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Public Financing Strategies for Green Business Improvements

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# Public Financing Strategies for Green Business Improvements

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## Issue

Los Angeles County's Green Zones Program employs land use policy, community engagement, and pollution prevention strategies to assist 11 unincorporated communities disproportionately burdened by environmental impacts. In addition to facing some of the highest pollution burdens in the state, these communities are also considered vulnerable based on key socioeconomic variables. This reflects the wider phenomenon of environmental racism, whereby environmental pollution tends to be located in predominately minority and low-income communities. As part of the Green Zones Program, the county seeks to introduce zoning code amendments, referred to collectively as the Green Zones Ordinance, that will require existing industrial businesses to implement a range of green, on-site improvements. The proposed regulations accelerate the greening of industrial districts near homes, schools, and parks. However, they also impose a cost on existing establishments, many of which are small businesses with little capital. This project examines public financing strategies and best practices that Los Angeles County can use to mitigate the costs the proposed ordinance places on small- and medium-sized industrial businesses. The purpose of this research is to inform the creation of a comprehensive funding program that facilitates green improvements while supporting small business development.

## Study Approach

This research proceeded in three distinct phases. First, the full costs of the proposed regulation on affected businesses were estimated. Using industry publications, online catalogs, and vendor interviews, the researcher collected data on the cost of required Green Zones improvements to the typical business. Second, the researcher identified gaps among

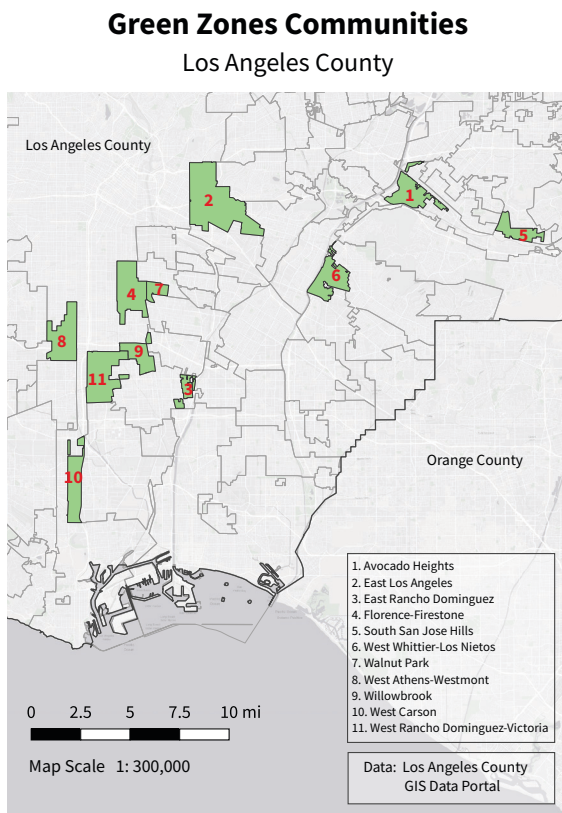
existing funding programs where new county programs can have the most impact. Interviews with local staff were used to find out more about how different programs and funding strategies operate. Lastly, the researcher employed a case study approach to determine best practices for financing green business improvements. This project studied four financing programs that support green, on-site improvements on private, commercial properties. The researcher interviewed professional staff to determine the respective strengths and weaknesses of each program. Using data gathered from these three phases, a set of policy recommendations were created for a future Green Zones business support program in Los Angeles County.

## Research Findings

As one arm of the program, the Green Zones Ordinance lays out five major requirements for existing industrial businesses. These include:

- Solid walls along street frontage or lots adjoining sensitive uses.
- Landscaping along street frontage using drought-resistant trees and plants.
- Enclosed buildings for all manufacturing or repair work.
- Paving of all parking, circulation, or storage areas with impervious materials.
- Business identification signs visible from the public right-of-way.

The Department of Regional Planning estimates that 2,400 businesses will fall under the purview of the ordinance. They are already compliant with, on average, two of the five regulations. The remaining improvements will cost businesses around \$40,000.

**Figure 1.***Map of 11 communities subject to the Green Zones Program*

Los Angeles County currently has several funding programs for small businesses; however, none of these programs fund all of the improvements required in the ordinance. Interviews with county program staff revealed the following themes:

- Small businesses face several challenges in becoming compliant with new, green regulations and need support.
- Funding for green, on-site improvements is not currently a county priority.
- Existing programs tend to provide larger grants or loans that support relatively few businesses.
- Many public agencies lack in-house financial expertise to successfully issue loans.
- Prevailing-wage requirements, a basic hourly rate of pay that must be offered to workers contributing to a government project, may turn applicants away from programs.

Detailed case studies of four similar programs from around the country revealed a range of best practices that the county can emulate. These programs demonstrate that business incentive programs can nudge small businesses to collectively make desired changes to their sites and practices. Programs that promote project aggregation can lead to better implementation at a lower cost to both businesses and public agencies. The most effective programs have simple application processes and requirements that encourage more businesses to participate. Lastly, program success depends on strong regulatory enforcement; community-based organizations — particularly those organized around environmental justice — are likely to be a great resource for public agencies hoping to identify problem areas and businesses within communities.

## Recommendations

- Los Angeles County should rely on third-party lenders to offer loans to small businesses impacted by the new Green Zones Ordinance, but negotiate favorable loan terms for applicants through credit enhancements. A loan loss reserve (LLR) may be the most effective method of getting affordable financing out to small businesses.
- The Green Zones Ordinance lends itself well to project aggregation. The county should encourage contractors to bundle multiple projects and apply on behalf of the property owners to reduce development costs.
- For long-term funding, Los Angeles County should look into the feasibility of creating an enhanced infrastructure financing district (EIFD). A Green Zones EIFD could help fund green business improvements while also supporting countywide affordable housing and environmental goals.

## For More Information

Ryzhov, M. (2020). Public financing strategies for green business improvements (Master's capstone, UCLA). Retrieved from: [escholarship.org/uc/item/1j39f0mw](https://escholarship.org/uc/item/1j39f0mw)