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**For Information**

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**REPORT TITLE:     Development Charge Policy – Place of Worship**

**FROM:                Patricia Caza, Chief Financial Officer and Commissioner of Corporate Services**

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**OBJECTIVE**

To provide Council with information requested in Resolution 2023-238, including identifying differences between the development charges by-laws within Peel specific to their application to places of worship, and to provide information and options that may allow for the Region to continue to harmonize its approach to the calculation of Regional development charges applicable to places of worship with those of local municipalities in Peel.

**REPORT HIGHLIGHTS**

- On March 23, 2023, Regional Council approved Resolution 2023-238 requesting that staff report back for the purposes of identifying differences between the Region and local municipalities in how development charges (DC) by-laws apply to places of worship.
- Council also requested information and options that would allow the Region to harmonize its approach to the calculation of Regional DCs with those of the local municipalities.
- The Region’s current DC By-law provides an exemption of 25 per cent of the floor area at initial building permit. This approach was identified and approved as one of the approaches that may achieve the best harmonization during the 2020 DC By-law review given the differences amongst three local DC policies.
- Development Charges are a primary funding source to fund growth-related capital infrastructure. The DC exemption (25 per cent of floor area) provided through the Region’s DC By-law acknowledges the rationale and Council’s intent to support places of worship while also recognizing that these developments/redevelopments represent an increased need for Regional infrastructure.
- The City of Mississauga’s approach is aligned with the Region’s Policy and has continued through the passing of their latest DC By-law 0133-2022.
- The City of Brampton’s By-law provides an exemption of 100 per cent of the floor area of a place of worship and is not limited to initial construction.
- The Town of Caledon’s By-law does not have an explicit exemption for places of worship but grants authority to administer a grant-in-lieu by Council resolution.
- Alternatives have been identified for Council consideration which would result in the need for an increased budget to accommodate such exemptions, resulting in additional pressure on taxpayers. The Region’s current DC By-law expires in 2031, should Council require immediate implementation of a policy change, a policy outside of the DC By-law that provides an alternative option for grant-in-lieu of DCs would need to be approved by Council along with an associated budget increase.
- The Region is facing financial and budgetary pressures due to rising service demand and legislated changes such as Bill 23; a key consideration is to strike a balance

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between providing sound public benefit policy and utilizing scarce public funding in an effective and efficient way.

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### DISCUSSION

#### 1. Background

At the March 23, 2023 Regional Council meeting, Council approved Resolution #2023-238 (the “Resolution”) providing a grant-in-lieu of development charges (“DCs”) to a delegate (the Church of the Virgin Mary and Saint Athanasius) seeking financial relief, to be calculated based on the total floor area of worship areas within the place of worship.

As part of the Resolution, Council included the following two requests for staff to action:

- i. *That staff be directed to report back to Regional Council for the purposes of identifying differences between the development charges by-laws within Peel specific to their application to places of worship; and*
- ii. *That, as part of the report, staff be directed to provide information and/or options that would allow for the Region to harmonize its approach to the calculation of Regional development charges applicable to places of worship with those of its local municipalities.*

This report provides information requested by Regional Council as part of this resolution.

#### 2. Current Regional and Local DC Policies Supporting Places of Worship

The Region and the local municipalities have implemented measures within their DC by-laws to provide some DC relief for places of worship within their respective jurisdictions.

##### a) Summary of Comparison

The Region’s current DC By-law 77-2020, subsection 11(3), provides the DC exemption as follows:

*Prior to the issuance of the first building permit, a place of religious assembly will receive a partial exemption of development charges equivalent to the development charges attributed to twenty-five percent (25%) of the total floor area of the building or structure. This partial exemption shall not apply to development or redevelopment solely for the purpose of expansion of an existing building or structure.*

Development charges exemptions for places of worship are not mandatory requirements of the *Development Charges Act, 1997* (DC Act). Presently, Peel Region and the local municipalities of Mississauga, Brampton and Caledon provide DC exemption or grant-in-lieu of DCs for places of worship to some extent. Individual DC By-laws in each municipality are independent by-laws approved by their respective Councils. Local municipalities bill and collect development charges on behalf of the Region. It should be noted that, as a part of the Region’s 2020 DC By-law review, the Region updated its policy with a goal to achieve harmonization while recognizing the differences; the details of that process will be discussed in a later section of this report.

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While each municipality in Peel offers some form of relief on DCs to places of worship, the manner in which the exemption is administered may differ.

The City of Brampton is the only local municipality that provides a full DC exemption to a place of worship (excluding certain types of floor area) and does not specify whether the exemption is to be funded from property taxes. The City of Mississauga’s approach mirrors the Region’s. The Town of Caledon may grant an exemption should an applicant seek relief from Town Council.

The approaches taken by the Region and local municipalities are summarized in Table 1:

**Table 1: Summary of Current Place of Worship DC Policies at Peel Municipalities**

Municipality	DC by-law Effective Year	Exemption/Grant through the DC by-law	Restrictions and Other Provisions
Peel Region	2021	25% of floor area of the building	<ul style="list-style-type: none"> <li>• Prior to the issuance of the first building permit at initial construction</li> <li>• Does not apply to the expansion of an existing place of worship</li> </ul>
City of Mississauga	2022	25% of floor area of the building	<ul style="list-style-type: none"> <li>• Prior to the issuance of the first building permit at initial construction</li> <li>• Does not apply to the expansion of an existing place of worship</li> </ul>
City of Brampton	2019	100% of floor area of the building	<p>Excludes the portion of the building used for:</p> <ul style="list-style-type: none"> <li>• Private schools</li> <li>• Banquet halls</li> <li>• Supportive housing</li> <li>• Daycare facilities</li> <li>• Retail or commercial</li> </ul>
Town of Caledon	2021	No specific exemption in by-law.	Town Council may, by resolution, provide for a grant-in-lieu of DCs in whole or in part of a place of worship

### b) Peel Region 2020 DC By-law Policy

As part of Peel Region’s 2020 DC By-law review, staff expanded the engagement process to obtain stakeholder input to inform a review of discretionary exemptions to places of worship through the DC By-law. A discussion paper (reproduced as Appendix I of this report) that examined various approaches was brought to the September 24, 2020 Regional Council meeting.

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The discussion paper included a discussion of the following:

- Peel’s historical approach, which looked at Peel Region’s past approaches to provide some insight;
- Comparison of DC policies at that time, of the four municipalities in Peel; and
- Financial analysis of potential exemption and historic activities.

The Region’s policy prior to the 2020 DC By-law provided a DC exemption restricted to one room reserved for the conduct of group worship, services or rites. Community feedback included a concern that one room was no longer reflective of how worship activities have been performed in some religious assemblies. The discussion paper presented following options for Council consideration:

1. provide an exemption based on a percentage of the total floor area;
2. adopt the exemption policy in the same manner as Brampton DC By-law which gives a broad exemption;
3. exemptions could be eliminated entirely; or
4. a maximum floor area could be determined as exempt, and any floor area greater than the maximum would be charged DCs.

Option 1 above was identified as one of the approaches that might achieve the best harmonization given the differences amongst the three local DC policies. Part of the policy consideration of that approach was to give regard to varying definitions of places of worship in local municipalities and recognize the potential impact of varying accessory uses (such as office space in support of the worship use) compared to worshiping areas in various places of worship.

Staff reviewed data for the period of 2000 - 2018; on average, approximately 25 per cent of the gross floor area were dedicated to worship areas in new place of religious assembly buildings in Peel. A DC exemption based on 25 per cent of floor area was incorporated into the Region’s 2020 DC By-law, which was approved by Council in December 2020.

At the same time, Council approved a tax-funded operating budget increase from \$250,000 to \$500,000 per year to support the development charge partial exemption (25 per cent) for religious organization space as approved in the 2020 DC By-law.

### **3. Options to Harmonize Regional Approach with Local Municipalities**

In response to Council’s request at the March 23, 2023 Regional Council meeting and Council approved Resolution 2023-238, staff has conducted further review of various policy options.

The following four options are identified for Regional Council consideration. Options i, ii, and iii were presented as a part of the discussion paper brought forward during the 2020 DC By-law review.

#### **i. Maintain Current Approach**

The first option for consideration is that the Region maintain its current approach. As mentioned earlier, the Region’s current policy of granting an exemption on DCs equal to the amount payable for 25 per cent of the total floor area of a place of worship at first building permit was introduced in the latest By-law 77-2020 with a goal to achieve the

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best possible harmonization at the time based on inputs from stakeholders including local municipalities.

The City of Mississauga continued a similar approach in passing their latest DC By-law 0133-2022.

Policy considerations that support continuing this approach include:

- Limited additional financial pressure on the taxpayer as no immediate budget increase is required
- No change to existing administrative processes at the local and Regional level

### **ii. Adopt an approach that is aligned with the City of Brampton’s Policy**

The second option for consideration is that the Region adopt the City of Brampton’s policy of providing a 100 per cent exemption on DCs for any development pertaining to a place of worship, excluding certain floor area depending on usage.

This approach would result in providing applicants with greater relief to assist in their places of worship and also limit applicant dissatisfaction at the Regional level as the greatest amount of relief would be provided. Other implications of this approach may include:

- Potential for continued confusion or disagreement amongst applicants seeking financial relief for places of worship as discrepancies continue to exist between Regional and local municipal policies, which in turn could cause pressure on the City of Mississauga and the Town of Caledon
- Increased financial pressure placed on the Region and taxpayers as additional funding is required to accommodate increased DC-in-lieu of grant spending
- Should Council require immediate implementation of a policy change, a policy outside of the DC By-law needs to be approved by Council

### **iii. Set a Maximum Floor Area that can be Determined as Exempt**

The third option for Council’s consideration is that the DC is exempt up to a maximum floor area as approved by Council. The average exempt area in newly constructed places of worship during the ten-year period of 2013-2022 was 467 m<sup>2</sup>. A 500 m<sup>2</sup> maximum threshold could be set to apply a DC exemption across all places of worship developments. This maximum amount is close to the cap set in York Region’s DC policy which is the only upper tier municipality that has adopted this approach.

This approach can help reduce confusion and disagreement in applying an exemption as the exemption granted would require limited discretion from staff. It should be noted that this approach may result in complaints from larger new place of worship developments as they may receive a significantly lower DC exemption under this alternative approach. For example, a new place of worship was constructed in 2022 with a total floor area of 5,450 m<sup>2</sup>, and under the current policy of a 25 per cent exemption, received a DC exemption on 1,362 m<sup>2</sup>. Were a 500 m<sup>2</sup> maximum imposed, the exemption on a larger development such as this would have equated to just 9 per cent. On the other hand, smaller new build places of worship would benefit from this approach potentially receiving a 100 per cent DC exemption as opposed to the 25 per cent provided through the current policy.

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Other implications of applying the maximum threshold approach:

- New Increased financial pressure placed on Region and taxpayers as additional funding is required to accommodate increased grant spending
- Should Council require immediate implementation of a policy change, a policy outside of the DC By-law needs to be approved by Council

### iv. **Align with Each Local Municipality’s Exemption in Floor Area**

Another option for Council’s consideration is to determine the GFA for which Regional grant-in-lieu of DCs is to be provided for a place of worship using the same GFA being exempted/granted by the respective local municipality in which the place of worship is developed.

Benefits of aligning the Region’s granted floor area with the local municipality’s policy include:

- Limited confusion and disagreement as the application of the Region’s grant would mirror that of the local municipality’s
- Automatically match Regional DC exemption GFA when a local municipality changes their policy or provides an ad-hoc grant/exemption through a one-off council approval

Other implications of applying this approach include:

- Creates an issue of not providing a level-playing field across the Region due to varying policies amongst local municipalities
- Increased financial pressure placed on the Region and taxpayers as additional funding is required to accommodate increased grant spending
- Should Council require immediate implementation of a policy change, a policy outside of the DC By-law needs to be approved by Council

In summary, a change in policy would have to be authorized by Council. The various options presented in this report would be implemented by policy, with a corresponding grant-in-lieu of development charges to offset the amount of DCs effectively waived. This report does not recommend amendments to the DC By-law for the following reasons. The Region’s current DC By-law expires in 2031. Staff do not recommend opening the by-law sooner for the purposes of effecting a rate change for places of worship. Opening the DC By-law early would require that a new background study be undertaken, require extensive public consultation, and would subject the DC By-law to further appeal. Proceeding by way of a policy, should Council wish to do so, would avoid these costs and risks.

Should Council require immediate implementation of a policy change to increase the level of exemption for places of worship, a policy outside of the DC By-law would need to be approved by Council along with an associated budget increase for the purposes of funding the aforementioned grants-in-lieu. The current DC relief option is provided through the DC By-law which has to be honoured; an alternative DC relief option outside of the DC By-law would effectively provide a relief that would be the greater of the amount exempt under the current DC By-law and of the amount under the alternative option should Council pursue this change before opening the DC By-law.

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### FINANCIAL IMPLICATIONS AND POLICY DISCUSSION

#### Financial Comparison for the Four Options

To accommodate an alternative to the current approach, Council would have to authorize an increase in annual budget for the funding of discretionary exemptions for places of worship. Discretionary exemptions are funded from property taxes, so an increase in this budget would result in additional pressure on the taxpayers.

A comparison of annual budget estimates associated with each option is provided in Table 2.

**Table 2: Financial Comparison for the Four Options**

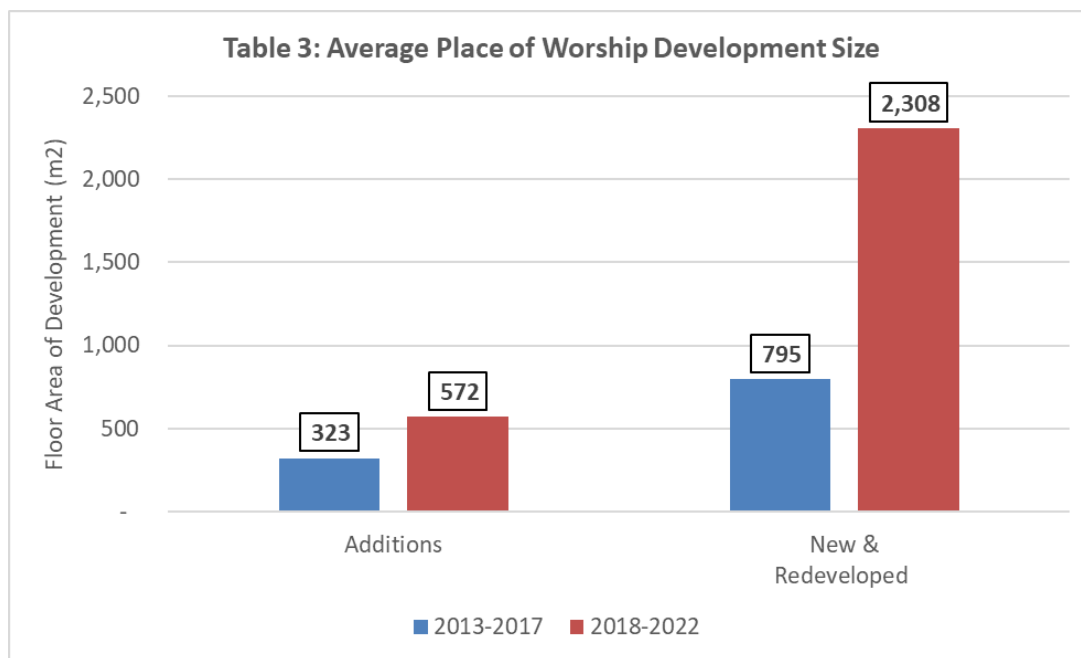
<b>Option</b>	<b>Budget Estimate</b>
Option 1 – Current Approach (25% of Floor Area)	Approved \$500,000
Option 2 – Adopt Brampton Approach (100% of Floor Area)	\$2 million
Option 3 – DC Exemption up to 500 m <sup>2</sup>	\$700,000
Option 4 – Alignment with the Local Municipality's Exemption	\$1.5-2 million

Based on the current local municipalities' policies, the cost under Option 4 is estimated to be approximately \$1.5 million. However, the actual cost may be much higher as, under this option, municipalities such as the City of Mississauga may face pressure and/or requests for exemptions that are higher than what is permitted under their current policy.

The actual costs for exemptions may be different from the budget estimates, which would be largely affected by actual volumes and sizes of building activities as well as future DC rates, both of which have seen an upward trend. Future budget contributions will need to be reviewed and continue to be funded as a tax pressure in the Region's annual budget process.

The Region saw an increase in the size of place of worship developments over the past decade. Developments for both additions to existing places of worship and newly constructed or redeveloped places of worship have seen an upward trend in size. Table 3 below shows the average size of place of worship developments over the two five-year periods spanning the past decade, 2013-2017 and 2018-2022.

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### **Policy Considerations to Support Places of Worship in Peel**

Tax exemptions are provided through the Assessment Act for applicable property or a portion thereof as assessed by the Municipal Property Assessment Corporation.

Places of worship fulfill a variety of needs within communities and support the objectives of building safe, resilient, healthy and complete communities. In addition to tax exemptions, Peel Region and its local municipalities have a long history of providing DC relief through DC by-laws, despite the fact that the DC Act does not provide a statutory DC exemption and states that no exemption is to be provided through the DC Act based solely on its tax exemption status.

Development Charges are a primary funding source to fund growth-related capital infrastructure. The DC Act authorizes municipalities to collect DCs to provide that revenue source. DC exemption (25 per cent of floor area) provided through the Region's DC By-law acknowledges the rationale and Council's intent to provide a DC relief for places of worship while also recognizing that these developments/redevelopments represent an increased need for Regional infrastructure. While some of the functions and activities that are performed by places of worship, in some instances, could be similar to those community services provided by local municipalities which might help share some local capital costs, the need for key Regional infrastructure such as water, wastewater and transportation is addressed by the Region's capital investment. Anecdotal analysis suggests that more places of worship are performing a variety of social and community functions that may intensify land use which would result in higher costs for additional water and wastewater infrastructure. Longer travel distances for congregants may result in increase in traffic and need for greater transportation infrastructure.

The Region has been facing financial challenges, such as funding constraints resulting from the cost of responding to the COVID-19 pandemic, as well as budgetary pressures associated with priorities, such as responding to the housing crisis, the climate emergency, aging infrastructure, a slowing economy, rising service demand for Public Health, affordable housing, and other community pressures. The province recently passed Bill 23 which represents a serious financial



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risk to the Region. The compounded impact of the financial challenges discussed above would leave the Region with limited fiscal capacity to absorb additional financial pressure.

Furthermore, on May 18, 2023, the Province introduced Bill 112, the *Hazel McCallion Act (Peel Dissolution)*, 2023 that, if passed, will dissolve the Region of Peel and make the Cities of Brampton and Mississauga and the Town of Caledon single-tier municipalities, effective January 1, 2025. The proposed legislation provides for the establishment of a Transition Board to make recommendations on implementing the restructuring. Details of the transition including matters as they relate to Regional roles and responsibilities are not known at this time and are to be addressed in future reporting to Regional Council. Additional assessment to support the transition under Bill 112 will be provided as further details become known – its impact on the options outlined in this report are uncertain at this time.

Municipalities have been confronted with various requests for financial relief. One of the key policy considerations in contemplating those financial relief requests/programs has been to identify an approach that strikes a balance between providing a sound public benefit policy and utilizing scarce public funding in an effective and efficient way. With that in mind, Council approved two discretionary DC relief programs that are funded from property taxes:

- New long-term care and hospice facilities (50 per cent of floor area, 100 per cent for hospice and LTC associated with hospitals)
- New places of worship (25 per cent of floor area)

Should Council direct staff to adopt a policy option alternative to the current DC By-law approach related to places of worship and require immediate implementation of policy change, a policy outside of the DC By-law needs to be approved by Council with associated increased budget approval.

## CONCLUSION

Staff has conducted a review of differences in how the Region and local municipalities administer development charge exemptions for place of worship developments, and have identified four options for Council consideration. Should Council choose to adopt an approach, additional funding is expected to be required to accommodate these exemptions, which will apply additional pressure on the taxpayer.

## APPENDICES

Appendix I – Reproduced DC Policy Discussion Paper Presented to Council in September 2020

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