

New Prague ~~Municipal Utilities~~ Commission

DRAFT: Covenants for Electric Revenue Bonding Bonds

INTRODUCTION

The City of New Prague, Minnesota (the “City”), acting through the New Prague Utilities Commission (the “Commission”), owns and operates facilities for the generation and distribution of electric energy (the “Electric Utility”) in the City and elsewhere. The Commission and the City have determined to undertake the construction and operation of an expanded and new electric generation facility and construction of one or more reciprocating engine generating units thereon (the “2026 Project”). The Commission proposes to finance the 2026 Project with the proceeds of the City’s Electric Revenue Bonds, Series 2026A (the “Series 2026A Bonds”).

The covenants set forth herein will help ensure that the Electric Utility generates sufficient revenues to repay the Series 2026A Bonds and any additional bonds to be issued on a parity basis with the Series 2026A Bonds (collectively, the “Bonds”), thereby reducing risk to investors and lowering interest costs for the City and the Commission. The Commission proposes to include the covenants set forth below in a resolution of the Commission to be adopted at an upcoming meeting, which shall provide for the issuance and sale of the Series 2026A Bonds, subject to certain parameters, and establishing a pricing committee in connection therewith (the “Commission Resolution”).

AUTHORITY AND SECURITY AUTHORITY

The Series 2026A Bonds are being proposed to be issued by the City in cooperation with the City’s ~~Municipal Utilities~~ Commission (the “~~PUC Commission~~”) pursuant to Minnesota Statutes, Chapters 453, 475, as amended, and a resolution (the “Resolution”) of the City Council adopted February 17, 2026 and published February 26, 2026, authorizing the City to exercise the powers of a municipal power agency under Minnesota Statutes, Chapter 453, a resolution to be adopted by the City Council at an upcoming meeting, concurring in the action of the Commission in providing for the issuance and sale of the Series 2026A Bonds, and the Commission Resolution. The Bonds are being issued by the City, acting through the Commission, to benefit the ~~PUC Commission~~ which operates the electric, water and wastewater utilities of the City.

SECURITY AND SOURCES OF PAYMENT

The Series 2026A Bonds will be special obligations of the City payable solely from Net Revenues of the Electric Utility of the City Commission and funds available in the Reserve

Account established by the Commission Resolution. Annual Net Revenues of the Electric Utility will be sufficient to pay principal of and interest on the Bonds as they become due.

~~The term “Net Revenues” of the Electric Utility are means defined as gross Gross revenues Revenues of the Electric Utility, less and earnings derived from the operation Operating Expenses of the electric plant and system Electric Utility, less current expenses. The term “Gross Revenues” means all revenues and receipts derived from the operation of the Electric System and investment income thereof. The term “Operating Expenses” means Current the current expenses of the Electric Utility, including are defined as~~ the reasonable and necessary costs of operation, maintenance and insurance of the Electric Utility, ~~including but not limited to~~ salaries, wages, costs of materials and supplies, necessary legal, engineering and auditing services, and all other items which by generally accepted accounting principles, constitute normal, reasonable and current costs of operation and maintenance, but excluding any allowance for depreciation, extraordinary repairs, transfers to other City funds, and payments into the Sinking and Interest Account established by the Commission Resolution.

Available ~~Electric Utility~~ funds, which may include proceeds of the Series 2026A Bonds and/or City cash, will be deposited on the date of issuance of the Series 2026A Bonds into the Reserve Account in an amount not exceeding the lesser of (i) 10% of the stated principal amount of the Bonds (or issue price of the Bonds if the Bonds have more than a de minimis amount of original issue discount or premium); (ii) the maximum annual debt service on the Bonds; or (iii) 125% of the average annual debt service on the Bonds (the “Reserve Requirement”). The Reserve Requirement for the Series 2026A Bonds is expected to be maximum annual debt service on the Series 2026A Bonds, or approximately \$1,300,000. For further information see “Reserve Account” herein.

The City Commission, on behalf of the City and for itself, ~~will pledge covenants~~ that it will maintain rates and charges at a level which will provide sufficient revenues to pay operation and maintenance expenses, and 150% of the maximum annual principal and interest requirements of the Bonds and any other bonds payable from the Sinking and Interest Account. The City Commission does not have any additional debt outstanding payable from Net Revenues of the Electric Utility.

The City Commission will fund a Reserve Fund with available City cash-

The City Commission, on behalf of the City, and for the Commission itself further covenants to: maintain ~~its the~~ Electric Utility in efficient operating condition; to employ an experienced manager to operate and maintain the system; to charge reasonable and just rates for all customers; to maintain proper billing procedures; to carry insurance; to keep

proper books and records; to cause an audit to be prepared annually; and to faithfully and punctually perform all duties with reference to the Electric Utility required by Constitution and laws of the State of Minnesota, the Charter of the City and the Commission Resolution. The City-Commission also covenants, on behalf of the City and for itself, not to sell, lease, mortgage, or in any manner dispose of the Electric Utility or any part thereof until all of the Bonds and any additional bonds have been paid in full, provided that the City-Commission, on behalf of the City and for itself, may sell the Electric Utility as a whole if there is simultaneously deposited with the Registrar the amount necessary to retire all of the outstanding ~~bonds Bonds, payable from revenues of the Electric Utility~~ including interest to accrue to the date of maturity or earlier optional redemption; and grant no franchise to any competing electric utility.

Funds and Accounts

The Commission Resolution provides for the establishment and continuation of the Electric Utility Fund and of the accounts therein as described below. All revenues of the Electric Utility will be deposited into the Electric Utility Fund. Within the Electric Utility Fund, the City-Commission shall maintain the following accounts:

Capital Expenditure Account into which the proceeds of the Bonds, less accrued interest and any premium or unused discount, will be deposited to pay the costs of issuance of the Bonds and to pay for the costs of constructing the 2026 Project and any future project to be financed with Bonds (collectively, the “Project”), including construction costs, engineering, legal and fiscal fees. Any funds remaining after payment of such costs will be transferred to the Sinking and Interest Account.

Operation and Maintenance Account into which will be ~~paid-deposited~~ all ~~gross-Gross revenues-Revenues and earnings derived from the operation of the Electric Utility~~ as received. From this account will be paid all, but only, current Operating expenses Expenses of the Electric Utility, as further described in the Commission Resolution. All moneys remaining in this account after providing for the foregoing items are Net Revenues.

Sinking and Interest Account into which there will be ~~paid from deposited the accrued interest received from the purchaser of the Bonds~~ proceeds all accrued interest, if any, and any premium or unused discount with respect to the Bonds. The City-Commission shall deposit Net Revenues monthly in an amount equal to at least one-twelfth of the total principal payment chargeable against the account on the next February 1 and one-sixth of the total interest payment chargeable against the account on the next semi-annual interest payment date; provided that no payments need be made to this account when the moneys held therein are sufficient for the payment of the principal of and interest on the Bonds ~~and~~

~~on any additional bonds payable therefrom~~ on the next applicable payment date. No money will be paid out of the Sinking and Interest Account except to pay principal of and interest on the Bonds ~~and any additional bonds payable from this account~~.

Reserve Account into which shall be deposited, from available Electric Utility funds, the Reserve Requirement ~~the lesser of (i) 10% of the stated principal amount of the Bonds (or issue price of the Bonds if the Bonds have more than a de minimis amount of original issue discount or premium); (ii) the maximum annual debt service on the Bonds; or (iii) 125% of the average annual debt service on the Bonds. The Reserve Requirement for the Bonds is expected to be maximum annual debt service on the Bonds, or approximately \$4,300,000.~~

Money on hand in the Reserve Account shall be used only to pay principal of and interest on the Bonds ~~and any additional bonds payable from the Sinking and Interest Account~~ when money in the Sinking and Interest Account is insufficient therefor. Any amounts in the Reserve Account in excess of the Reserve Requirement may be used to purchase and retire any of the outstanding Bonds ~~and bonds issued on a parity therewith~~ at a price not to exceed par and accrued interest, or to call and redeem such outstanding ~~bonds~~ Bonds as may then be subject to redemption prior to maturity. When the Reserve Account is used to pay principal and interest, it must be restored to the Reserve Requirement from the next available Net Revenues. The Reserve Account will be funded to the Reserve Requirement until all Bonds have been paid and retired; provided, however, that at any time when the amount on deposit in the Reserve Account is sufficient to pay in full the principal of all Bonds then outstanding and all interest accrued or to accrue on all Bonds then outstanding to the date of maturity or earlier redemption, it may be used for such purpose.

Surplus Account into which Net Revenues in excess of those to be maintained in the foregoing funds and accounts of the Electric Utility under the Commission Resolution shall be deposited, and may be used for such other purpose and at such times as may be permitted by law.

Additional Bonds

Additional obligations may be issued on a parity basis as to pledge and lien with the Bonds ("Additional Bonds") if all of the following conditions are met:

- (a) The annual average of Net Revenues of the Electric Utility for the two fiscal years immediately preceding the issuance of such additional bonds, adjusted for any additional net revenues as provided in the Commission Resolution, shall not have been less than 125% of the average of the unpaid annual debt service requirements on the outstanding Bonds and any ~~additional~~ Additional bonds Bonds (including those to be issued).

(b) The payments required to be made into various accounts provided for in the Commission Resolution have been made.

(c) The resolution authorizing the ~~additional~~Additional bonds~~Bonds~~ provides for the pledge and payment into the Reserve Account of an amount sufficient to raise the balance therein to the new Reserve Requirement upon issuance of the ~~additional~~Additional bonds~~Bonds~~.

(d) The ~~additional~~Additional bonds~~Bonds~~ must have principal maturing on February 1 of each year and interest falling due on August 1 and February 1 of each year.

(e) The proceeds of the ~~additional~~Additional bonds~~Bonds~~ must be used for the purpose of making improvements, additions, extensions, renewals or replacements to the Electric Utility or to refund ~~bonds~~Bonds issued for such purposes.

If the above conditions are not met, additional obligations may be issued only if their lien and pledge is junior and subordinate to the Bonds.