



City of Isleton

101 Second Street

P.O. Box 716
Tel: 916-777-7770

Isleton, California 95641

August 12, 2025

The Honorable Bunmi Awoniyi
Presiding Judge
Sacramento County Superior Court
720 Ninth Street
Sacramento, CA 95814

Ms. Erendira Tapia-Bouthillier
Grand Jury Coordinator, Sacramento Superior Court
TapiaE@saccourt.ca.gov

Re: Response to 2024–2025 Sacramento County Grand Jury Report
“On the Brink of Bankruptcy: Isleton’s Failure to Govern”

Dear Judge Awoniyi:

In accordance with California Penal Code Sections 933 and 933.05, the City of Isleton respectfully submits the enclosed responses to the findings and recommendations of the 2024–2025 Sacramento County Grand Jury report titled *“On the Brink of Bankruptcy: Isleton’s Failure to Govern.”*

The City appreciates the Grand Jury’s careful review and oversight. While we acknowledge the serious challenges identified—many of which stem from years of administrative breakdown and oversight failure—current City leadership is fully committed to structural reform and fiscal recovery. Over the past seven months, more has been done to restore financial integrity, transparency, and governance compliance than in the previous decade.

These responses reflect not only agreement with the Grand Jury’s findings, but also a focused and realistic implementation plan to correct past deficiencies. A new budget has been legally adopted, a timeline for audit completion has been established, internal controls are being rebuilt, and a comprehensive training and enforcement framework is underway.

The City of Isleton remains fully committed to restoring sound financial management practices and rebuilding public trust. We appreciate the Grand Jury’s oversight and view this process as a valuable opportunity to implement lasting structural improvements. By strengthening internal controls, completing overdue audits, and enhancing fiscal

transparency, the City aims to position itself for long-term financial stability and increased access to critical funding opportunities.

We welcome continued dialogue and appreciate the opportunity to collaborate in restoring trust and stability in the City's operations. Please do not hesitate to contact us if you have any questions or require further information.

Respectfully submitted,



Jon Kennedy
City Manager

And

Isleton City Council

Aleida Suarez	Cara Pellegrini	David Kent*	Iva Walton*	Pamela Bulahan
Councilmember	Councilmember	Vice Mayor	Mayor	Councilmember

*Recusal for council response to Finding 8



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RESPONSE - 6.18.2025 On the Brink of Bankruptcy: Isleton's Failure to Govern

Finding - 1

The Grand Jury finds the Isleton City Council repeatedly failed to timely adopt final budgets denying the City the necessary tool to track and assess its financial position.

Recommendation - 1

The Grand Jury recommends the City Council annually adopt a final budget, including separate accounting for restricted funds, no later than June 30 for the coming fiscal year, beginning with Fiscal Year 2026-2027.

Response - 1

The City agrees with finding 1 of the Sacramento County Grand Jury report. The City acknowledges the pattern of severe budget adoption delays. These failures undermine fiscal discipline and public confidence, and we are taking active steps to institutionalize timely budget preparation. We are pleased to report that significant progress has already been made toward implementing the recommended improvements ahead of schedule.

On June 10, 2025, the **City Council adopted the FY 2025-26 budget** in compliance with applicable legal deadlines. This budget will serve as the foundation for fiscal planning and oversight, with regular updates provided to the City Council comparing actual revenues and expenditures against projections. Management will continue to propose amendments as needed throughout the fiscal year, with all adjustments subject to Council approval. The adopted budget will be incorporated into the City's audited financial statements. The City further commits to adopting a final budget by June 30 of each year, in compliance with the Grand Jury's recommendation and in alignment with best practice.

With regard to restricted funds, management is currently evaluating opportunities to further disaggregate these from the general fund within the FY 2025-26 budget. If feasible, these adjustments will be made within the current fiscal year. If not, the City will ensure that restricted funds are fully separated and clearly accounted for in the FY 2026-27 budget, achieving full implementation by the June 30, 2026 deadline.

These improvements serve as a key milestone in restoring fiscal discipline and accountability.



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RESPONSE - 6.18.2025 On the Brink of Bankruptcy: Isleton's Failure to Govern

Finding - 2

The Grand Jury finds the Isleton City Council violated state law and the City's own municipal code by not ensuring the completion of an annual independent audit in a timely manner, which created an obstacle to securing grants and resulted in the loss of revenues for the city.

Recommendation - 2

The Grand Jury recommends the City Council ensure an independent annual audit of City operations and accounting occurs no later than 6 months following the end of the fiscal year, and that the City work with a licensed CPA with experience in municipal accounting, to conduct missing audits by March 30, 2026.

Response - 2

The City agrees with Finding 2 of the Sacramento County Grand Jury report. We recognize the importance of completing independent annual audits in a timely manner and that the absence of timely audits compromises not only transparency but also eligibility for critical state and federal funding. We are committed to achieving full compliance. Implementation of the Grand Jury's recommendation is planned over the next two fiscal years.

However, three key challenges may affect the ability to meet the recommended completion date of March 30, 2026:

1. **Financial Records Reconstruction:** Due to historical lapses in reconciliation and recordkeeping, the City's financial data requires significant cleanup and reconstruction to meet audit standards. This includes reconciling bank statements and entering journal transactions to ensure accuracy and completeness.
2. **Auditor Scheduling:** Independent audits are complex, and external CPA firms operate on limited schedules and staffing availability, which may introduce unavoidable delays.
3. **Budget Constraints:** The City continues to face financial limitations. While essential, audit services represent a significant financial obligation that must be balanced within the City's recovery plan.

To help accelerate progress, the City is pursuing a grant modification to fund the hiring of a Chief Resiliency Officer (CRO). This position will lead the financial records reconstruction process and coordinate directly with the City's audit firm(s) to facilitate timely completion of outstanding audits. The CRO will also collaborate with the Finance Director and City Manager to implement long-term improvements in financial controls and reporting systems.

While we acknowledge the Grand Jury's proposed timeline, actual completion will depend on the availability of qualified auditors, the pace of records recovery, and available financial resources. At this time, the City anticipates completing audits for fiscal years 2022–23 and 2023–24 during FY 2025–26, and audits for 2024–25 and 2025–26 during FY 2026–27. Every effort will be made to accelerate this schedule where possible.

The City will prioritize audit completion to support transparency and future funding access.



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RESPONSE - 6.18.2025 On the Brink of Bankruptcy: Isleton's Failure to Govern

Finding - 3

The Grand Jury finds the lack of oversight of the City Manager resulted in delayed discovery of the violation of state laws relating to misusing and comingling restricted funds.

Recommendation - 3

The Grand Jury recommends the City Council require the City Treasurer to ensure restricted funds are segregated (rather than co-mingled) and create and implement a plan with the City auditor to account for restricted fund, with progress reports every quarter, beginning no later than December 31, 2025.

Response - 3

The City agrees with finding 3 of the Sacramento County Grand Jury report and acknowledges the Grand Jury's concerns regarding oversight of restricted funds and agrees that **proper segregation of these funds is essential** to complying with state law and maintaining public trust.

The City further recognizes that past staff disregarded proper tracking of restricted funds, primarily due to long-standing cash flow constraints and a lack of appropriate oversight. While this was not an appropriate solution, it highlights the urgent need for structural reform and improved oversight.

To address this issue, the City will work in collaboration with the Finance Director, proposed Chief Resilience Officer, and the independent auditor to:

- Identify all sources of restricted funds and assess past usage for compliance.
- Establish clear accounting practices to ensure restricted funds are tracked separately from unrestricted funds going forward, according to state law.
- Implement a reporting framework to the City Council, beginning within FY 2025-26, which will provide transparency on restricted fund balances, usage, and any corrective actions taken.

These steps will be integrated into the City's broader financial recovery plan to ensure long-term accountability and prevent recurrence. This corrective work aligns with the City's broader efforts to **re-establish fiscal integrity**.



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RESPONSE - 6.18.2025 On the Brink of Bankruptcy: Isleton's Failure to Govern

Finding - 4

The Grand Jury finds members of the City Council did not adequately monitor the City's finances, thereby contributing to a state of serious indebtedness.

Recommendation - 4

The Grand Jury recommends the City Council continue to closely monitor the City's financial position and assess whether bankruptcy or disincorporation is in the best interest of the residents of Isleton, and report out on their conclusion in a public meeting by December 31, 2025.

Response - 4

The City agrees with finding 4 of the Sacramento County Grand Jury report and acknowledges the Grand Jury's finding that insufficient financial oversight by past City Councils contributed to Isleton's current state of fiscal distress. While this concern is valid, it is important to note that current management, with the full support of the City Council, has taken decisive steps to restore financial accountability and transparency. These include the timely adoption of a budget for FY 2025–26, a plan to complete multiple years of overdue audits, and a broader effort to rebuild accurate financial records and strengthen internal controls.

In response to the Grand Jury's recommendation, the City Council—guided by the Finance Director and City Attorney—has assessed the viability of bankruptcy and disincorporation. Based on current conditions, **neither option is recommended at this time** for the following reasons:

- **Bankruptcy Risks:** Initiating bankruptcy proceedings would trigger defaults under existing loan and bond covenants, further limiting the City's access to credit and potentially worsening its financial position. Additionally, the City's insurance provider for property and liability coverage may terminate coverage upon a bankruptcy filing. Given the City's limited financial resources, there are currently no feasible alternative providers within budget.
- **Loan Forbearance Considerations:** The City is currently under a loan forbearance agreement that expires in November 2025. Management will reevaluate all options—including the potential need for more formal

restructuring—should that debt become fully due without a viable repayment path.

- **Disincorporation Not Advised:** Current state practices indicate that cities in fiscal crisis cannot bypass their responsibilities by disincorporating. In fact, disincorporation is only considered by the Local Agency Formation Commission (LAFCO) when a municipality has demonstrated some level of fiscal stability. In our opinion, Isleton has not yet reached that threshold.

Variables change rapidly and this assessment may change in the near future. The City Council will continue to closely monitor the City's financial condition with the support of professional staff and will report out on its findings and conclusions—including the status of bankruptcy and disincorporation considerations—at a public meeting no later than December 31, 2025, in accordance with the Grand Jury's recommendation.

The City Council remains committed to regular evaluation of its financial condition and all legal restructuring options.



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RESPONSE - 6.18.2025 On the Brink of Bankruptcy: Isleton's Failure to Govern

Finding - 5

The Grand Jury finds the City Council failed to provide appropriate oversight of the City's cannabis program to ensure collection of revenues and timely review of compliance with conditional use permits, thereby resulting in a loss of revenue to the City.

Recommendation - 5

The Grand Jury recommends the City Council enforce its ordinances related to cannabis enterprises, beginning no later than December 31, 2025.

Response - 5

The City agrees with finding 5 of the Sacramento County Grand Jury report. Current City management inherited a program with minimal documentation, unclear enforcement practices, and limited institutional knowledge. At this time, staff does not have a full accounting of which cannabis businesses are currently operating within the city, nor the status of their compliance with local requirements, including conditional use permits and business tax obligations.

To address this issue, the City will initiate a **comprehensive review** of the cannabis program, which will include:

- Identifying all cannabis-related operations active within city limits.
- Reviewing conditional use permits, business licenses, and tax payment records.
- Establishing updated procedures to monitor compliance and enforce local ordinances.
- Coordinating with legal counsel and regulatory agencies as needed.

This foundational work will be necessary to bring the program into compliance and begin consistent enforcement. A phased implementation plan has been developed to guide this effort, beginning with discovery and compliance review. The City Council and management team are **committed to ensuring that enforcement of cannabis-related ordinances is meaningfully underway** by December 31, 2025, in alignment with the Grand Jury's recommendation.



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RESPONSE - 6.18.2025 On the Brink of Bankruptcy: Isleton's Failure to Govern

Finding - 6

The Grand Jury finds the City Council failed to provide appropriate oversight of the City Manager to ensure the City Manager carried out his duty to keep the Council continuously apprised of the financial state of the City, which resulted in the City Council making uninformed financial and operational decisions.

Recommendation - 6

The Grand Jury recommends the City Council require the City Manager and Finance Director to keep Council continuously apprised of the financial state of the City by providing account balances, expenditures, debts, investments, and reports that compare budget to actual results, on a monthly basis, beginning no later than December 31, 2025.

Response - 6

The City agrees with finding 6 of the Sacramento County Grand Jury report. City Council and current City management acknowledge these past shortcomings and have made **reforming financial transparency and internal controls a top priority**. The current City Manager and Finance Director are actively leading a broad effort to rebuild the City's financial infrastructure, improve internal controls, and ensure more consistent reporting to the City Council.

While we fully support the spirit of the Grand Jury's recommendation, producing comprehensive monthly financial reports may not be feasible at this time due to limited staff capacity and ongoing reconstruction of financial records. However, the City will explore alternative reporting intervals that strike a balance between timely oversight and available resources, looking to comparable city governments and best practices for guidance.

The City will develop a reporting framework that includes:

- Account balances and cash flow status,
- Outstanding debts and obligations,
- Updates on restricted and unrestricted funds,
- Budget-to-actual comparisons for revenues and expenditures.

The first formal report under this new framework will be presented to the City Council no later than December 31, 2025, with a schedule to be adopted for regular financial reporting thereafter. These improvements are part of a broader effort to ensure transparency, support informed governance, and restore the City's financial health.

The City is committed to consistent, transparent reporting that supports informed governance.



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RESPONSE - 6.18.2025 On the Brink of Bankruptcy: Isleton's Failure to Govern

Finding - 7

The Grand Jury finds members of the City Council lack experience and training in city governance thereby denying the residents of Isleton of effective representation.

Recommendation - 7

The Grand Jury recommends each City Council member undergo comprehensive training on their duties and responsibilities as council members, and publicly provide verification of the completion of this training and understanding of their roles, by no later than December 31, 2025.

Response - 7

The City agrees with finding 7 of the Sacramento County Grand Jury report and acknowledges that additional training is necessary to ensure the City Council can effectively carry out its responsibilities. The City agrees with the recommendation and **supports comprehensive training to strengthen governance, transparency, and legal compliance.**

To that end, the City Attorney conducted a **Brown Act and governance training session on July 22, 2025.** This session covered key areas of Council responsibility, including open meeting laws, ethical conduct, roles and responsibilities under state law and the City's municipal code, and effective Council-staff relations. The City documented attendance and publicly verified completion of this training. These efforts will reinforce ethical standards and strengthen Council accountability moving forward.

In addition, the City will encourage ongoing participation in supplemental training programs offered by recognized organizations such as the League of California Cities. These opportunities will support continuous learning and reinforce best practices in municipal governance. Council members are committing to pursuing their own paths for self-education and report their training efforts during their monthly reports.

The City remains committed to building an effective and well-informed leadership team and will continue supporting the Council's development through education and clear guidance. This effort is essential to ensuring responsible decision-making and accountable representation for the residents of Isleton.



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RESPONSE - 6.18.2025 On the Brink of Bankruptcy: Isleton's Failure to Govern

Finding - 8

The Grand Jury finds the City Council did not follow its own Code of Conduct which created public distrust in city officials and added stress to City staff members resulting in several leaving their positions.

Recommendation - 8

The Grand Jury recommends the City Manager, City Attorney, and the City Council determine an appropriate course of action, including sanctions, for violations of the Code of Conduct and announce those actions at a public meeting, beginning no later than December 31, 2025.

Response - 8

The City agrees with finding 8 of the Sacramento County Grand Jury report. The City recognizes that adhering to its own Code of Conduct is essential to maintaining public trust, supporting a respectful and productive workplace, and ensuring effective municipal governance. The City takes the concerns raised by the Grand Jury seriously and acknowledges that complex factors have contributed to recent challenges with staff, office morale, and public perception. The City is committed to evaluating these concerns constructively and taking appropriate steps to investigate violations, strengthen accountability, and reinforce professional standards moving forward.

In response to the Grand Jury's recommendation, and pursuant to the Code of Conduct for City Council Members, Section 11 (Enforcement), the City Manager and City Attorney will further investigate the claims and **provide a recommendation to City Council regarding corrective actions or sanctions for violations of the Code**. This effort will include confidential review of conduct, legal consultation, and, where appropriate, formal action consistent with applicable laws.

A summary of the findings and any resulting actions will be reported at a public meeting no later than December 31, 2025. The City is committed to reinforcing the expectation that all elected officials uphold professional standards and respect the boundaries defined in Isleton's municipal governance structure.

As noted in Section 10 (Implementation) of the Code of Conduct, City Council Members are required to affirm in writing that they have read and understood the Code upon taking

office. The Code is also intended to be reviewed and re-affirmed annually. The City acknowledges that the current Code, last adopted on January 23, 2008, should be reviewed, discussed, and revised on a regular basis.

To that end, the City Manager and City Attorney will review comparable codes from peer agencies and present recommended updates to the City Council. These updates, along with reaffirmations from current members, will be completed no later than December 31, 2025. The City Manager will also establish a recurring annual review process to ensure the Code remains a living document and a central point of reference for City Council conduct.

These actions will help restore a culture of professionalism, accountability, and respect—both within City Hall and in the public's eyes.



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RESPONSE - 6.18.2025 On the Brink of Bankruptcy: Isleton's Failure to Govern

Finding - 9

The Grand Jury finds that City staff failed to maintain complete and accurate records of City finances and other City operations which hampered the City's ability to complete audits, enforce ordinances, and make sound financial decisions.

Recommendation - 9

The Grand Jury recommends the Council direct the City Manager to ensure complete and proper recordkeeping for all city operations by December 31, 2025.

Response - 9

The City agrees with finding 9 of the Sacramento County Grand Jury report. The lack of **reliable financial and operational records has been a significant barrier to completing audits, enforcing City ordinances, and making informed policy decisions**. This deficiency developed over many years and contributed to the City's current fiscal and operational challenges.

However, since the appointment of the current City management team, a focused effort has been underway to reverse these long-standing issues. Over the past six months, more initiatives have been launched to clean up the City's financial records and internal controls than have occurred in the past decade. This includes:

- Adoption of a legally compliant FY 2025–26 budget;
- Plans for reconstruction of financial records for multiple fiscal years in preparation for long-overdue audits;
- The development of a structured reporting framework to ensure the Council is regularly informed about the City's financial condition.

In alignment with the Grand Jury's recommendation, the City Manager has made **proper and complete recordkeeping a top operational priority** and is working closely with the Finance Director, City Attorney, and contracted experts to implement the necessary reforms. These efforts will ensure the City is on track to meet the recommendation deadline of December 31, 2025, and to sustain improved practices well into the future.

Comprehensive recordkeeping is critical to supporting effective operations and financial resilience. The City views this work not just as a compliance task, but as a foundational step in restoring transparency, financial integrity, and public trust.