construction cost of approximately $9.7 million. The reservation center will operational by July 1996, assuming design and construction begin in January 1995.
Ownership	
The Facility will be owned by the Cities of Hibbing and Chisholm jointly or by the Airport Commission, and will be leased to Northwest.	The reservation center will be owned by Northwest, subject to a mortgage, certain reversion rights and a purchase option all in favor of the IRRRB.
Employment	
Northwest will employ up to 500 persons at the Facility.	Northwest will be required to employ 504 persons at the reservation center.
Financing	
Costs of the Facility will be funded by proceeds of (I) State guaranteed bonds in the principal amount of up to $50 million; (ii) County-backed bonds in the principal amount of $15 million; and (iii) First Mortgage Bonds in the principal amount of up to $35 million. Northwest will pay costs in excess of the bond proceeds, except to the extent Northwest chooses to use funds available from (i) a grant from the IRRRB in an amount of $10 million, and (ii) the sale of GO bonds by the City of Hibbing in an amount sufficient to produce not more than $10 million in net proceeds.	Costs of the reservation center will not be financed by State bonds, County-backed bonds or by First Mortgage Bonds. The costs will be funded by proceeds of two loans totaling $9.7 million from the IRRRB. In connection with the IRRRB loans, Northwest entered into a facility agreement with respect to the reservation center providing that such loans will be forgiven if Northwest maintains certain required employment levels at the reservation center over a term not to exceed 10 years.
Tax Credits	
Northwest will be entitled to certain tax credits for job creation and certain sales tax exemptions.	Northwest will not be entitled to job tax credits or sales tax exemptions. Northwest will be entitled to receive federal, state and local assistance generally available for job training and job creation. The amount of assistance will be limited to what is necessary to cover Northwest's direct out-of-pocket costs of recruiting and training employees, up to a maximum of $1,500,000.

Appendix II: The Public Policy Covenants

The public policy covenants agreed to by Northwest are as follows:

"21.2 Employment and Headquarters. Lessee agrees that it shall, and shall cause its Affiliates, NATCO and NWA with respect to employment and corporate headquarters:

(a) (Overall Employment) To cause Affiliated Employees to be employed in the Minneapolis-St. Paul metropolitan area and the state of Minnesota at substantially the level existing as of February 29, 1992, (which was 17,883 persons) (calculated annually); provided, however, Duluth employees at the Duluth facility and Hibbing employees at the Hibbing facility shall not be included in determining compliance with this provision 21.2(a);

(b) (Duluth Employment) To cause to be employed at the Duluth facility Duluth employees at substantially the following levels: (i) not less than 300 Duluth employees not later than June 30, 1995; (ii) after June 30, 1995 until the effective date in (iii) below, an annually increasing number of Duluth employees and for any day, not less than the number of Duluth employees that were employed on any preceding day and in no event less than 300 Duluth employees; and (iii) not less than 1,000 Duluth employees not later than three (3) years after the Duluth facility becomes operational or June 30, 1998, whichever first occurs, and to maintain at least such level of employment (calculated annually thereafter);

(c) (Hibbing Employment) To cause to be employed at the Hibbing facility Hibbing employees at substantially the following levels: (i) not less than 200 Hibbing employees not later than September 30, 1995; (ii) after September 30, 1995, until the effective date in (iii) below, an annually increasing number of Hibbing employees and for any day, not less than the number of Hibbing employees that were employed on any preceding day and in no event less than 200 Hibbing employees; and (iii) not less than 500 Hibbing employees not later than three (3) years after the Hibbing facility becomes operational or June 30, 1998, whichever first occurs, and to maintain at least such level of employment (calculated annually thereafter); and

(d) (Headquarters) To maintain the corporate headquarters of NAI in the Minneapolis-St. Paul metropolitan area.

Section 21.2(a)-(d) above shall not be deemed to prevent Lessee or its affiliates:

(i) from moving particular categories of employment or the facilities or operations associated therewith (other than NAI's corporate headquarters) from Minnesota, provided the required employment levels are maintained; or

(ii) from reducing or changing its Minnesota employment, operations or facilities (other than the location of NAI's corporate headquarter) in response to *force majeure*, business conditions, technological changes or statutory or regulatory changes; provided, except to the extent prohibited by applicable law or contractual obligations, NAI and NWA will use their best efforts to cause any such reductions or changes in Minnesota employment, operations, or facilities to be substantially proportional to the comparable reductions or changes occurring elsewhere in its domestic business locations, taking into account the category and character of employment, facility, or operation.

Lessee represents that as of the date of this agreement that it intends that the Duluth facility and the Hibbing facility when operational shall employ, respectively, Duluth employees and Hibbing employees performing the particular functions and subject to the particular ranges of compensation described in attachments 1 and 2 hereto." (Facilities and Equipment Lease Agreement between MAC and Northwest Airlines, Inc.)

"21.1. Noise. Lessee agrees that it shall, with respect to noise abatement at the airport:

(a) consent to provide its proportionate share of air carrier funding for soundproofing, purchase assurance and other project costs for off-airport aircraft noise costs of not less than $2,000,000 per year, beginning in 1994 through the date of termination of the scheduled airline operating agreement and terminal building lease;

(b) accept delivery of Stage 3 aircraft in 1992 having an aggregate purchase price of not less than $390,000,000;

(c) (i) limit its proportional utilization of Stage 2 aircraft at the airport beginning in calendar year 1992 (calculated on an annualized basis) to no more than the proportional utilization of Stage 2 aircraft throughout NAI's domestic system, and (ii) not increase its proportional utilization of Stage 2 aircraft at the airport in any calendar year above the prior calendar year's utilization, beginning in 1993 (as compared with 1992 utilization); and

(d) comply with an 11:00 p.m. to 6:00 a.m. curfew at the airport for scheduled passenger arrivals or departures of NAI Stage 2 aircraft during such time period.

Section 21.1(c) above shall not be deemed to prevent Lessee from increasing its proportional utilization of Stage 2 aircraft at the airport in the event of *force majeure*." (Facilities and Equipment Lease Agreement between MAC and Northwest Airlines, Inc.)

"21.3. Hub Covenant. Lessee agrees that it shall, with respect to the airport Hub:

(a) In order to ensure the continuation of the Hub in Minnesota as a major NAI Hub, NAI will maintain a sufficient proportion of connecting flights at the airport such that the number of NAI and NAI Code-Share Airlines enplaned revenue passengers whose flight travel involves a flight or flights which arrive at and depart from the airport (but whose flight travel neither originates from nor terminates at the airport) will not be less than 30 percent of the total number of NAI and NAI code-share airlines enplaned revenue passengers whose flight travel involves a flight or flights which arrive at or depart from the airport (calculated annually); and

(b) NAI will maintain not less than substantially 187 departing NAI and NAI code-share airlines flights per day from the airport, calculated annually (which amount is 75 percent of the 1991 number of such flights).

The above provision shall not be deemed to prevent NAI from reducing the airport Hub in response to *force majeure* or to avoid violations of applicable law, statutes or regulations that would otherwise arise from compliance with such covenant." [LEASE AGREEMENT, Article XXI, Section 21.3]

Appendix III

	1992	1998
Number of employees	17,883	20,492
Annual payroll	$860.5 million	$1.086 billion.
State and local taxes paid by Northwest	$62.9 million	97.3 million
Revenue to Minnesota vendors	$582 million	$859.5 million