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SACRAMENTO COUNTY GRAND JURY FINDS: THE BRINK OF BANKRUPTCY: ISLETON'S FAILURE TO GOVERN

Allegations of the City of Isleton's failure to govern compelled the Sacramento County Grand Jury to undertake its tenth investigation of the City in 35 years. Sources point to a wide range of problems that contribute to Isleton's state of crisis, particularly financial, including:

- Financial mismanagement by the Isleton City Council (Council) or city management staff;
- Failure by the Council to provide oversight of city operations and adherence to the Council-Manager form of governance, including not properly accounting for the spending of public funds;
- Failure by one or more Council members to follow state law and the City's Municipal Code; and
- Council members ignoring their Code of Conduct, creating the appearance of impropriety.

The previous Council neither adopted budgets nor performed annual audits of the City's financial records and operations with fiduciary timeliness. Such lapses made it difficult for the Council to validate City assets, debts, expenses, and revenues with transparency, and further damaged the City's financial resiliency. One example: In November 2023, the Council approved a \$500,000 "bridge loan" from private lender Red Tower Capital, using three city-owned properties as collateral. Despite the loan, the City was unable to pay its bills.

The Council declared a fiscal emergency in November 2024, and bankruptcy attorneys were hired to file a Chapter 9 petition. In turn, the City faced dramatic staff turnover, which culminated in the Council hiring an outside contractor to provide city management services and a municipal advisory firm to restructure the city's debt.

"While the responsibility for the current financial crisis did not begin with the most recent Council, the Grand Jury found all Council members require a better understanding of city governance oversight," said Elizabeth TenPas, Grand Jury Foreperson. Without competent oversight, "The residents of Isleton suffer by facing increased taxes or a lower level of services, or both."

Council members also did not follow state law and city ordinances, or adhere to the Council-Manager form of government, which was not in keeping with the high standards of conduct required of an elected official.

As of the date of this report, the City is focusing on fiscal stabilization, and bankruptcy has not been filed. The full investigation is available for public review on the Grand Jury website: www.saccourt.ca.gov.

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