# NWA MAINTENANCE & REPAIR FACILITIES

## Supplemental Report to the Governor

**Commissioner of Finance**

**State of Minnesota**

**March 27, 1992**

*Pursuant to 1991 Laws, Chapter 350*
*Article 1, section 2 and coded*
*MS 116R.01*

This report supplements the Report to the Governor and Legislative Update dated March 17, 1992 (the "Original Report") regarding a proposed heavy maintenance facility for aircraft (and facilities subordinate and related to the facility) to be located at the Duluth International Airport (the "Duluth Project") and an aircraft engine repair facility (and facilities subordinate and related to the facility) to be located at the Chisholm - Hibbing Municipal Airport, and the financing thereof.

Attached to this Supplemental Report are the following:

1. Order and Findings of the Commissioner of Finance ("Finance Commissioner") Regarding Matters In Connection With 1991 Minnesota Laws, Chapter 350, dated March 27, 1992;

2. Order and Findings of the Commissioner of Trade and Economic Development ("TED" Commissioner") Regarding Matters In Connection With 1991 Minnesota Laws, Chapter 350; and

3. Resolution No. 1477 adopted by the Metropolitan Airports Commission ("MAC") on March 24, 1992.

The attachments include findings by each of the Finance Commissioner, TED Commissioner and MAC referenced in Article 1, Section 2, subdivision 3(c). Based on such attachments:

(1) The TED Commissioner, Finance Commissioner and, for purposes of the Duluth Project, the MAC, have reviewed the current and prospective financial condition of Northwest Airlines, Inc., NWA, Inc. and Wings Holding Inc.; and

(2) On the basis of their review, the TED Commissioner, Finance Commissioner and, for purposes of the Duluth Project, the MAC have determined that the revenues estimated to be available to Northwest Airlines, Inc. for payments under the loans, leases or other revenue agreements contemplated in the Original Report are at least sufficient during each year of the term of the proposed bonds to pay when due all financial obligations of Northwest Airlines, Inc. under the terms of the proposed loan, lease or other revenue agreements.

**Copies of this Report are being filed at the Legislature as provided in Section 3.195.**

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ORDER AND FINDINGS OF THE COMMISSIONER OF FINANCE REGARDING MATTERS IN CONNECTION WITH 1991 MINNESOTA LAWS, CHAPTER 350

RECITALS

1. Background. 1991 Minnesota Laws, Chapter 350 (the "Act") authorizes the Commissioner of Finance of the State of Minnesota (the "Commissioner"), upon request of the governor of the State (the "Governor"), to issue one or more series of revenue bonds ("Bonds") of the State of Minnesota (the "State"), as described in the Act (a) in a principal amount not to exceed $250,000,000 to finance costs related to the planning, construction, improvement or equipping of a heavy maintenance facility for aircraft, and facilities subordinate and related to the facility (collectively, the "Duluth Project"), to be located at the international airport in the City of Duluth ("Duluth"), and (b) in a principal amount not to exceed $100,000,000 to finance costs related to the planning, construction, improvement or equipping to an engine repair facility, and facilities subordinate and related to the facility (collectively, the "Hibbing Project"), to be located at the Chisholm-Hibbing municipal airport in the City of Hibbing ("Hibbing"). Each of the Duluth Project and the Hibbing Project are referred to herein as a "Project".

The Commissioner is authorized by the Act to make loans ("Loans") of the proceeds of the Bonds and provide for servicing of the Loans for the Duluth Project and Hibbing Project (each, a "Project"). Pursuant to the Act, the Duluth Project may be owned by the Metropolitan Airports Commission ("MAC") and leased for the benefit of one or more airline companies for primary use as a heavy maintenance base. Pursuant to the Act, the Hibbing Project may be owned by the owner of the Chisholm-Hibbing municipal airport and leased to any person for the primary purpose of repairing aircraft engines or components.

Northwest Airlines, Inc. ("NAI"), NWA, Inc., the sole shareholder of NAI ("NWA"), and Wings Holdings Inc., the sole shareholder of NWA, Inc. ("Wings"), propose to enter into a certain Master Financing Agreement with the Commissioner, providing for the issuance of the Bonds. Concurrent with execution of the Master Financing Agreement, NAI proposes to enter into lease agreements (the "Leases") to lease the Duluth Project and Hibbing Project. Additionally, as an inducement to NAI to lease the Projects, MAC will concurrently enter into an agreement to provide financing to NAI from sale proceeds of MAC bonds to be issued in the principal amount of $270,000,000 pursuant to the Act. Capitalized but undefined agreements referenced herein are agreements which will be (a) executed concurrent with the Master Financing Agreement or (b) attached to or referenced as "Transaction Documents" in the Master Financing Agreement.

2. Duluth Project Proposal. The proposed site of the Duluth Project is owned by Duluth. It is proposed that Duluth lease the site to MAC for 99 years pursuant to a Ground Lease.

Under the Ground Lease for the Duluth Project, amounts are payable in lieu of taxes ("PILOT") to the City of Duluth which are pledged to pay the Duluth-Backed Bonds. Additionally, certain insurance is required under the Ground Lease. Nonpayment PILOT amounts will result in termination of the Ground Lease (even if the State has obtained possession of the Project), but only after a period of nonpayment equivalent to the grace period allowed prior to a tax forfeiture sale.

Pursuant to a Development Agreement among Duluth, MAC and NAI, Duluth will agree to cause remediation of certain environmental hazards and construct certain public improvements related to the Duluth Project, and MAC will agree, in cooperation with NAI, to design, bid for and construct the Duluth Project (subject to the availability of funds).

MAC will lease the Duluth Project to NAI pursuant to a Lease (the "Duluth Lease") which will have an initial term with respect to land and buildings that is coterminus with the latest scheduled maturity of Duluth Lease Revenue Bonds (described below). Equipment for the Duluth Project financed from Bond proceeds ("Leased Equipment") will be leased pursuant to the Duluth Lease for terms not exceeding 78% of the economic life of the respective items of equipment. The Duluth Lease will require NAI to pay certain "Basic Rent" which, if duly paid, will be sufficient to pay when due all scheduled payments of principal of and interest on the Duluth Lease Revenue Bonds. Under the Duluth Lease, NAI will assume all responsibility for maintenance of the Duluth Project and for the payment of taxes and required insurance premiums. The Duluth Lease will also impose on NAI certain financial tests and financial reporting requirements, as well as other Public Policy Provisions (defined in the Duluth Lease) required by the Act. In accordance with the Duluth Lease, upon termination of the Lease, NAI will have the option to purchase at fair market value MAC's interest in the Duluth Project premises. Pursuant to a Nonrecourse Agreement, MAC will have no liability or responsibility with respect to its obligations relating to the Duluth Project, except if MAC acts in bad faith.

Construction and installation costs ("Project Costs") for the Duluth Project are intended to be paid in part by a State grant to MAC funded by sale proceeds of $47,600,000 principal amount of Bonds secured in accordance with Article 1, Section 2, Subdivision 4(c) of the Act ("Duluth-Backed Bonds"). Proceeds of the Duluth-Backed Bonds will also be applied to pay costs of issuance of such Bonds, to fund a debt service reserve fund and to pay certain interest accruing on the Bonds.

The Duluth-Backed Bonds are intended to be payable from tax increment derived from the Duluth Project and from other moneys paid by Duluth pursuant to a Payment and Pledge Agreement. The tax increment portion of the Duluth-Backed Bonds is further secured by a pledge of tax increment from other sites in Duluth, and Duluth's other payment obligations are secured by a pledge of franchise fees payable by Minnesota Power Company, a portion of intracity funds derived from city gas revenues, and certain Duluth sales tax revenues. The payment of principal of and interest on the Duluth-Backed Bonds when due is expected to be insured by a municipal bond insurance policy.

Project Costs for the Duluth Project are also intended to be paid from proceeds of nonrecourse Loans to MAC from the State pursuant to one or more Loan Agreements. Such Loans are to be funded by (a) proceeds from the sale of Bonds secured by a pledge of the full faith and credit of St. Louis County (the "County") pursuant to Article 1, Section 2, Subdivision 4(b) of the Act ("County-Backed Bonds") in the principal amount of $12,600,000, (b) proceeds from the sale of Bonds secured by a pledge of the full faith and credit of the State pursuant to Article 1, Section 2, Subdivision 4(a) of the Act ("State Guaranteed Bonds") in an aggregate principal amount of up to $125,000,000, and (c) proceeds from the sale of Bonds not secured by the credit of any political subdivision or governmental unit ("First Mortgage Bonds") in an aggregate principal amount of up to $64,800,000. Proceeds of the foregoing Bonds (collectively, "Duluth Lease Revenue Bonds") may also be applied to pay costs of issuance of any Bonds for the Projects, to fund debt service reserve funds for any Bonds for the Duluth Project and to pay interest on any Bonds for the Duluth Project.

All scheduled payments of principal of and interest on Duluth Lease Revenue Bonds are intended to be paid solely from Basic Rent due from NAI under the Duluth Lease, except to the extent paid from Bond proceeds, or investment income or City Contributions (as defined in the Development Agreement for the Duluth Project). Mortgage liens on and assignments of leases and rents from the Duluth Project will secure payment of the following obligations in the following priority: (a) principal of and interest on the First Mortgage Bonds, (b) principal of and interest on the State Guaranteed Bonds for the Duluth Project, (c) amounts owing to the State or others under the Loan Agreement for the State Guaranteed Bonds for the Duluth Project, (d) principal of and interest on the County-Backed Bondfor the Duluth Project, (e) amounts owing to the County under a County Reimbursement Agreement for the Duluth Project because of County payments made or due in respect of County-Backed Bonds for the

Duluth Project, (f) principal of and interest on the Duluth-Backed Bonds, and (g) principal of and interest on Bonds issued for the Hibbing Project.

Pursuant to separate Guaranty Agreements, each of NAI, NWA and Wings will guarantee amounts due under the Loan Agreement with respect to State Guaranteed Bonds for the Duluth Project (whether amounts are due as scheduled or as a result of acceleration) and NAI obligations under the Lease. Pursuant to a Security Agreement Relating to Certain International Airline Routes (the "Security Agreement"), and subject to the Subordination and Intercreditor Relations Agreement (the "Intercreditor Agreement"), prior to completion of the Duluth Project, the State Guaranteed Bonds and obligations under the related Guaranty Agreements will be secured by an initial pledge of international air route authority between Minneapolis and London and between Detroit and Paris presently being operated by NAI (the "International Routes"). Additionally, after payment of completion costs for both Projects and payment of the State Guaranteed Bonds for either Project (or, amounts due under the related Guaranty Agreements), the International Routes will secure amounts due under the County Reimbursement Agreement for the Duluth Project and in respect of Duluth-Backed Bonds. After completion of the Duluth Project, pursuant to a Collateral Agreement for the Duluth Project, collateral must be pledged sufficient to satisfy the Coverage Test (defined below).

First Trust National Association ("First Trust") is proposed to act as trustee for each class of Duluth Lease Revenue Bonds and for the Duluth-Backed Bonds. First Trust is also proposed to act as Servicer under a Servicing Agreement pursuant to which all Basic Rent from the Duluth Lease will be deposited with First Trust for application to pay each class of Duluth Lease Revenue Bonds in the same priority as stated above for mortgage liens on the Duluth Project. Bond proceeds (and to the extent required by the Duluth Lease, NAI funds) for payment of Project Costs for the Duluth Project will be disbursed in accordance with a Disbursing Agreement.

All Duluth-Backed Bonds are expected to be issued as promptly as practicable. An issue of tax-exempt and an issue of taxable State Guaranteed Bonds (to finance certain deposits to a revenue fund and, if required, certificates of issuance) are expected promptly thereafter. With certain exceptions, proceeds of the Duluth-Backed Bonds and such State Guaranteed Bonds will be disbursed in the ratio of 1:1.75. Thereafter, as Project Costs are incurred (or contracts therefrom are entered into) additional tax-exempt or taxable issues of State Guaranteed Bonds and County-Backed Bonds are expected to be issued, in the sequence determined approximately as set forth in the Governor's Report (defined below). Finally, tax-exempt issues of First Mortgage Bonds are expected to be issued. To the extent proceeds of the Bonds are not sufficient to fund a fully operational and functional facility, NAI will agree in the Duluth Lease to fund the deficiency.

The State will have an option from MAC to purchase the Duluth Project at any time for one dollar, subject to the Ground Lease for the Project. If all Duluth Lease Revenue Bonds (and amounts owing under related Loan Agreements) are paid or defeased, upon Duluth's request the State will assign its interest in the Project to Duluth for one dollar (subject to any mortgage securing Bonds for the Hibbing Project).

3. Hibbing Project Proposal. The proposed site of the Hibbing Project is owned by the City of Chisholm ("Chisholm") and Hibbing.

Under the Ground Lease for the Hibbing Project, amounts are payable in lieu of taxes ("PILOT") to the City of Hibbing which are pledged to pay the Tax Increment Bonds. Additionally, certain insurance is required under the Ground Lease. Nonpayment PILOT amounts will result in termination of the Ground Lease (even if the State has obtained possession of the Project), but only after a period of nonpayment equivalent to the grace period allowed prior to a tax forfeiture sale.

It is proposed that those cities lease the site to the Chisholm-Hibbing Airport Commission ("CHAC") for 99 years pursuant to a Ground Lease. Pursuant to a Development Agreement among Chisholm, Hibbing, the County and NAI, Hibbing will agree to construct certain public improvements related to the Hibbing Project, and CHAC will agree, in cooperation with NAI, to design, bid for and construct the Hibbing Project (subject to the availability of funds). Additionally, Hibbing, Chisholm and the County will pledge their credit to secure portions of the Tax Increment Bonds (as defined in the Development Agreement) to be issued by Hibbing. CHAC will enter into a Joint Powers Agreement with MAC under which MAC will provide assistance to CHAC regarding CHAC's duties under the Development Agreement.

CHAC will lease the Hibbing Project to NAI pursuant to a Lease (the "Hibbing Lease"). The Hibbing Lease will require NAI to pay certain "Basic Rent" which, if duly paid, will be sufficient to pay when due all scheduled payments of principal of and interest on the Hibbing Lease Revenue Bonds described below. Under the Hibbing Lease, NAI will assume all responsibility for maintenance of the Hibbing Project and for the payment of taxes and required insurance premiums. The Hibbing Lease will also impose on NAI certain financial tests and financial reporting requirements, as well as other Public Policy Provisions (defined in the Hibbing Lease) required by the Act. NAI will have the option to purchase CHAC's interest in the Hibbing Project. Pursuant to a Nonrecourse Agreement, CHAC will have no liability or responsibility with respect to its obligations in relation to the Hibbing Project in certain circumstances, except if CHAC acts in bad faith.

Project Costs for the Hibbing Project are intended to be paid in part from proceeds of nonrecourse Loans to CHAC from the State pursuant to one or more Loan Agreements. Such Loans are to be funded by (a) proceeds from the sale of County-Backed Bonds in the principal amount of $15,000,000, (b) proceeds from the sale of State Guaranteed Bonds in an aggregate principal amount of up to $50,000,000, and (c) proceeds from the sale of First Mortgage Bonds in an aggregate principal amount of up to $35,000,000. Proceeds of the foregoing Bonds (collectively, "Hibbing Lease Revenue Bonds") may also be applied to pay costs of issuance of any Bonds for the Projects, to fund debt service reserve funds for any Bonds for the Hibbing Project and to pay interest on any Bonds for the Hibbing Project.

All scheduled payments of principal of and interest on Hibbing Lease Revenue Bonds are intended to be paid solely from Basic Rent due from NAI under the Hibbing Lease, except to the extent paid from Bond proceeds, investment income or proceeds from the IRRRB Grant (described below) or TAX Increment Bonds. Mortgage liens on and assignments of leases and rents from the Hibbing Project will secure payment of the following obligations in the following priority: (a) principal of and interest on the First Mortgage Bonds, (b) principal of and interest on the State Guaranteed Bonds, (c) amounts owing to the State or others under the Loan Agreement for the State Guaranteed Bonds for the Duluth Project, (d) principal of and interest on the County-Backed Bonds for the Hibbing Project, (e) amounts owing to the County under a County Reimbursement Agreement for the Hibbing Project because of County payments made or due in respect of County-Backed Bonds for the Hibbing Project, and (f) principal of and interest on Bonds for the Hibbing Project.

Pursuant to separate Guaranty Agreements related to the Hibbing Project, amounts due under the Loan Agreement for such Bonds (whether when scheduled or due as a result of acceleration). Pursuant to the Security Agreement, and subject to the Intercreditor Agreement, the State Guaranteed Bonds and obligations under the related Guaranty Agreements will be secured, prior to completion of the Hibbing Project, by an initial pledge of the International Routes. Additionally, after payment of completion costs for either Project or payment of the State Guaranteed Bonds for either Project (or amounts due under the related Guaranty Agreements), the International Routes will secure amounts due under the County Reimbursement Agreement for the Hibbing Project. After completion of the Hibbing Project, pursuant to the Collateral Agreement for the Hibbing Project, collateral must be pledged sufficient to satisfy the Coverage Test.

First Trust is proposed to act as trustee for each class of Hibbing Lease Revenue Bonds. First Trust is also proposed to act as Servicer under a Servicing Agreement pursuant to which all Basic Rent from the Hibbing Lease will be deposited with First Trust for application to pay each class of Hibbing Lease Revenue Bonds in the same priority as stated above for mortgage liens on the Hibbing Project. Bond proceeds (and to the extent required by the Hibbing Lease, NAI funds) for payment of Project Costs for the Hibbing Project will be disbursed in accordance with a Disbursing Agreement.

All Hibbing Lease Revenue Bonds are expected to bear taxable interest. Bonds for the Hibbing Project are presently expected to be issued in the summer of 1993, with the sequence as between State Guaranteed Bonds and County-Backed Bonds determined approximately as set forth in the Governor's Report. First Mortgage Bonds for the Hibbing Project are expected to be issued last.

Up to $10,000,000 of Project Costs (or payments of Basic Rent) are also expected to be funded by a grant from the Commissioner of Iron Range Resources and Rehabilitation (the "IRRRB Grant") pursuant to a certain Grant Agreement (to the extent proceeds of the IRRRB Grant are not applied to pay Basic Rent). The IRRRB will also agree to pledge $10,000,000 to secure other debt of NAI.

Proceeds of the Tax Increment Bonds are presently expected to be applied to pay Basic Rent first due under the Hibbing Lease (but not to exceed in the aggregate $10,000,000).

Pursuant to the Hibbing Lease, NAI must fund Project Costs for the Hibbing Project if proceeds of the Hibbing Lease Revenue Bonds are not sufficient to complete the Hibbing Project as a fully functional and operational facility.

4. Due Diligence. The Commissioner caused a request for proposals to be published in the State Register and distributed to certain parties. Representatives of the Commissioner conducted interviews with 4 respondents. The Commissioner selected The Arvai Group (the "Consultant"). Personnel for the Consultant included Ernest S. Arvai, who formerly directed the airline and aviation industries consulting practice at Arthur D. Little, Inc.; Thomas J. Flanagan, formerly senior vice president-operations for Pan American World Airways; Laura A. Poler, formerly manager-business development for American Express Travel Related Services (who was the primary reviewer of NAI's marketing and customer service functions); Gerald L. Gitner, former vice chairman of Pan American World Airways and corporate president of Texas Air Corporation; and William C. Farrell, formerly vice president-planning for Western Airlines and a vice president with the investment banking firm of

Kidder Peabody. The Consultant also retained as a subcontractor Harbridge House, Inc. and, in particular, Daniel M. Kasper, formerly director of international aviation for the United States Civil Aeronautics Board (who focused on the analysis of the airline industry).

The Consultant was engaged by the Commissioner to prepare a written report on the financial condition of NAI, NWA and Wings. According to the Consultant, in preparation of its report, the Consultant spoke with airframe manufacturers, engine manufacturers, aircraft lessors, financial institutions, economic forecasters, aircraft leasing companies, Wall Street analysts, former NAI employees, the Department of Transportation, the Air Transport Association and a geographically mixed sample of travel agencies. The Consultant further reported that it conducted a literature search on NAI and conducted a comprehensive interview program with NAI's most senior management and selected staff below senior management.

In September 1991, the Commissioner received the Consultant's report entitled "The Economics of the Airline Industry and the Financial Condition of Northwest Airlines." The report discussed, among other things, the aircraft maintenance and engine repair facility market, economics of the airline industry, the current financial position of NAI and its parents and the future financial condition of NAI and its parents. The report noted that the proposed transactions were not without risk, but concluded that, "On balance, our judgement is that Northwest Airlines is likely to survive, and be able to make lease payments on the proposed facilities."

In March 1992, the Commissioner engaged the Consultant to update the prior due diligence by, among other things, reviewing publicly available NAI and industry information, reviewing year-end December 31, 1991 unaudited financial statements for NAI, NWA and Wings and interviewing executives at NAI. In a supplemental report delivered March 23, 1992, the Consultant concluded that the level of risk remained significant but that the additional financial information reviewed did not materially change the Consultant's conclusions with respect to the airline industry or the current and future financial conditions of NAI.

In addition to the foregoing reports, the Commissioner reviewed a report to the Metropolitan Airports Commission dated November 10, 1991 from Price Waterhouse entitled "Financial Analysis of Northwest" and a related letter from Price Waterhouse dated March 17, 1992.

5. <u>Negotiations; Hearings; Public Benefits</u>. After weeks of negotiations with NAI, Term Sheets regarding the proposed transactions were agreed upon in November 1991. During

negotiations, numerous meetings were held and numerous drafts of the Term Sheets were exchanged. Additionally, the Commissioner (or representatives of the Commissioner) appeared from time to time during this period before the Legislative Commission on Planning and Fiscal Policy, or a subcommittee thereof, to report on the progress of negotiations.

MAC testified before the Legislative Commission, or subcommittee, as to the value of retaining the NAI hub operation at the Minneapolis/St. Paul International Airport (the "Airport"). Additionally, the Department of Trade and Economic Development prepared a report dated September 20, 1991 entitled "The Cost-Effectiveness of the Public Investment in the NWA Heavy Maintenance Facility and Related Projects." The report concluded that the estimated present value of wages and salaries from both Projects over their lifetime totaled $1.55 billion and the present value of costs associated with the Projects totaled $232 million. The report expressly stated that it did not include any estimate of other benefits associated with the Projects, including securing NAI, as a major State employer, insuring the Airport's status as a hub airport or the increase in property values and skill levels in northeastern Minnesota. The Commissioner has been advised that NAI is one of the largest single employers, both by number of employees and payroll size, within the State.

Each proposed Lease contains covenants regarding aircraft noise abatement and the retention and location of existing employees, operations and facilities, including headquarters of NAI in the State until all State Guaranteed Bonds (for both Projects) are paid.

6. Analysis of Terms and Security of the Loans. In March, 1992, the Commissioner engaged Piper, Jaffray & Hopwood Incorporatedand Dougherty, Dawkins, Strand & Bigelow Incorporatedto provide information for use by the Commissioner in comparing the terms and security of the Loans for the State Guaranteed Bonds with the terms and security of other loans and debt. With respect to Loans for the County-Backed Bonds, the Loan repayment obligations are secured by the full faith and credit of the County, who has at least an "A" credit rating. The terms and security of Loans for the First Mortgage Bonds are expected to be derived as a result of future negotiations with investment bankers or other financial institutions.

7. Bond Financing Plans. Based upon responses to a request for proposals and interviews, the Commissioner engaged Evensen Dodge, Inc. (the "Financial Adviser") to provide financial advisory services to the Commissioner. Among other services, the Financial Adviser has provided "Bond Financing Plans", estimating interest rates on Duluth Lease Revenue Bonds

and Hibbing Lease Revenue Bonds and estimates of the resulting required payments of Basic Rent.

8. Coverage Test. Article 1, Section 2, Subdivision 2(b) of the Act provides that the Commissioner must require that the financing arrangements include a coverage test (the "Coverage Test") satisfactory to the Commissioner so that the sum of the value of the assets and other security pledged to the payment of the Bonds or the rent due under any lease of a Project, and taken into account by the Commissioner, is no less than 125% of the difference between the outstanding State Guaranteed Bonds and any cash collateral held in a debt service reserve account for the Bonds.

Upon the issuance of State Guaranteed Bonds for the Duluth Project, a pledge of the International Routes, valued at not less than $110 million as described below, will secure payment of rent due under the Duluth Project Lease (and amounts due under the Guaranty Agreement). 65% of such value is deemed allocated to the Duluth Project. Based on estimates by the Financial Adviser, a reserve fund for such Bonds of at least $13 million is expected. Accordingly, not more than $112 million of net outstanding principal is subject to the Coverage Test. 125% of such amount is $140 million. The Act expressly permits Bond proceeds to be taken into account by the Commissioner for application of the Coverage Test. Based on estimates of the Financial Adviser, proceeds from State Guaranteed Bonds (net of costs of issuance, reserve fund deposits and capitalized interest) are expected to total more than $96 million. Such sum plus, the allocated value of the International Routes ($71.5 million), totals $167.5 million.

With respect to the Hibbing Project, total State Guaranteed Bonds will not exceed $50 million in outstanding principal amount. Amounts in a reserve fund are presently estimated by the Financial Adviser to exceed $8 million, resulting in not more than $42 million of net outstanding principal to be considered in the Coverage Test. 125% of such amount is $52,500,000. Proceeds from State Guaranteed Bonds (net of costs of issuance, reserve fund deposits and capitalized interest) are estimated by the Financial Adviser to exceed $36 million. The value of the International Routes allocable to the Hibbing Project is $38.5 million, resulting in collateral valuation of more than $74.5 million, after taking Bond proceeds into account.

The Act allows the Commissioner to adopt such method of valuing assets and other security for purposes of the Coverage Test as the Commissioner determines to be appropriate, including valuation of a Project at its original cost less depreciation. Under the original cost approach, if the Coverage Test is initially satisfied upon issuance of State Guaranteed Bonds for a

Project, as each dollar of proceeds of such Bonds is expended for a cost of the applicable Project, the value of the Project increases by one dollar. Accordingly, if the Coverage Test is satisfied upon initial issuance of State Guaranteed Bonds, it will continue to be so satisfied through completion of the applicable Project.

Upon completion of each Project, the Collateral Agreement requires appraisal of the fair market value of the applicable Project. If such valuation, less liens prior to the liens in favor of the State Guaranteed Bonds (or securing the Loans related thereto), does not satisfy the Coverage Test, NAI is obligated to pledge additional collateral appraised at fair market value sufficient to satisfy the Coverage Test. Such additional collateral may include second liens on collateral securing NAI obligations to MAC. If the initial appraisal of the Project, less such prior liens, exceeds the Coverage Test requirements, International Routes may be released to the extent the Coverage Test remains satisfied. All property, other than real property, taken into account for application of the Coverage Test must be evaluated for its fair market value at least once every two years. The fair market value of real property must be determined every five years. Additionally, any collateral must be appraised for its fair market value upon substitution for other collateral.

At the request of the Commissioner, MAC engaged Harold J. Pareti to appraise the International Routes. Mr. Pareti also prepared an appraisal for air routes for MAC. The Commissioner was advised by MAC that Mr. Pareti is experienced and qualified for such purposes. In a report dated January 20, 1992, Mr. Pareti valued the International Routes at $110 million. By letter dated March 18, 1992 to MAC, Mr. Pareti reaffirmed such valuation.

9. Governor's Report. Article 1, Section 2, Subdivision 3(c) of the Act requires the Commissioner to submit a report on the proposed transactions to the Governor. In response, a report (the "Governor's Report") was submitted to the Governor on March 17, 1992 with a supplement thereto submitted on March 27, 1992. Copies of the Governor's Report and the supplement were filed with the legislature as required by Minnesota Statutes, Section 3.195.

10. Report to Legislative Commission. Article 3, Section 2 of the Act requires a report from the Commissioner to the Legislative Commission on Planning and Fiscal Policy for its advisory recommendation. A report to such legislative commission was filed in November 1991. Additionally, the Governor's Report was filed as an update to the legislative report on March 17, 1992.

11. Interagency Task Force. Article 3, Section 1 of the Act establishes a certain interagency task force to coordinate the financial transactions authorized by the Act, including the Bonds, financial assistance and loan, lease and other revenue agreements. The Commissioner is the chair of such task force. Throughout negotiations with NAI and through and including March 18, 1992, the task force has met from time to time pursuant to the Act, and the task force has had the opportunity (a) to coordinate the negotiation of financial transactions under the Act by the governmental agencies and units represented on the task force, and (b) to advise and make recommendations to the agencies and units as to the financial assistance to be provided, the financial commitment by the State, metropolitan and local agencies, the Loans and Leases, the financial commitments of NAI, the estimates of business financial conditions, economic activity, air traffic and other factors that have been used in assessing the capability of NAI to meet its financial commitments.

## II. FINDINGS

Based on the foregoing, and such other matters deemed appropriate, the Commissioner hereby determines and finds, or confirms prior determinations and findings, that:

1. The statements in the Recitals above are true and correct in all materially respects.

2. The "related persons" with respect to whom due diligence is appropriate under the Act consists of NWA and Wings.

3. The Consultant is an independent, nationally recognized consultant having special expertise with the airline industry and its financing.

4. The Commissioner has exercised due diligence in the review of the financial condition of NAI and its related persons.

5. The Commissioner has sought to obtain the best available terms and security for the Loans and Leases.

6. It is reasonable for the Commissioner to determine, and the Commissioner does hereby determine, that the terms and security of the Loans and Leases are adequate and are of the kind and degree which would be required by an investment banking or other financial institution.

7. The above-described arrangements relating to the International Routes and the requirements of the Collateral Agreement provide a Coverage Test, and the maintenance thereof, satisfactory to the Commissioner, and the above-described method

of valuing assets to be taken into account for the Coverage Test are appropriate.

8. The Commissioner has reviewed the current and prospective financial condition of NAI, NWA and Wings and on the basis of such review it is reasonable for the Commissioner to determine, and the Commissioner hereby determines, that the revenues estimated to be available to NAI, NWA and Wings for payments under the Loans and Leases are at least sufficient during each year of the term of the proposed Bonds to pay when due all financial obligations of NAI under the terms of the proposed Loans and Leases.

9. The State Guaranteed Bonds may be directly secured by a pledge of the full faith, credit and taxing power of the State and issued as general obligation revenue bonds of the State; provided that all scheduled principal of and interest on such Bonds are intended to be paid by payments of Basic Rent under the Leases, Bond proceeds or investment income.

10. The Commissioner has requested the County to pay or secure the payment of principal of and interest on up to $12,600,000 principal amount of County-Backed Bonds for the Duluth Project and principal and interest due on up to $15,000,000 principal amount of County-Backed Bonds for the Hibbing Facility.

11. The Commissioner has requested Duluth to pay or secure the payment of principal of and interest on up to $47,600,000 principal amount of Duluth-Backed Bonds.

12. The Commissioner hereby approves the placing of mortgage and security interest liens on the Projects as described above.

13. NAI has agreed to requirements in the Leases satisfactory to the Commissioner respecting aircraft noise abatement. No other corporations affiliated with NAI are required to agree to such provisions, except as provided pursuant to the Guaranty Agreements.

14. Each Lease contains satisfactory covenants and agreements by NAI (which is an airline corporation) and its successors in interest, providing for the retention and location of existing employees, operations, and facilities, including headquarters of NAI, in the State until the principal and interest on the last series of State Guaranteed Bonds is paid.

15. Each Lease contains an enforceable pledge that the corporate headquarters of NAI or its successors in interest, will remain in Minnesota for the duration of each Lease.

16. The transactions proposed and described above further the public policies of the State as described in Article 1, Section 26 of the Act.

17. All other findings, determinations and actions of the Commissioner required on or before the date hereof for execution and delivery of the Master Financing Agreement have occurred.

Dated: March 27, 1992

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John Gunyou, Commissioner of Finance

MFF00ADE.WP5

ORDER AND FINDINGS OF THE COMMISSIONER OF TRADE AND ECONOMIC DEVELOPMENT ("TED COMMISSIONER") REGARDING MATTERS IN CONNECTION WITH 1991 MINNESOTA LAWS, CHAPTER 350

RECITALS

1. Background. 1991 Minnesota Laws, Chapter 350 (the "Act") authorizes the Finance Commissioner of Finance of the State of Minnesota (the "Finance Commissioner"), upon request of the governor of the State (the "Governor"), to issue one or more series of revenue bonds ("Bonds") of the State of Minnesota (the "State"), as described in the Act (a) in a principal amount not to exceed $250,000,000 to finance costs related to the planning, construction, improvement or equipping of a heavy maintenance facility for aircraft, and facilities subordinate and related to the facility (collectively, the "Duluth Project"), to be located at the international airport in the City of Duluth ("Duluth"), and (b) in a principal amount not to exceed $100,000,000 to finance costs related to the planning, construction, improvement or equipping to an engine repair facility, and facilities subordinate and related to the facility (collectively, the "Hibbing Project"), to be located at the Chisholm-Hibbing municipal airport in the City of Hibbing ("Hibbing"). Each of the Duluth Project and the Hibbing Project are referred to herein as a "Project".

The Finance Commissioner is authorized by the Act to make loans ("Loans") of the proceeds of the Bonds and provide for servicing of the Loans for the Duluth Project and Hibbing Project (each, a "Project"). Pursuant to the Act, the Duluth Project may be owned by the Metropolitan Airports Commission ("MAC") and leased for the benefit of one or more airline companies for primary use as a heavy maintenance base. Pursuant to the Act, the Hibbing Project may be owned by the owner of the Chisholm-Hibbing municipal airport and leased to any person for the primary purpose of repairing aircraft engines or components.

Under the Act, the TED Commissioner is responsible for (a) reviewing the current and prospective financial condition of each proposed lessee of a Project and any related person; (b) determining whether estimated revenues available to the lessee are sufficient; (c) reporting to the Governor on total public costs related to construction of the Projects; and (d) determining whether Bonds are necessary to provide sufficient funds.

Northwest Airlines, Inc. ("NAI"), NWA, Inc., the sole shareholder of NAI ("NWA"), and Wings Holdings Inc., the sole shareholder of NWA, Inc. ("Wings"), propose to enter into a certain Master Financing Agreement with the Finance Commissioner, providing for the issuance of the Bonds. Concurrent with execution of the Master Financing Agreement, NAI proposes to enter into lease agreements (the "Leases") to lease the Duluth Project and Hibbing Project. Additionally, as an inducement to NAI to lease the Projects, MAC will concurrently enter into an agreement to provide financing to NAI from sale proceeds of MAC bonds to be issued in the principal amount of $270,000,000 pursuant to the Act. Capitalized but undefined agreements referenced herein are agreements which will be (a) executed concurrent with the Master Financing Agreement or (b) attached to or referenced as "Transaction Documents" in the Master Financing Agreement.

2. Duluth Project Proposal. The proposed site of the Duluth Project is owned by Duluth. It is proposed that Duluth lease the site to MAC for 99 years pursuant to a Ground Lease.

Under the Ground Lease for the Duluth Project, amounts are payable in lieu of taxes ("PILOT") to the City of Duluth which are pledged to pay the Duluth-Backed Bonds. Additionally, certain insurance is required under the Ground Lease. Nonpayment of PILOT amounts will result in termination of the Ground Lease (even if the State has obtained possession of the Project), but only after a period of nonpayment equivalent to the grace period allowed prior to a tax forfeiture sale.

Pursuant to a Development Agreement among Duluth, MAC and NAI, Duluth will agree to cause remediation of certain environmental hazards and construct certain public improvements related to the Duluth Project, and MAC will agree, in cooperation with NAI, to design, bid for and construct the Duluth Project (subject to the availability of funds).

MAC will lease the Duluth Project to NAI pursuant to a Lease (the "Duluth Lease") which will have an initial term with respect to land and buildings that is coterminus with the latest scheduled maturity of Duluth Lease Revenue Bonds (described below). Items of personal property for the Duluth Project financed from Bond proceeds ("Leased Equipment") will be leased pursuant to the Duluth Lease for terms not exceeding 78% of the economic life of the respective items of equipment. The Duluth Lease will require NAI to pay certain "Basic Rent" which, if duly paid, will be sufficient to pay when due all scheduled payments of principal of and interest on the Duluth Lease Revenue Bonds. Under the Duluth Lease, NAI will assume all responsibility for maintenance of the Duluth Project and for the payment of taxes and required insurance premiums. The Duluth Lease will also impose on NAI certain financial tests and financial reporting requirements, as well as other Public Policy Provisions (defined in the Duluth Lease) required by the Act. In accordance with the Duluth Lease, upon termination of the Lease, NAI will have the option to purchase at fair market value MAC's interest in the Duluth Project premises. Pursuant to a Nonrecourse Agreement, MAC will have no liability or responsibility with respect to its obligations relating to the Duluth Project, except if MAC acts in bad faith.

Construction and installation costs ("Project Costs") for the Duluth Project are intended to be paid in part by a State grant to MAC funded by sale proceeds of $47,600,000 principal amount of Bonds secured in accordance with Article 1, Section 2, Subdivision 4(c) of the Act ("Duluth-Backed Bonds"). Proceeds of the Duluth-Backed Bonds will also be applied to pay costs of issuance of such Bonds, to fund a debt service reserve fund and to pay certain interest accruing on the Bonds.

The Duluth-Backed Bonds are intended to be payable from tax increment derived from the Duluth Project and from other moneys paid by Duluth pursuant to a Payment and Pledge Agreement. The tax increment portion of the Duluth-Backed Bonds is further secured by a pledge of tax increment from other sites in Duluth, and Duluth's other payment obligations are secured by a pledge of franchise fees payable by Minnesota Power Company, a portion of intracity funds derived from city gas revenues, and certain Duluth sales tax revenues. The payment of principal of and interest on the Duluth-Backed Bonds when due is expected to be insured by a municipal bond insurance policy.

Project Costs for the Duluth Project are also intended to be paid from proceeds of nonrecourse Loans to MAC from the State pursuant to one or more Loan Agreements. Such Loans are to be funded by (a) proceeds from the sale of Bonds secured by a pledge of the full faith and credit of St. Louis County (the "County") pursuant to Article 1, Section 2, Subdivision 4(b) of the Act ("County-Backed Bonds") in the principal amount of $12,600,000, (b) proceeds from the sale of Bonds secured by a pledge of the full faith and credit of the State pursuant to Article 1, Section 2, Subdivision 4(a) of the Act ("State Guaranteed Bonds") in an aggregate principal amount of up to $125,000,000, and (c) proceeds from the sale of Bonds not secured by the credit of any political subdivision or governmental unit ("First Mortgage Bonds") in an aggregate principal amount of up to $64,800,000. Proceeds of the foregoing Bonds (collectively, "Duluth Lease Revenue Bonds") may also be applied to pay costs of issuance of any Bonds for the Projects, to fund debt service reserve funds for any Bonds for the Duluth Project and to pay interest on any Bonds for the Duluth Project.

All scheduled payments of principal of and interest on Duluth Lease Revenue Bonds are intended to be paid solely from Basic Rent due from NAI under the Duluth Lease, except to the extent paid from Bond proceeds, or investment income or City Contributions (as defined in the Development Agreement for the Duluth Project). Mortgage liens on and assignments of leases and rents from the Duluth Project will secure payment of the following obligations in the following priority: (a) principal of and interest on the First Mortgage Bonds, (b) principal of and interest on the State Guaranteed Bonds for the Duluth Project, (c) amounts owing to the State or others under the Loan Agreement for the State Guaranteed Bonds for the Duluth Project, (d) principal of and interest on the County-Backed Bonds for the Duluth Project, (e) amounts owing to the County under a County Reimbursement Agreement for the Duluth Project because of County payments made or due in respect of County-Backed Bonds for the Duluth Project, (f) principal of and interest on the Duluth-Backed Bonds, and (g) principal of and interest on Bonds issued for the Hibbing Project.

Pursuant to separate Guaranty Agreements, each of NAI, NWA and Wings will guarantee amounts due under the Loan Agreement with respect to State Guaranteed Bonds for the Duluth Project (whether amounts are due as scheduled or as a result of acceleration) and NAI obligations under the Lease. Pursuant to a Security Agreement Relating to Certain International Airline Routes (the "Security Agreement"), and subject to the Subordination and Intercreditor Relations Agreement (the "Intercreditor Agreement"), prior to completion of the Duluth Project, the State Guaranteed Bonds and obligations under the related Guaranty Agreements will be secured by an initial pledge of international air route authority between Minneapolis and London and between Detroit and Paris presently being operated by NAI (the "International Routes"). Additionally, after payment of completion costs for both Projects and payment of the State Guaranteed Bonds for either Project (or, amounts due under the related Guaranty Agreements), the International Routes will secure amounts due under the County Reimbursement Agreement for the Duluth Project and in respect of Duluth-Backed Bonds. After completion of the Duluth Project, pursuant to a Collateral Agreement for the Duluth Project, collateral must be pledged sufficient to satisfy a certain coverage test required by the Act (the "Coverage Test").

First Trust National Association ("First Trust") is proposed to act as trustee for each class of Duluth Lease Revenue Bonds and for the Duluth-Backed Bonds. First Trust is also proposed to act as Servicer under a Servicing Agreement pursuant to which all Basic Rent from the Duluth Lease will be deposited with First Trust for application to pay each class of Duluth Lease Revenue Bonds in the same priority as stated above for mortgage liens on the Duluth Project. Bond proceeds (and to the extent required by the Duluth Lease, NAI funds) for payment of Project Costs for the Duluth Project will be disbursed in accordance with a Disbursing Agreement.

All Duluth-Backed Bonds are expected to be issued as promptly as practicable. An issue of tax-exempt and an issue of taxable State Guaranteed Bonds (to finance certain deposits to a revenue fund and, if required, certificates of issuance) are expected promptly thereafter. With certain exceptions, proceeds of the Duluth-Backed Bonds and such State Guaranteed Bonds will be disbursed in the ratio of 1:1.75. Thereafter, as Project Costs are incurred (or contracts therefrom are entered into) additional tax-exempt or taxable issues of State Guaranteed Bonds and County-Backed Bonds are expected to be issued, in the sequence determined approximately as set forth in the Governor's Report (defined below). Finally, tax-exempt issues of First Mortgage Bonds are expected to be issued. To the extent proceeds of the Bonds are not sufficient to fund a fully operational and functional facility, NAI will agree in the Duluth Lease to fund the deficiency.

The State will have an option from MAC to purchase the Duluth Project at any time for one dollar, subject to the Ground Lease for the Project. If all Duluth Lease Revenue Bonds (and amounts owing under related Loan Agreements) are paid or defeased, upon Duluth's request the State will assign its interest in the Project to Duluth for one dollar (subject to any mortgage securing Bonds for the Hibbing Project). MAC and the State will also assign to Duluth all proceeds from the exercise by NAI of its purchase options under the Duluth Lease (so long as no default exists under the Lease). Additionally, MAC will grant Duluth an option to purchase all Leased Equipment from time to time after the initial lease terms therefor expire (so long as no default exists under the Leases), subject to all mortgage liens securing all Bonds for both Projects.

3. <u>Hibbing Project Proposal</u>. The proposed site of the Hibbing Project is owned by the City of Chisholm ("Chisholm") and Hibbing.

Under the Ground Lease for the Hibbing Project, amounts are payable in lieu of taxes ("PILOT") to the City of Hibbing which are pledged to pay the Tax Increment Bonds. Additionally, certain insurance is required under the Ground Lease. Nonpayment of PILOT amounts will result in termination of the Ground Lease (even if the State has obtained possession of the Project), but only after a period of nonpayment equivalent to the grace period allowed prior to a tax forfeiture sale.

It is proposed that those cities lease the site to the Chisholm-Hibbing Airport Commission ("CHAC") for 99 years pursuant to a Ground Lease. Pursuant to a Development Agreement among Chisholm, Hibbing, the County and NAI, Hibbing will agree to construct certain public improvements related to the Hibbing Project, and CHAC will agree, in cooperation with NAI, to design, bid for and construct the Hibbing Project (subject to the availability of funds). Additionally, Hibbing, Chisholm and the County will pledge their credit to secure portions of the Tax Increment Bonds (as defined in the Development Agreement) to be issued by Hibbing. CHAC will enter into a Joint Powers Agreement with MAC under which MAC will provide assistance to CHAC regarding CHAC's duties under the Development Agreement.

CHAC will lease the Hibbing Project to NAI pursuant to a Lease (the "Hibbing Lease"). The Hibbing Lease will require NAI to pay certain "Basic Rent" which, if duly paid, will be sufficient to pay when due all scheduled payments of principal of and interest on the Hibbing Lease Revenue Bonds described below. Under the Hibbing Lease, NAI will assume all responsibility for maintenance of the Hibbing Project and for the payment of taxes and required insurance premiums. The Hibbing Lease will also impose on NAI certain financial tests and financial reporting requirements, as well as other Public Policy Provisions (defined in the Hibbing Lease) required by the Act. NAI will have the option to purchase CHAC's interest in the Hibbing Project. Pursuant to a Nonrecourse Agreement, CHAC will have no liability or responsibility with respect to its obligations in relation to the Hibbing Project in certain circumstances, except if CHAC acts in bad faith.

Project Costs for the Hibbing Project are intended to be paid in part from proceeds of nonrecourse Loans to CHAC from the State pursuant to one or more Loan Agreements. Such Loans are to be funded by (a) proceeds from the sale of County-Backed Bonds in the principal amount of $15,000,000, (b) proceeds from the sale of State Guaranteed Bonds in an aggregate principal amount of up to $50,000,000, and (c) proceeds from the sale of First Mortgage Bonds in an aggregate principal amount of up to $35,000,000. Proceeds of the foregoing Bonds (collectively, "Hibbing Lease Revenue Bonds") may also be applied to pay costs of issuance of any Bonds for the Projects, to fund debt service reserve funds for any Bonds for the Hibbing Project and to pay interest on any Bonds for the Hibbing Project.

All scheduled payments of principal of and interest on Hibbing Lease Revenue Bonds are intended to be paid solely from Basic Rent due from NAI under the Hibbing Lease, except to the extent paid from Bond proceeds, investment income or proceeds from the IRRRB Grant (described below) or TAX Increment Bonds. Mortgage liens on and assignments of leases and rents from the Hibbing Project will secure payment of the following obligations in the following priority: (a) principal of and interest on the First Mortgage Bonds, (b) principal of and interest on the State Guaranteed Bonds, (c) amounts owing to the State or others under the Loan Agreement for the State Guaranteed Bonds for the Duluth Project, (d) principal of and interest on the County-Backed Bonds for the Hibbing Project, (e) amounts owing to the County under a County Reimbursement Agreement for the Hibbing Project because of County payments made or due in respect of County-Backed Bonds for the Hibbing Project, and (f) principal of and interest on Bonds for the Hibbing Project.

Pursuant to separate Guaranty Agreements related to the Hibbing Project, amounts due under the Loan Agreement for such Bonds (whether when scheduled or due as a result of acceleration). Pursuant to the Security Agreement, and subject to the Intercreditor Agreement, the State Guaranteed Bonds and obligations under the related Guaranty Agreements will be secured, prior to completion of the Hibbing Project, by an initial pledge of the International Routes. Additionally, after payment of completion costs for either Project or payment of the State Guaranteed Bonds for either Project (or amounts due under the related Guaranty Agreements), the International Routes will secure amounts due under the County Reimbursement Agreement for the Hibbing Project. After completion of the Hibbing Project, pursuant to the Collateral Agreement for the Hibbing Project, collateral must be pledged sufficient to satisfy the Coverage Test.

First Trust is proposed to act as trustee for each class of Hibbing Lease Revenue Bonds. First Trust is also proposed to act as Servicer under a Servicing Agreement pursuant to which all Basic Rent from the Hibbing Lease will be deposited with First Trust for application to pay each class of Hibbing Lease Revenue Bonds in the same priority as stated above for mortgage liens on the Hibbing Project. Bond proceeds (and to the extent required by the Hibbing Lease, NAI funds) for payment of Project Costs for the Hibbing Project will be disbursed in accordance with a Disbursing Agreement.

All Hibbing Lease Revenue Bonds are expected to bear taxable interest. Bonds for the Hibbing Project are presently expected to be issued in the summer of 1993, with the sequence as between State Guaranteed Bonds and County-Backed Bonds determined approximately as set forth in the Governor's Report. First Mortgage Bonds for the Hibbing Project are expected to be issued last.

Up to $10,000,000 of Project Costs (or payments of Basic Rent) are also expected to be funded by a grant from the Finance Commissioner of Iron Range Resources and Rehabilitation (the "IRRRB Grant") pursuant to a certain Grant Agreement (to the extent proceeds of the IRRRB Grant are not applied to pay Basic Rent). The IRRRB will also agree to pledge $10,000,000 to secure other debt of NAI.

Proceeds of the Tax Increment Bonds are presently expected to be applied to pay Basic Rent first due under the Hibbing Lease (but not to exceed in the aggregate $10,000,000).

Pursuant to the Hibbing Lease, NAI must fund Project Costs for the Hibbing Project if proceeds of the Hibbing Lease Revenue Bonds are not sufficient to complete the Hibbing Project as a fully functional and operational facility.

4. Due Diligence. The Finance Commissioner caused a request for proposals to be published in the State Register and distributed to certain parties. Representatives of the Finance Commissioner conducted interviews with 4 respondents. The Finance Commissioner selected The Arvai Group (the "Consultant"). Personnel for the Consultant included Ernest S. Arvai, who formerly directed the airline and aviation industries consulting practice at Arthur D. Little, Inc.; Thomas J. Flanagan, formerly senior vice president-operations for Pan American World Airways; Laura A. Poler, formerly manager-business development for American Express Travel Related Services (who was the primary reviewer of NAI's marketing and customer service functions); Gerald L. Gitner, former vice chairman of Pan American World Airways and corporate president of Texas Air Corporation; and William C. Farrell, formerly vice president-planning for Western Airlines and a vice president with the investment banking firm of Kidder Peabody. The Consultant also retained as a subcontractor Harbridge House, Inc. and, in particular, Daniel M. Kasper, formerly director of international aviation for the United States Civil Aeronautics Board (who focused on the analysis of the airline industry).

The Consultant was engaged by the Finance Commissioner to prepare a written report on the financial condition of NAI, NWA and Wings. According to the Consultant, in preparation of its report, the Consultant spoke with airframe manufacturers, engine manufacturers, aircraft lessors, financial institutions, economic forecasters, aircraft leasing companies, Wall Street analysts, former NAI employees, the Department of Transportation, the Air Transport Association and a geographically mixed sample of travel agencies. The Consultant further reported that it conducted a literature search on NAI and conducted a comprehensive interview program with NAI's most senior management and selected staff below senior management.

In September 1991, the Finance Commissioner received the Consultant's report entitled "The Economics of the Airline Industry and the Financial Condition of Northwest Airlines" (together with the supplemental report referred to below, the "Consultant's Report"). The report discussed, among other things, the aircraft maintenance and engine repair facility market, economics of the airline industry, the current financial position of NAI and its parents and the future financial condition of NAI and its parents. The report noted that the proposed transactions were not without risk, but concluded that, "On balance, our judgement is that Northwest Airlines is likely to survive, and be able to make lease payments on the proposed facilities."

In March 1992, the Finance Commissioner engaged the Consultant to update the prior due diligence by, among other things, reviewing publicly available NAI and industry information, reviewing year-end December 31, 1991 unaudited financial statements for NAI, NWA and Wings and interviewing executives at NAI. In a supplemental report delivered March 23, 1992, to the Finance Commissioner (and TED Commissioner), the Consultant concluded that the level of risk remained significant but that the additional financial information reviewed did not materially change the Consultant's conclusions with respect to the airline industry or the current and future financial conditions of NAI.

In addition to the foregoing reports, the TED Commissioner received copies of a report to the Metropolitan Airports Commission dated November 10, 1991 from Price Waterhouse entitled "Financial Analysis of Northwest" and a related letter from Price Waterhouse dated March 17, 1992 (collectively, the Price Waterhouse Report).

5. Bond Financing Plans. Based upon responses to a request for proposals and interviews, the Finance Commissioner engaged Evensen Dodge, Inc. to provide financial advisory services to the Finance Commissioner. Among other services, the Financial Adviser has provided "Bond Financing Plans", estimating interest rates on Duluth Lease Revenue Bonds and Hibbing Lease Revenue Bonds and estimates of the resulting required payments of Basic Rent.

6. Finance Commissioner's Report. Article 1, Section 2, Subdivision 3(c) of the Act requires the Finance Commissioner to submit a report on the proposed transactions to the Governor. In response, a report (the "Finance Commissioner's Report") was submitted to the Governor on March 17, 1992 with a supplement thereto submitted on March 27, 1992. Copies of the Governor's Report and the supplement were filed with the legislature as required by Minnesota Statutes, Section 3.195.

7. Report to Governor. Under Article 1, Section 2, subdivision 9 of the Act, before the Finance Commissioner issues Bonds, approves financial assistance, or enters into Loan Agreements, Leases or other Revenue Agreements for the Projects, the TED Commissioner is required to report to the Governor on total public cost related to the construction of the Projects. In response, the TED Commissioner caused a "Project Cost Report" dated November 18, 1991 to be delivered to the Governor, and copies of such Report filed with the Legislature as required by Minnesota Statutes, Section 3.195. Additionally, the TED Commissioner caused a second report entitled "Northwest Airlines Estimated Cost Report" dated March 17, 1992, to be delivered to the Governor, with copies filed with the Legislature as required by Minnesota Statutes, Section 3.195.

## II. FINDINGS

Based on the foregoing, and such other matters deemed appropriate, the TED Commissioner hereby determines and finds, or confirms prior determinations and findings, that:

1. The statements in the Recitals above are true and correct in all materially respects.

2. The TED Commissioner has reviewed the current and prospective financial condition of NAI, NWA and Wings, and on the basis of such review (including the review of the Bond Financing Plan, Finance Commissioner's Report, Consultant's Report and Price Waterhouse Report) it is reasonable for the TED Commissioner to determine, and the TED Commissioner hereby determines, that the revenues estimated to be available to NAI, NWA and Wings for payments under the Loans and Leases are at least sufficient during each year of the term of the proposed Bonds to pay when due all financial obligations of NAI under the terms of the proposed Loans and Leases.

3. In the opinion of the TED Commissioner, all Bonds described above are necessary to provide sufficient funds to achieve the purposes of the Act, including the construction and the installation of the Projects as described herein.

4. The transactions proposed and described herein further the public policies of the State as set forth in Article 1, Section 26 of the Act.

5. All other findings, determinations and actions of the TED Commissioner required on or before the date hereof for execution and delivery of the Master Financing Agreement have occurred.

Dated: March 27, 1992

E. Peter Gillette, Jr.
Commissioner of Trade and Economic Development

MFF00B24.WP5

RESOLUTION NO. 1477

RESOLUTION AUTHORIZING THE EXECUTION AND DELIVERY OF AGREEMENTS RELATING TO DULUTH AIRCRAFT MAINTENANCE FACILITY AND HIBBING AIRCRAFT ENGINE REPAIR FACILITY

BE IT RESOLVED by the Metropolitan Airports Commission:

1. Introduction. 1991 Minnesota Laws, Chapter 350 (the "Act") authorizes the State of Minnesota and other public bodies to finance the costs relating to the planning, construction, improvement and equipping of a heavy maintenance facility for aircraft (and facilities subordinate and related thereto) to be located at the Duluth International Airport (the "Duluth Project") and for the planning, construction, improvement and equipping of an aircraft engine repair facility (and facilities subordinate and related to the facility) to be located at the Chisholm-Hibbing municipal airport (the "Hibbing Project"). It is proposed that the Commission lease from the City of Duluth, the site of the proposed Duluth Facility in accordance with a Ground Lease (the "Ground Lease"). Pursuant to a Development Agreement (the "Development Agreement") among the Commission, City of Duluth and Northwest Airlines, Inc. ("NAI"), it is proposed that the Commission, in cooperation with NAI, design, bid, contract for and construct the Duluth Facility. NAI proposes to lease the Duluth Facility from the Commission pursuant to a Lease Agreement between NAI and the Commission (the "Lease"). Pursuant to the Lease and Development Agreement, the obligations of the Commission to construct the Duluth Facility are subject to the condition that the State of Minnesota loan on a non-recourse basis or grant to the Commission funds sufficient, together with amounts from NAI, to complete the Duluth Facility. Under a proposed Agreement to Loan or Grant Bond Proceeds the State will loan on a non-recourse basis in accordance with one or more contemplated Loan Agreements, a form of which is on file with the Commission (the "Loan Agreement"), or grant to the Commission proceeds of State bonds issued under the Act ("Bonds"). The State has agreed to issue Bonds pursuant to a Master Financing Agreement among the State, NAI, NWA, Inc., and Wings Holding Inc. (the "Master Financing Agreement").

Loans under the Loan Agreement ("Loans") are intended to be primarily paid from rent paid by NAI under the Lease. It is proposed that the rent be paid to a servicer for application to payments of amounts due on the Bonds in accordance with a proposed Servicing Agreement among the Servicer, the Commission and the Commissioner of Finance of the State of Minnesota (the "Servicing Agreement").

All Bonds, certain Loans, and any amounts owing to St. Louis County because of its payments in respect of Bonds are proposed to be secured by (a) mortgage liens created by agreements generally in the form of a Second Mortgage and Security Agreement on file with the Commission (the "Mortgages"), and (b) assignments of leases and rents, generally in the form of a Second Assignment of Leases and Rents on file with the Commission (the "Assignments of Leases and Rents). The Mortgages and Assignments of Leases and Rents are proposed to have such priorities as are explained in the NWA Maintenance and Repair Facilities Report to the Governor and Legislative Update , dated March 17, 1992 from the Commissioner of Finance (the "Report to the Governor"). Loans funded by Bonds secured by the full faith and credit of the State may be secured by certain collateral in which the Commission has a prior security interest, and it is proposed that the respective rights of the State and Commission be established pursuant to a proposed Intercreditor Agreement (the "Intercreditor Agreement").

The State proposes to have an option to purchase the Commission's interest in the Duluth Facility at any time for a price of $1 pursuant to the terms of a Purchase Option Agreement (the "Purchase Option"). Under a proposed Partial Assignment of Lease Provisions (the "Partial Assignment") the Commission would assign all or a portion of its rights to enforce the Public Policy Provisions (as defined in the Lease) and certain other financial covenants and reporting obligations of NAI.

Except for claims of the Commission's bad faith, pursuant to a Nonrecourse Agreement among the Commission, NAI, City of Duluth, St. Louis County and the State (the "Nonrecourse Agreement"), noncompliance by the Commission of its obligations under any foregoing agreements will not impose any liability, against the Commission or its assets except as against the Commission's interest in assets mortgaged or pledged pursuant to the Mortgages or Assignments of Leases and Rents.

The State and NAI propose to enter into the Master Financing Agreement, concurrent with the execution and delivery by the Commission of the Nonrecourse Agreement, Development Agreement, Ground Lease, Agreement to Loan, Partial Assignment, Lease and Purchase Option. Additionally, the State concurrently proposes to agree to provide the Loans to the Commission pursuant to an Agreement to Loan and Grant Bond Proceeds (the "Agreement to Loan").

In connection with the Hibbing Facility, it is proposed that pursuant to a Joint Powers Agreement (the "Joint Powers Agreement"), the Commission will provide assistance to the Chisholm-Hibbing Airport Commission ("CHAC") in the performance of CHAC duties under a Development Agreement among CHAC, NAI and others (the "Hibbing Development Agreement") to design, bid, contract for and construct the Hibbing Facility. The Joint Powers Agreement and Hibbing Development Agreement are proposed for execution concurrent with execution of the Master Financing Agreement.

All above described agreements of the Commission not proposed to be concurrently executed with the Master Financing Agreement are proposed to be executed and delivered by the Commission as appropriate when Bonds are issued from time to time.

2. Forms of the following documents have been presented to the Commission:

(a) Nonrecourse Agreement;
(b) Development Agreement;
(c) Ground Lease;
(d) Agreement to Loan;
(e) Partial Assignment;
(f) Lease;
(g) Joint Powers Agreement;
(h) Servicing Agreement;
(i) Disbursing Agreement;
(j) Purchase Option;
(k) Loan Agreement;
(l) Mortgage;
(m) Assignment of Leases and Rents;
(n) Intercreditor Agreement;
(o) Master Financing Agreement;
(p) Report to Governor; and
(q) Hibbing Development Agreement.

3. Findings. In accordance with the Act, prior to issuance of any Bonds, and before the Commissioner of Finance of the State may approve any financial assistance or enter into any loan, lease or other revenue agreement for the Duluth Project or Hibbing Project, for purposes of the Duluth Project, the Commission must review the current and prospective financial condition of the lessees of the projects and the Commission, as well as the Commissioners of Finance and Trade and Economic Development, must determine that revenues estimated to be available to the lessee for payments under the loan, lease or other revenue agreements are at least sufficient during each year of the term of the proposed Bonds to pay when due all financial obligations of the lessee under the terms of the proposed loan, lease or other revenue agreements.

The Commission has received and had an opportunity to review a Financial Analysis of Northwest dated November 10, 1991 from Price Waterhouse (the "Price Waterhouse Report"), together with supplemental letters. The Commission has also received and had an opportunity to review The Economics of the Airline Industry and the Financial Condition of Northwest Airlines Report to the State of Minnesota Department of Finance, dated September, 1991, from the Arvai Group, Tribeca Aviation and Harbridge House, Inc. (the "Arvai Report"). Each of the Price Waterhouse Report and Arvai Report examined the current and prospective financial condition of NAI and its corporate parents, and in general, evaluated, the likelihood that NAI would be able to meet future financial obligations, based on certain assumptions. Each report noted that the proposed transactions are not without risk. Additionally, representatives of Price Waterhouse and the Arvai Group were in attendance at this meeting and available to respond to questions of the Commission.

The Report to the Governor describes the expected payments due under the Lease.

On the basis of the foregoing, the Commission hereby finds and determines that the revenues estimated to be available to NAI for payments under the Lease (and the Loan Agreement) are at least sufficient during each year of the proposed Bonds to pay when due all financial obligations of NAI under the terms of the proposed Lease (and Loan Agreement).

4. Execution. The forms of the documents described in paragraph 2 hereof are hereby approved. Those documents to which the Commission is a party and any instruments incidental thereto or described therein or necessary to effectuate the purposes thereof shall be executed by the Chairman, Vice Chairman, Executive Director or Secretary or any combination thereof in substantially the form on file, with such changes therein not inconsistent with law as the officers executing the same may approve, which approval shall be conclusively evidenced by the execution thereof. The documents referred to in paragraph 2 shall be delivered concurrently with the execution of the Master Financing Agreement and the documents described therein to which the Commission is a party shall be executed and delivered as provided therein.

Adopted March 24, 1992

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Hugh K. Schilling, Chairman

Attest: ________________________
Lynn Sorensen,
Secretary

MFF00A48.WP5