

New Prague Municipal Utilities

DRAFT: Covenants for Bonding

AUTHORITY AND SECURITY AUTHORITY

The Bonds are being issued in cooperation with the City's Municipal Utilities Commission (the "PUC") pursuant to Minnesota Statutes, Chapters 453, 475 and a resolution (the "Resolution") of the City adopted February 17, 2026 and published February 26, 2026. The Bonds are being issued by the City to benefit the PUC which operates the electric, water and wastewater utilities of the City.

SECURITY AND SOURCES OF PAYMENT

The Bonds will be special obligations of the City payable solely from Net Revenues of the Electric Utility of the City and funds available in the Reserve Account established by the Resolution. Annual Net Revenues of the Electric Utility will be sufficient to pay principal and interest on the Bonds as they become due.

Net Revenues of the Electric Utility are defined as gross revenues and earnings derived from the operation of the electric plant and system, less current expenses. Current expenses 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 Resolution.

Available Electric Utility funds will be deposited 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 Bonds is expected to be maximum annual debt service on the Bonds, or approximately **\$1,300,000**. For further information see "Reserve Account" herein.

The City will pledge 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 does not have any additional debt outstanding payable from Net Revenues of the Electric Utility.

The City will fund a Reserve Fund with available City cash.

The City further covenants to: maintain its 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 Resolution. The City also covenants 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 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 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 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 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 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 all gross revenues and earnings derived from the operation of the Electric Utility. From this account will be paid all, but only, current expenses of the Electric Utility, as further described in the 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 Bond proceeds all accrued interest, if any, and any premium or unused discount. The City 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 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 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 **\$1,300,000.**

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 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 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 as to pledge and lien with the 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 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 bonds (including those to be issued).

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

(c) The resolution authorizing the additional 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 bonds.

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

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