



State Auditor

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RAPID RESPONSE SPECIAL REPORT

North Carolina

Office of the State Auditor

Rapid Response Division

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City of Charlotte Settlement Agreement with Fire Department Battalion Chief Patterson

WHY WE CONDUCTED THIS REPORT

In 2018, Lance Patterson, a former Battalion Chief of the Charlotte Fire Department (CFD), filed a lawsuit against the City of Charlotte (the City) alleging racial discrimination, retaliation, and unfair promotional practices within CFD. The City entered a settlement agreement with Patterson in late 2025. Prompted by media coverage and public inquiries about the timing and approval of this settlement—given that the settlement was finalized days before the public announcement of the appointment of Patterson’s spouse, Estella Patterson, as Chief of the Charlotte-Mecklenburg Police Department—the Office of the State Auditor (OSA) initiated a limited-scope review to determine whether the City complied with transparency requirements governing the use of public funds in resolving employment-related litigation.

OBJECTIVE

To identify the circumstances and sources of funding for the City’s settlement agreement with Patterson, and to determine if the City’s actions complied with applicable legal requirements.

WHAT WE FOUND

OSA made no findings with respect to transparency or the funding sources or approval process of the Patterson settlement.

BACKGROUND

Patterson’s case against the City was co-filed with Sylvia Smith-Phifer, who alleged similar discriminatory practices. Smith-Phifer’s claims were resolved through a separate settlement in November 2022, while Patterson’s claims continued through additional litigation and appellate proceedings until late 2025.

This report focuses solely on the final settlement agreement between the City and Patterson. Unlike other high-profile settlements involving City public safety officials, this settlement did not include pension-eligible compensation or service credit enhancements and thus did not create pension obligations or long-term liabilities for the City.

Timeline and Resolution of the Litigation

Patterson and Smith-Phifer originally filed suit against CFD in North Carolina state court in 2018. The case was moved to federal court in January 2019, and Patterson's case was scheduled for trial in November 2022. In November 2022, Patterson and the City engaged in settlement discussions, including proposed terms involving cash payments and leave-related provisions. No written settlement agreement was finalized at this time, and disputes subsequently arose regarding whether an enforceable agreement had been reached.

The U.S. District Court for the Western District of North Carolina (WDNC) initially ruled that Patterson and the City had formed an enforceable settlement agreement, but in September 2024, on appeal, the U.S. Court of Appeals for the Fourth Circuit found in the City's favor by ruling that further proceedings were needed to determine if the settlement was enforceable.¹

On remand, on July 23, 2025, WDNC denied Patterson's motion to enforce the proposed settlement, finding that the 2022 communications between Patterson and the City reflected preliminary negotiations only and that a binding agreement had not been made.² The case was subsequently scheduled for trial in December 2025. In October 2025, the parties filed a notice of settlement in federal court, formally resolving Patterson's claims.

Settlement Amount, Payment Allocation, and Retirement-Related Provisions

The 2025 settlement agreement required the City to pay \$99,999, including \$40,000 to Patterson and \$59,999 to Patterson's legal counsel. Payment was due within 14 days of the effective date, contingent upon receipt of the required tax documentation. The agreement also required Patterson's retirement to become effective on December 31, 2025, and included provisions for paid administrative leave through his retirement date.

The settlement did not include any pension-eligible compensation or special retirement-service enhancements. Any retirement contributions made during the administrative leave period represented standard payroll-related contributions associated with paid leave, rather than enhancements to pension eligibility or retirement benefits.

¹ Smith-Phifer v. City of Charlotte, 118 F.4th 598, 620 (4th Cir. 2024). Available at <https://law.justia.com/cases/federal/appellate-courts/ca4/23-2031/23-2031-2024-09-25.html>.

² Patterson v. City of Charlotte, No. 3:18-cv-00612, 2025 U.S. Dist. LEXIS 143954, at *23 (W.D.N.C. July 23, 2025). Available at <https://law.justia.com/cases/federal/district-courts/north-carolina/ncwdce/3:2018cv00612/94176/363/>.

Disclosure and Transparency

Public commentary³ has raised questions regarding the approval process for the settlement (which bypassed City Council review), and the timing of the settlement. However, OSA's review did not find any evidence to suggest that the City acted improperly regarding the approval process or timing of its settlement with Patterson.

Regarding the approval process, City policy at the time of Patterson's settlement required City Council approval for any settlements above \$100,000, and authorized the City Manager to approve settlements at or below that amount.⁴ Given that Patterson's settlement amount of \$99,999 was one dollar below the threshold amount, the settlement was administratively approved by the City Manager on October 21, 2025.

Regarding timing, although the settlement was finalized days before the October 31, 2025 public announcement of the appointment of Patterson's spouse, Estella Patterson, as Chief of the Charlotte-Mecklenburg Police Department, City officials have stated that the settlement and the appointment of Patterson's spouse were unrelated. OSA has not received or reviewed any information substantiating a connection between the settlement and the appointment.

Settlement agreements involving public funds can invite public scrutiny and require transparency, appropriate approval, and clear documentation. While this settlement does not create pension obligations or long-term liabilities for the City, and while OSA's review did not show evidence of improper activity by the City in this case, the City should continue to practice diligent compliance with applicable laws, policies, and internal controls related to any pending and future settlements.

Funding Source for Settlement

OSA obtained documents from the City regarding the funding used to pay Patterson's settlement. According to the City, the entire \$99,999 settlement, including the \$40,000 payment to Patterson and the \$59,999 payment to Patterson's legal counsel, was charged to the City's Risk Management Fund (the "Fund").

The Fund is used to pay claims made against the City and to absorb costs arising from litigation or the risk of litigation. Each City department contributes to the Fund based on its

³ See, for example, Joe Bruno, Inside the timeline of city's settlement with Lance Patterson, CMPD chief's husband, WSOC-TV (December 4, 2025, at 17:36 ET), <https://www.wsoctv.com/news/local/inside-timeline-citys-settlement-with-lance-patterson-cmpd-chiefs-husband/E2AJ7Y7CCZAPVMD4SAQVETEWA/>. This report details the timing and structure of the settlement and speculates that the total payout of \$99,999 was deliberately set one dollar below the \$100,000 threshold requiring City Council approval.

⁴ The Charlotte City Council delegated authority in 1995 to the City Manager to award contracts and amendments up to \$100,000 and delegated authority to the City Manager and City Attorney to settle claims and lawsuits up to \$100,000 and \$50,000, respectively. The City later updated the City Manager's contract-award authority in 2018 to \$500,000, while the settlement-authority limits for both the City Manager and City Attorney remained unchanged. On October 27, 2025, the Charlotte City Council voted to change how future settlement deals can be made by increasing the City Attorney's settlement-approval threshold to \$100,000, matching the City Manager. See [City of Charlotte - File #: 15-25095](#).

assessed risk exposure. The major part of the Fund is used for property-damage claims, while a significant portion is used to cover worker compensation claims and related legal expenses. These costs can be significant due to the number of claims faced by the City in a given year.

OSA's prior review of Fund disbursements in July 2025 revealed that the Fund is routinely used to pay for large, unexpected, and litigation-related costs. Charging both components of Patterson's settlement to the Fund was therefore appropriate and consistent with the Fund's stated purpose.

FINDINGS AND RECOMMENDATIONS

OSA made no findings with respect to transparency or the funding sources or approval process of the Patterson settlement. The recommendation below is made in order to continue to promote full transparency with the public.

In response to OSA's prior review of the City's 2025 settlement with former Charlotte-Mecklenburg Police Department Chief Johnny Jennings, the City noted that it would identify which information related to future employee settlements is "authorized by law to be made public, and will release this information within a reasonable time after conclusion of the settlement."⁵ Given the City's stated goal of releasing public settlement information, the City should continue to diligently analyze which settlement-related information may be made public under relevant North Carolina law, and should publish this information, if any, in a timely manner.

The City did not have any comments for the report.

⁵ For a copy of this report and the City's response, see <https://www.auditor.nc.gov/documents/reports/rapid-response/rr-2025-ct/open>.

Ordering Information

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