

**NORTHWEST AIRLINES
And
THE STATE OF MINNESOTA:

A Chronology**

1979 – 1989

Metropolitan Airports Commission (MAC) spends a total of \$109 million on construction for NWA and Republic Airlines (which merged with NWA.)

APRIL 1989

Perpich “goes to war” against Marvin Davis, a Denver oilman who wants to buy Northwest Airlines for \$2.62 billion. Possible strategies include emergency legislation giving MAC the authority to accept or reject a new NWA owner.

Bill authored by Rep. Karen Clark to prevent NWA takeover. Bill included penalties for takeover companies which lay off more than 25 workers during the first three years of operation. Bill also guaranteed 12 months of health care coverage and severance pay for laid off workers.

Legislators consider introducing a bill to put a lien on the property of major companies – including NWA – for the cost of public improvements benefiting the company.

None of these measures pass. Struggle for control of NWA is resolved in leveraged buyout (below.)

JUNE 1989

NWA sold in a leveraged buyout to Gary Wilson, Al Checchi, KLM Royal Dutch Airlines and others for \$3.65 billion.

Legislature launches study of capacity at MSP-International Airport.

DECEMBER 1991

Legislative Commission on Planning and Fiscal Policy approves, by a vote of 11-7, a financial aid package of \$838 million for a maintenance base in Duluth and an engine overhaul facility in Hibbing. The package includes a loan of \$270 million from the Metropolitan Airports Commission (MAC) and \$500 million in construction financing.

IRRRB and Minnesota Power of Duluth provides a total of \$15 million in loan guarantees on the MAC loans.

Commission members voting for the package was a collection of four Republicans and seven DFLers with strong backing from Gov. Carlson and organized labor.

JANUARY 1992

The State Ethical Practices Board reports that NWA spent more than \$700,000 during six months in 1991 to lobby legislators to pass the \$838 million public financing package for the airline. Some legislators believe the amount is among the most spent by a single entity on a single legislative issue in such a short period of time. (Tobacco interests spent \$279,000 during the entire year – to block bills for tax increases and smoking restrictions.) NWA also spent \$120,656 to prepare and distribute lobbying materials and more than \$6500 on food and beverages.

MARCH 1992

Governor signs a \$761 million financing package for NWA – down from the original \$838 million. The package came with several guarantees to the state:

- Duluth Base: three hangars and 1000 minimum jobs;
- Hibbing Engine Facility: 500 minimum jobs;
- Keep corporate headquarters in Minnesota;
- Keep employment “substantially” at current levels – about 18,000 people in MN. Number of jobs could fall only at the same rate jobs were being cut across NWA’s entire system;
- Adhere to noise abatement measures;
- Maintain hub status at MSP International Airport;
- Maintain a minimum net worth of \$1 billion (below the company’s net worth at the time of the deal);
- State to be paid quickly if airline starts to default on other debts;
- NWA can pay consultants only after the state is paid on facility leases. Example: Alfred Checchi & Associates, which was owned by NWA’s co-chairman and which had received \$10 million in annual fees for research and other services;
- NWA to offer \$100 million in collateral (ex: pilot training school and international routes.)
- NWA must report on its financial health to the state quarterly and annually;
- Only the state can renegotiate the loan if it chooses.
- NWA can’t ask the State Investment Board to invest public employee pension funds in the company during the 30-year life of the bonds;
- NWA can only use half the MAC loans to pay for leveraged buyout debt.

APRIL 1992

MAC makes \$270 million loan (noted above) to NWA.

MAY 1992

NWA uses half of the \$270 million MAC loan to repay lenders for the company's buyout.

NWA lends support to a Rosemount citizens group opposing construction of a new Twin Cities airport in Dakota County. NWA donated an hour behind one of its flight simulators as a prize at a fundraiser for the group. The standard rental fee for the simulator is \$650 per hour.

JUNE 1992

NWA files a court challenge to MAC's new \$3 boarding fee for passengers. The boarding fee increase is needed to help MAC finance its loan to NWA – a point made by the MAC during its prolonged negotiations with the carrier.

NWA cuts Airbus jet order from 60 to 35. This is startling, because a NWA order for 60 Airbus aircraft was included in documents given to legislators to help demonstrate the airline's financial health. Reports indicate NWA had started discussing the delay while it was finalizing loan details with the state and MAC.

NWA seeks work-rule and productivity concessions from its unions, despite the airline's statements during negotiations that its labor costs were under control.

JULY – NOVEMBER 1992

NWA eliminates an estimated 1500 jobs in Minnesota – compared to 2002 system wide.

SEPTEMBER 1992

NWA pilots agree in principle to \$100 million a year in concessions for three years.

DECEMBER 1992

NWA announces restructuring plan to keep the carrier solvent. The package includes a \$250 million emergency loan, \$340 million in debt deferral and cancellation of \$3.5 billion in new aircraft orders. .

NWA announces plans to scale back aircraft maintenance bases.

JANUARY 1993

NWA unions begin wage and benefit concessions in return for equity in the company. More than 1000 NWA employees are laid off.

FEBRUARY 1993

Legislature Auditor reports that Metropolitan Council used faulty forecasting methods to estimate future uses of MSP-International Airport.

MAY 1993

Governor Carlson assigns task force to review progress on study of state's future airport needs.

JUNE 1993

NWA warns unions it will file for bankruptcy protection if contract concessions are not promptly approved.

JULY 1993

Pilots accept concessions of \$866 million over three years in exchange for three seats on the board of directors and up to 37.5 percent ownership of the company.

AUGUST 1993

Other five unions agree to pilots' \$866 million in concessions. They go into effect.

OCTOBER 1993

NWA announces their first profitable quarter in two years.

JANUARY 1994

NWA plans public stock sale – 25% of company to new investors which owners hope will raise \$400 million in new capital. Stock offering actually raises only \$260 million.

APRIL 1994

NWA renegotiates 1992 deal with Governor Carlson, Congressman Oberstar and other government officials. Airline announces scaled-back plans for an aircraft maintenance base in Duluth and a reservations center in Hibbing. The new agreement includes a pledge by NWA to hire at least 350 people at the Duluth airbase by the end of 2000 and to maintain that minimum level of employment for the next 30 years.

Key changes in agreement:

- The engine repair facility would not be built.
- **The two facilities would employ up to 954 by 2002 – down from the original promise of 1500 employees.**
- **The total loan package was scaled back from \$350 million to \$56.7 million.**

Revised cost of Duluth facility -- \$52.5 million (down from \$250 million)

Revised cost of Chisholm center-- \$9.7 million (down from \$100 million)

SPRING 1994

Reservations center project is moved to Chisholm.

AUGUST 1994

NWA stock rises 50% in value.

JANUARY 1995

NWA posts record earnings of \$295 million in 1994 after five years of losses.

A second lawsuit challenging the legality of the changed deal is filed by the machinists union. Lawsuit claims legislative approval is needed before the revised deal can move

forward. (A Bloomington couple also launched a legal challenge to the original deal and the lawsuit was widely blamed for stalling the project.)

FEBRUARY 1995

NWA executives announce their opposition to construction of a new terminal at MSP-International Airport.

APRIL 1995

FAA gives unconditional approval to MAC to extend runway at MSP-International, but says local funds will have to pay for resulting noise mitigation needs.

MAY 1995

Senate Tax Committee passes bill to relieve NWA of a tax the airline doesn't like – the corporate franchise tax. NWA's corporate counsel complained to the Committee that the law illegally taxes airplanes. The tax doesn't apply directly to NWA but to leasing companies that own 148 of the 366 planes in NWA's fleet. Leasing companies refused to pay the tax, dumping the responsibility on NWA instead. Passage of the measure would result in \$16 million more each year in taxes on Minnesota banks and a reduction in taxes on airplanes of \$4 million.

DECEMBER 1995

Senator Ted Mondale announces legislative proposal for transitway connecting downtown Minneapolis, the airport and the Mall of America. Plan would halt all efforts to build a new airport in Dakota County.

JANUARY 1996

NWA announces airport expansion proposal on existing site for \$600 million rather than recommended expansion in Dakota County for \$2.8 billion. The scaled-back proposal is announced just days before the MAC and Metropolitan Council are due to make a recommendation to the Legislature after six years of intense study about the airport's expansion.

The NWA plan eliminates a new terminal and a taxiway that MAC had planned as a shortcut between parallel runways.

FEBRUARY 1996

Senate Tax Committee approves \$2.5 million/per year income tax break on leased airplanes. Bill (Belanger amendment) indirectly helps NWA by possibly reducing lease costs. (This measure was also approved by the committee in 1995 – above.)

MARCH 1996

Report by Laurie Blake about the airport expansion says "Northwest threatened to reduce service by 15 percent and take as many as 10,000 jobs out of the state rather than rebuild facilities at a new location."

Senate Metropolitan and Local Government Committee begins hearings on bill to halt dual-track planning process for airport. Bill forbids construction of a new airport, forbids banking land for a new airport and directs the expedited construction of a north-south runway at the existing site. Twenty-five similar bills have been introduced in the House and Senate.

APRIL 1996

Reservations center in Chisholm opens.

OCTOBER 1996

Aircraft maintenance base in Duluth opens. NWA promises the base will employ at least 350 people by the year 2000.

JANUARY 1997

NWA reports record earnings for 1996.

DECEMBER 1997

NWA permanently cancels 1991 agreement to build an engine overhaul facility in Hibbing by making a decision to send its jet engines to an overhaul facility in France. NWA also retires 1992 MAC loan with a \$39 million check.

FEBRUARY 1999

NWA issues a report to demonstrate how it has fulfilled its **1994** commitments to the state -- the revised agreement between NWA, Governor Carlson and other state leaders – but not the Legislature.

A key finding in the report says the aircraft maintenance facility in Duluth and the Reservation Center in Chisholm employ 976 full-time workers. The 1994 agreement required 954 full-time workers.

Other key findings ignore terms of both the 1992 and 1994 agreements and simply report facts favorable to the airline, i.e. “Northwest today maintains a larger presence in Minnesota than it did in 1992...”

(Summary of Key Findings is Attached)

MARCH 2001

NWA begins cost-cutting measures amid first signs of a recession and a decline in business travel.

SEPTEMBER 2001

Over 10,000 NWA workers furloughed in wake of 9/11 attacks.

OCTOBER 2001

NWA announces it made a small profit of \$19 million during the third quarter. The period includes September, when the government shut down air travel for four days following the terrorist attacks on 9/11. The profit was attributable to the nearly \$250

million in emergency government assistance received by the airline as its share of a congressional airline industry bailout package.

FALL 2001

Senate convenes the Senate Select Committee on Air Transportation and Economic Security to explore options for assisting airlines headquartered in the state to recover from the repercussions of the September 11 attacks. No emergency legislation is passed.

MARCH 2003

NWA announces plans to cut about 4,900 jobs as a result of the war in Iraq. The cuts include 2,000 mechanics, 1,400 flight attendants, 630 baggage handlers and customer service agents, 250 pilots, 125 cleaners, 300 management and 150 clerical positions, and 40 stock clerks.

Governor Pawlenty promises to seek federal aid for the airline from the U.S. Dept. of Labor.

DECEMBER 2003

Workforce in Chisholm facility has been reduced to 438. Employment at the Duluth maintenance base has declined 40 percent from more than 350 people at the start of 2003 to 217.

JANUARY 2004

Mechanics union loses arbitration fight over March 2003 lay-off of mechanics.

FEBRUARY 2004

The Minnesota Department of Finance asks the airline to begin providing monthly employment level reports at the Duluth maintenance base and any pending changes in operations. Finance officials report they have received no response from the company.

APRIL 2004

Duluth Mayor Herb Bergson meets with Governor Pawlenty to discuss NWA's failure to maintain promised levels of employment at the Duluth maintenance base. Bergson reports that Governor Pawlenty "reiterated that while the state was monitoring the situation, it was not going to take action until May of 2005 in terms of holding Northwest's feet to the fire regarding the numbers." Bergson says he has no intention of letting NWA off the hook.

Peter Sausen, an assistant commissioner for the Minnesota Department of Finance, said he believes the state could technically recall Northwest's financing in light of cuts it made in Duluth, but doing so might jeopardize the airline's continued health.

However, Mary Stanik, a Northwest spokeswoman, contends her company has acted within its rights. "Northwest Airlines is in full compliance with the financing agreement which provides relief from meeting target employment levels during times of national economic stress," she said. "Reductions in Minnesota employment levels cannot exceed national company employment reductions."

SEPTEMBER 2004

Governor Pawlenty and NWA announce an \$860 million proposal to expand the MSP-International Airport. The expansion would allow the airport to service 55 million passengers by the year 2020, an increase of 60% increase in passenger traffic. The plan would be paid for by federal grants and future travelers through user fees and facilities charges. No state or local tax money would be used.

The expansion plan would add 34 gates to the Lindbergh terminal which would be used exclusively by NWA, Delta and Continental Airlines. The smaller Humphrey Terminal would expand from eight gates to 20 and retain its primary tenant. The plan also calls for a 400 room hotel and conference center attached to the Lindbergh Terminal.

MARCH 2005

NWA lays off 130 mechanics and announces it may lay off another 800 mechanics by the end of the year.

Compiled by Senate Majority Research

Sources:

Resources on Minnesota Issues, Legislative Reference Library

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St. Paul Pioneer Press

Minnesota Public Radio

Budgeteer News

Duluth News Tribune

Report to the Minnesota Legislature on the Minnesota-Northwest Airlines Financing Agreement, Northwest Airlines, Feb. 1999