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A Data Center Toolkit for Local Government

ANDREW FUNG AND MAXIMILLIAN LEVIN
PROGRESSIVE POLICY INSTITUTE

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Introduction

Local political leaders face a complex set of choices when it comes to data centers. Vehement opposition has taken hold in many parts of the country, marked by packed hearings, stalled permits, and construction moratoriums. In the 2026 midterms, voters in dozens of communities approved local measures banning or restricting data centers.[1]

This pushback is driven by real concerns over electricity costs, water use, and noise, compounded by fear of the unknown. [2] Still, at a time of tight budgets, well-structured agreements can give local communities an opportunity to benefit from the massive data center investment boom. These agreements can provide funding toward local priorities like reduced property taxes, modernized water and power systems, and better public services, while limiting the negative spillover effects.

Here's the bottom line: Data centers can generate substantial revenue through property taxes while placing essentially no demand on schools, roads, or other government services — a claim that virtually no other investment can make. Developers are also increasingly embracing the need to pay for the grid and water upgrades required to run these projects. Further, construction jobs, operations roles, and training partnerships required to build facilities create a skilled workforce and resources that outlast any individual projects.

Voters' frustration is understandable, but open-ended moratoriums carry real costs. Temporary pauses can give communities time to write thoughtful rules. Indefinite bans, however, push jobs, tax revenues, and infrastructure investment, including clean energy projects that often accompany data centers, to other jurisdictions.

As this paper will explore, local leaders are well positioned to find a middle ground: addressing the concerns of residents while ensuring that communities capture these benefits on their own terms. For localities that have paused new development, the pause offers a valuable opportunity to consider what those terms

should be. Building on PPI's "An AI Innovation Toolbox for Governors" published last year,[3] this toolkit lays out four goals local governments can choose to pursue when making data center deals and the tools they can use to achieve them:

1. **Tax Revenue:** Property tax revenue is the largest and most direct benefit a data center brings to a community, and the structure of the tax determines how much of the benefit residents see. In Loudoun County, Virginia, for example, data centers occupy 4% of the county's commercial land and fund 38% of its general fund. Local governments should aim to maximize tax revenue by avoiding unnecessary abatements and capping tax bill offsets. Data center tax revenue should be saved and invested rather than built into recurring spending.
2. **Electricity:** Household electricity bills are rising for many reasons, of which data centers are only one part. Whether data centers contribute to increased or decreased local household electricity bills depends largely on how the grid expansions they require are funded. Large customers covering their own costs can help to lower average rates for all customers. Local governments can push against rate hikes by negotiating ratepayer-protection commitments, demand-response participation during peaks, long-term capacity contracts, and by urging utilities to choose cost-effective generation sources.
3. **Water:** National data center water consumption is marginal, but local strain can be considerable. A facility's water consumption is largely a design choice reflecting a trade-off between water and power for cooling, with total footprint further dependent on how electricity is generated upstream. Local governments can negotiate for metering, consumption caps, replenishment, groundwater monitoring, and closed-loop or reclaimed-water cooling. For example, in Umatilla, Oregon, water used to cool Amazon's data centers is treated and reused for crop irrigation. [4] In 2025, more than 10 million gallons of water were supplied to Umatilla's local irrigation district.
4. **Siting and Community Benefits:** While the benefits of data centers accrue county-wide over many years, costs like noise, traffic during construction, and lighting impact the nearest neighbors immediately. To address these impacts, overlay districts and standards for noise, setbacks, and light are useful tools. It's also important that benefits reach the people closest to the facility, using tools like noise mitigation and road repair, and through local jobs and contracts.

To achieve these goals, local governments should proactively publish ordinances and standard term sheets to set requirements once and commit to approving projects

that meet them within a fixed timeline. When planning new data centers, developers and local governments should agree to commitments specified in development agreements and community benefits agreements with clear quantitative targets, secured funding, monitoring, and enforcement. Developers have strong incentives to accept these terms in exchange for speed and certainty, and those unwilling to meet the terms self-select out without a moratorium.

Table 1

The Basic Data Center Toolkit

Locality Goals	Community Outcomes	Tools
Increase Tax Revenue	Full property tax base, revenue saved instead of built into recurring spending	Development agreement tax terms: no unnecessary abatements, capped PILOT offsets, clawbacks tied to milestones; revenue stabilization fund
Control Electricity Prices	No costs shifted to households, flexible demand, new supply	Ratepayer protection and capacity terms in development agreement; demand response; least-cost generation plans and large-load tariffs (through utilities)
Conserve Water Use	Protected water supply, especially in stressed watersheds	Metering and disclosure, caps set by system capacity, closed-loop or reclaimed cooling, well guarantees, utility co-funding
Mitigate Siting Impacts and Boost Community Benefits	Limits on noise, light and traffic; local jobs and contracts; visible and direct benefits for close neighbors	Overlay districts and zoning standards; community benefits agreement; decommissioning bond
Clear and Understandable Agreements and Term Sheets	Local governments should set these terms in advance with a published ordinance and standard term sheet with a fixed decision timeline.	These terms should be made binding through development agreements and community benefits agreements.

Background

The AI infrastructure build-out could be the largest private investment wave in history. Goldman Sachs estimated that global AI investment will reach a cumulative $7.6 trillion over the next five years, and the infrastructure spending of Google, Meta, Amazon, and Microsoft alone is set to reach 2.1% of GDP in 2026.[5, 6] This figure eclipses the Apollo moon landing, the Interstate highway buildout, and the U.S. railroad buildout in relative terms.

However, polling on data centers from Embold Research found that 70% of registered voters opposed building a facility in their local area, up from 52% in December 2025.[7] Nearly three-quarters expect nearby facilities to raise their electricity prices.[8, 9] The economic consequences of this opposition are being felt, with 30% to 50% of all U.S. data center projects slated for 2026 expected to be delayed or canceled, leaving $130 billion in capital spending on hold.[10] With interconnection queues — the waiting lists to connect new demand to the grid — reaching four to seven years in Northern Virginia, Phoenix, and Dallas, delays are now one of the largest and costliest constraints developers face.

Increasing Tax Revenue

The biggest local benefit is the property tax revenue. The upside case is exemplified by Loudoun County, Virginia, known as the data center capital of the world, where data centers occupy roughly 4% of the commercial land but generate 38% of general fund revenue. This revenue is projected to be near $1.3 billion in FY2027: $417 million in real property taxes and $879 million in personal property taxes on the servers inside.[11] Without that revenue, the county estimates the residential property tax rate would need to rise 91%, roughly $5,800 a year for a typical homeowner.[12] In the county that hosts more data centers than anywhere else on Earth, the industry's most visible local effects have been money back in homeowners' pockets and new schools built without a tax hike.

The key is that local governments typically do not need to abate property taxes to attract data centers. Siting decisions are driven primarily by such factors as the availability of power, land, water, and fiber optics. The best inducement that local governments can offer developers is speed and certainty, not abatements.

We should note here that sales-tax exemptions for data center equipment are typically the responsibility of the state, not the local government. [13] These exemptions function similarly to other sales tax exemptions offered to manufacturing equipment within factories.[14] The exemptions are currently offered by more than 35 states and are under repeal pressure in at least nine.

Lawmakers in at least 28 states moved to amend data center incentives in 2026.[15] Adjusting incentives is reasonable, but chasing away data centers completely is self-defeating. New York became the first state to impose a statewide moratorium on new hyperscale data centers, losing out on the investment and growth it may have brought.[16]

Maximizing the local return on data center development requires discipline, coming down to three rules. First, do not abate unnecessarily. Because the funds available for data center construction continue to rise, local governments have far more bargaining power than they did previously. Google's data center framework, published in October 2026, committed the company to paying full real property taxes on both land and buildings at all new campuses, a sign of what leading developers are willing to consider during development.[17] Localities can further build on this revenue base through personal property taxes on servers and equipment.

Second, some developers will ask to make a payment in lieu of taxes, or PILOT: a negotiated fixed annual payment that replaces the property tax bill. Where a PILOT is used,[18] it's a good rule to cap the total offsets and keep any community fund separate, so that it does not inefficiently substitute for tax revenue.[19] Third, local negotiators should consider tying clawbacks, the provisions that recover incentives when a developer misses its commitments, to investment metrics and development milestones.

Prudent fiscal principles suggest that data center revenue should be treated as a windfall to be saved and invested, not as a permanent line in the operating budget. Personal property tax on servers is large but volatile. Data center hardware depreciates on three- to five-year cycles. Loudoun County budget authorities warn that personal property tax growth will plateau within five to ten years.[20] Local governments are better off treating this windfall like a resource revenue boom: fund capital projects, build reserves, and cut rates. Loudoun's revenue stabilization fund provides one useful model.[21]

Controlling Electricity Prices

For the last 20 years, U.S. electricity generation and demand have remained remarkably flat.[22] Efficiency gains helped offset economic growth, and the country saw years of limited investment in new generation and transmission. Now, load growth has returned, due to the data center boom, the expansion of electricity-heavy manufacturing facilities, and broader electrification trends such as the shift to EVs, with generation hitting records in 2025.[23, 24] At the same time, electricity bills have risen in many areas of the country, driven by non-demand factors such as aging infrastructure, rising equipment and fuel costs, wildfire and storm recovery efforts, and incentive structures rewarding utilities for capital spending.[25]

The key policy question regarding electricity bills and data centers is who pays for the electricity infrastructure and how. With good planning, large customers like data centers can contribute to lower average bills by spreading fixed costs across more sales. Indeed, researchers at the Electric Power Research Institute found that data centers lowered average residential rates from 2015 to 2024 by spreading fixed grid costs over more sales, with a doubling of data center capacity causally contributing to a 4% average decrease in residential rates nationally.[26, 27] However, outcomes can still vary widely by region.

The Center on Global Energy Policy at Columbia University found that "electricity price outcomes are not driven by demand growth alone but by how the system responds to it. Prices rise when new demand triggers high-cost infrastructure buildout, reflects inefficient planning, or shifts costs unevenly across customers."[28] City Journal found that places with the most restrictive energy policy and costly production saw the biggest price increases.[29]

It needs to be emphasized that lower bills are not an automatic result of building data centers. Large customers need to pay their own way, so localities should seriously consider writing a ratepayer-protection commitment into any data center development agreement. The White House Ratepayer Protection Pledge, announced in March 2026, commits signatories to pay the full cost of the power they use and the infrastructure their growth requires.[30] Seven companies signed at the outset: Amazon, Google, Meta, Microsoft, OpenAI, Oracle, and xAI.[31] Google also published a five-part implementation plan promising to pay for 100% of its power, bring additional energy to the grid that would not have otherwise been built, and shield

households from growth-driven costs.[32] In Montgomery County, Missouri, Google signed a capacity commitment framework with Ameren that supports more than 500 megawatts of additional grid capacity. Google says the agreement covers its own operational and infrastructure costs, and the company also announced a $20 million Energy Impact Fund for local efficiency and weatherization measures.[33, 34] At its Jackson County, Alabama campus, Google is funding the full cost of its power and related infrastructure.[35] The White House pledge should be considered the industry floor.

Second, localities should investigate including capacity-commitment terms modeled on the Indiana settlement.[36] As covered in the PPI Governor's AI toolbox, the Indiana Utility Regulatory Commission approved an agreement between Indiana Michigan Power Co. and hyperscalers (major cloud computing companies like Amazon Web Services, Google Cloud, Microsoft Azure) that requires large customers to make long-term take-or-pay capacity commitments, meaning the customer pays for the power it reserves whether or not it uses it. Deal specifics also required hyperscalers to post collateral, accept significant minimum charges, and receive identical treatment with every other large electricity consumer above an established threshold.[37]

Rules like these are known as large-load tariffs. Such rules help separate serious projects from speculative ones. That’s important because phantom interconnection requests — the same project shopped to five utilities at once — create a risk of overbuilding. Since state utility commissions approve large-load tariffs, local governments should urge their states to adopt similar tariffs and push utilities to consider the cost-effectiveness of generation sources. In cities with their own municipal utilities, these rules can be established directly.

Third, it’s a good idea to set contract terms for 15 to 20 years, so utilities have long-term planning power to finance new power generation and grid infrastructure without shifting the cost burden onto residential customers. Fourth, demand-response participation should be incorporated where technically possible, meaning a binding commitment to cut data center power consumption when the grid is under strain. The Electric Power Research Institute's DCFlex initiative is building the same capability with Meta, Microsoft, NVIDIA, and Schneider Electric alongside utilities and grid operators. Google’s long-term utility contracts include a gigawatt of demand-response capacity, including agreements with Indiana Michigan Power and the Tennessee Valley Authority that will allow its data centers to curtail energy-

intensive machine-learning workloads during system peaks.[38, 39] Duke University researchers have identified nearly 100 gigawatts of headroom on existing U.S. grids if large consumers commit to curtailing at peak.[40] A data center with flexible power demand may require far less new infrastructure, since peak demand, not average demand, drives the most expensive grid investments.

Fifth, net-new power generation goals are worth community consideration, not just for data centers, but for long-term power and climate goals. Meta has committed to add enough clean and renewable energy to the El Paso grid to match 100% of what its $10 billion campus will use, part of more than 5,000 megawatts of new clean energy it has brought online across Texas.[41] According to Google's October 2026 data center framework, between 2010 and 2025 the company signed agreements for nearly 35 gigawatts of new, clean energy for local grids.[42] Data centers with nearby or on-site power generation pair new demand with new supply, addressing a concern for residents. Embold Research found in its 2025 survey that 73% of voters expect a nearby data center to raise their electricity prices, but that share falls to 46% when the facility generates a substantial portion of its own power on site, with the share expecting a large increase dropping from 59% to 23%.[43] The rise in demand for new power generation can be a net positive, bringing additional capacity to the grid and driving further growth in renewable energy.

Sixth, local distribution upgrades and residential weatherization are two visible and worthwhile measures to help communities feel the benefits of the build-out. By targeting such benefits to those closest to the facilities, those who bear the cost of the build-out can be most visibly and directly turned into beneficiaries. Weatherizing homes near the facility delivers visible bill reductions to neighbors and ensures benefits reach those most affected. In Mississippi, Amazon and other large customers are funding Entergy Mississippi's $300 million grid reliability upgrade program at no cost to residential and small business customers. [44]The utility says the program aims to cut power outages for customers in half within 5 years.

Conserving Water Usage

Contrary to common rhetoric, data centers do not use much water nationally. U.S. data centers consume less than 1% of the water Americans put on their lawns each year.[45, 46] By 2030, all U.S. data center water usage will equate to roughly 8% of U.S. golf course usage.[47]

Local spikes in water usage, however, can be significant. In Fayetteville, Georgia, a QTS data center campus drew roughly 29 million gallons through two connections the county did not know existed, discovered only when residents complained about low water pressure.[48] In Mansfield, Georgia, homeowners report disrupted wells.[49] Many communities have hosted build-outs without a hitch, but the visible problems dominate public attention, and the strain on drought-prone areas is worth taking seriously.

The trade-off itself is straightforward. Water cooling cuts a data center's energy use by roughly 10% as compared to air cooling; squeezing out water use raises power use, and vice versa.[50] Industry is moving on both sides of that ledger. Microsoft's closed-loop design, piloted in 2026 at Phoenix and at its Mount Pleasant, Wisconsin campus, fills the cooling loop once and recycles it with chip-level liquid cooling and no evaporation, saving more than 33 million gallons per data center each year.[51, 52] Oracle has adopted closed-loop cooling across its AI data centers,[53] including the Stargate campus it is building with OpenAI and Vantage in Wisconsin.[54] Google's Wilbarger County, Texas, data center is being built with air-cooling systems in place, allowing the facility to limit its water use to essential campus operations instead of cooling servers.[55] Amazon reports water efficiency roughly seven times the industry average, and Amazon and Microsoft have each set water-positive targets for 2030.[56, 57]

Meta has pledged to restore 200% of what its El Paso campus consumes and to pay the full cost of its water and wastewater service.[58] Amazon is taking an alternative approach at its data centers in Umatilla, Oregon, where water used for cooling is treated by the city and reused. In 2025, more than 10 million gallons of treated water were supplied to Umatilla's local irrigation district.[59]

These commitments provide a useful framework for a term sheet for local governments negotiating in resource-constrained watersheds. Localities can contract for metered and disclosed water use, set consumption caps based on system

capacity, and mandate groundwater monitoring. Google's Chesterfield, Virginia campuses offer a useful model for resource use agreements. The company agreed to daily limits on its public-water use at the two planned campuses, and agreed to pay for the utility improvements needed to serve them.[60] Contract terms could include a well-replacement guarantee for neighbors, a requirement for closed-loop or reclaimed-water cooling when the watershed is stressed, or drought-curtailment clauses that prioritize residential users. Additional commitments could include water-positive systems.

Mitigating Siting Impacts and Boosting Community Benefits

Siting and Construction

A data center's benefits are county-wide and take years to show up in tax revenues. Its potential negative impacts land on the nearest few hundred households immediately. Nearly every local fight over siting, noise, and community benefits is a fight over that mismatch. The aggregate benefits of the build-out are dispersed and easy to miss, while costs are concentrated on those closest to the development. Property tax freezes and local school funds are not immediately associated with the facilities that paid for them.

That means measures to help nearby households have to be on the top of the priority list. Approaches could include noise mitigation, protection of water wells, and targeted road repairs along truck routes. Meta is funding El Paso Water's AguaCares program, which helps local families pay their water bills, as part of its agreement there.[61]

Noise is among the most frequent complaints about data centers, but also amenable to mitigation. Cooling systems and backup power generation produce a constant low-frequency hum that carries into nearby neighborhoods. Chandler, Arizona, adopted a 2022 ordinance requiring pre-construction sound studies, mitigation plans, post-construction verification, and two community meetings.[62] Prince William County, Virginia, created a Data Center Overlay District, a zoning overlay to address local conditions, in 2016 that placed 29 of 33 facilities into districts that are already equipped with the necessary infrastructure.[63] In Chesterfield County, Google

accepted larger buffers near homes, limits on noise at residential property lines, and lighting standards intended to reduce spillover onto neighboring properties.[64]

By building on this model, local governments could consider additional terms for berms, dark-sky lighting, design standards, scheduled operating windows, or a decommissioning bond. Responsibility for a vacant two-million-square-foot facility in 2050 should not fall to taxpayers, and a decommissioning bond would secure the future funding to return the area to its original state if the project is decommissioned.

Construction can also carry burdens like truck traffic, road wear, and extended working hours. Local governments can address these concerns by requiring traffic management plans, designating truck routes, placing limits on construction hours, and creating agreements to repair road damage.

Jobs and Workforce Development

A study from Brookings estimates that county-wide employment increases by roughly 2,000 to 4,000 jobs six years after a data center is built, depending on the type of facility.[65] Direct facility employment is far lower, a few hundred permanent operations roles, with the most notable surge during the initial construction. The distinction between hyperscalers (Amazon, Google, Microsoft, and Meta) versus colocation (landlords who lease space, such as CyrusOne or Equinix) matters for job creation. According to Brookings, "Hyperscale counties observed large information sector gains while colocation counties do not."[66]

One example of a well-structured deal is Mount Pleasant, Wisconsin. Microsoft's campus is expected to employ about 800 full-time workers once its second facility is complete, and nearly 10,000 construction workers worked on the project between 2024 and mid-2026.[67] The deal includes closed-loop cooling for the facility, as part of a broader water-positive commitment, and $4.2 million to restore local water sources. It also includes one-for-one carbon-free energy matching anchored by a 250-megawatt solar project, a data center technician certificate program built with Gateway Technical College, and an AI Co-Innovation Lab at the University of Wisconsin-Milwaukee.[68, 69]

Mount Pleasant serves as an example of an ecosystem-building agreement with developers, rather than a one-time transfer. A one-off community payment helps, but it doesn't build local development. An ecosystem agreement could include partnerships with local universities, R&D collaborations, workforce pipelines, and

support for local startups to create compounding benefits. The Gateway Technical College certificate program and the UW-Milwaukee lab are models in miniature. Meta's $500,000 workforce development grant with El Paso public schools is a smaller version of the same idea,[70] and Google's electrical training ALLIANCE partnership, which aims to add 100,000 electricians, is a national one. In Mississippi, AWS partnered with Hinds Community College to offer a paid four-week pre-apprenticeship program that trains local residents for data center jobs.[71] The program is part of the company's $10 billion investment in the region.

Clear and Understandable Agreements and Term Sheets

When local governments establish community ordinances in advance, developers get much-needed certainty and localities can address their individual concerns. The highest priority for data center developers is "speed to power," meaning how fast a site can actually receive electricity, and its position in the utility's interconnection queue. Second is permitting certainty. This entails no mid-build rezoning fights and no costly delays between signatures and shovels.

Delay is effectively the most expensive line item in the project budget. Developers can reasonably meet community standards on transparency, reporting, noise, energy contracts, infrastructure cost coverage, water replenishment, utility co-funding, job training, and community funds. These community needs are already stated policy for some of the largest hyperscalers, as they are far more cost-effective than a months-long delay or an abandoned development. Developers, however, will typically resist uncapped or open-ended liabilities, disclosure of tenant identities, caps on future expansion, and any rate treatment that sets an unreasonably burdensome precedent.

Local governments should avoid NDA-shrouded negotiations and instead publish data center ordinances and a standard term sheet. The term sheet should specify the approvals required within their locality. It should also make clear that qualifying applicants can expect a decision within a fixed number of days, for example, 60 or 90 days. Some developers have already started to adopt this approach. Google's October 2026 data center framework committed to ending the use of nondisclosure agreements with local and state governments and to disclosing project involvement upon its first application or public meeting.[72]

When local governments publish a term sheet, negotiation becomes a self-selection mechanism. Companies willing to meet the term sheet identify themselves, while those unwilling self-select out. This public term sheet for data centers functions similarly to by-right zoning for housing, where a project that meets published standards is approved without a discretionary vote: a deliberate exchange of discretion for speed, on terms set in advance by the community.

Beyond term sheets, local governments should use two additional documents to ensure developers follow their commitments: the development agreement and community benefits agreement. Development agreements should include the fiscal, electricity, water, and siting terms described above, including tax terms, clawbacks, ratepayer protections, utility co-funding, water caps, and decommissioning bonds. The agreements should include enforceable penalties tied to each commitment, rather than just a memorandum of understanding.

Community benefits agreements should specify what goes directly to residents. Developers are increasingly offering these benefits voluntarily: Google, in its October 2026 data center framework, announced it expects to invest $1 billion in locally tailored programs in the communities it operates in through 2027.[73] Community benefits agreements are an opportunity for local governments to make these voluntary investments into enforceable, detailed obligations.[74]

Effective community benefits agreements include four key features: specific numeric targets, secured funding, independent monitoring, and enforcement mechanisms.[75] Localities negotiating a first agreement do not have to start from scratch. The NAACP and Columbia's Sabin Center published a model data center community benefits agreement in 2026.[76]

Local governments can also use community benefits agreements to set labor-related terms. These can include local-hire targets, prevailing wages, apprenticeship ratios, and project labor agreements for construction, where most of the jobs are. If a developer has negotiated a PILOT, the local government can write any community fund into the community benefits agreement so that it remains separate from and in addition to tax payments. By working with community partners like nonprofits, schools, and civic groups, local governments can better ensure that these benefits align with local priorities.

Conclusion

Local leaders can negotiate proactively with data center developers, using the toolkit of policy options described in this paper. Localities may still make the decision to bar or slow down data center construction. But at a time of tight budgets and weak job markets, a good deal may beat an empty field.

About the Authors

Andrew Fung

SENIOR ECONOMIC & TECHNOLOGY POLICY ANALYST

Andrew Fung is Senior Economic and Technology Policy Analyst at PPI.

Maximillian Levin

PUBLIC POLICY FELLOW

Maximillian Levin is a Public Policy Fellow at PPI.

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Progressive Policy Institute
1919 M Street NW, Suite 300
Washington, DC 20036

Tel 202.525.3926
info@ppionline.org
progressivepolicy.org