

STATE POLICY  
TOOLKITS FOR  
DATA CENTER  
REGULATION

# Tax, Employment, and Economic Impacts

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CLIMATE **X** CHANGE

GOOD  
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# About this Toolkit

As data centers rapidly expand across the country, so have their subsidy programs. When states offer subsidies, which often lack adequate reporting, transparency, and guardrails, they undermine their own budgets and leave money on the table that could fund key public service and infrastructure projects. State governments are looking for new tools to mitigate data center tax, employment, and economic impacts. This toolkit draws on Climate XChange's review of over 400 data center bills introduced in 2025 and 2026 legislative sessions, leading research, and technical expertise.

This resource, co-authored with Good Jobs First, represents one of five installments in Climate XChange's State Policy Toolkits for Data Center Regulation, which will be released throughout 2026. This document tackles the tools that states can use to address and mitigate data centers' tax, employment, and economic impacts. It should be considered alongside other toolkits describing state policies addressing data center impacts on water resources, electricity affordability and reliability, greenhouse gas emissions, and transparency concerns. You can find the complete Toolkit Series at [Climate XChange's Resources for Regulating Data Centers Page](#).

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With the rapid buildout of data centers across the country, states must have strong policies to prevent negative impacts on the environment, climate, energy systems, and local communities. Climate XChange's policy toolkits, educational programming, and technical assistance are solely focused on addressing these impacts. Our organization is not involved in advocacy, nor does it have the expertise to assess the broader societal and economic effects of widespread artificial intelligence adoption in the United States.

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# Introduction

## BACKGROUND

Data centers offer minimal local and state revenue and jobs in exchange for billions of dollars in subsidies, which can undermine their own budgets. Approximately 40 states<sup>1</sup> offer subsidies to data centers, primarily through sales and use tax exemptions, preferential utility rates, and property tax abatements. These subsidies are advertised as a way to “**attract**” **data centers** to boost a state’s economy, though, oftentimes they have minimal restrictions and **transparency**, which impacts states in many ways.

Data center subsidies have **ballooned** along with the industry itself. When data center tax breaks were first developed, they were intended for much smaller facilities, both in size and the amount of invested

money. AI has since transformed the sector, but the subsidy structure has not changed accordingly. This gap between outdated policy and a transformed industry is a major reason states have lost control of these programs’ costs.

In 2008, for example, Virginia enacted **HB1388**, enabling data center subsidies **to support rural communities with high unemployment**. The bill’s **fiscal impact statement** determined the state would lose \$1.54 million in general fund revenue in 2009. Compared to fiscal year 2025, Virginia is estimated to have lost **\$1.94 billion** to data center subsidies.

Other states are feeling the same subsidy weight. Ohio is spending **\$1.6 billion annually** on its data center tax exemption. If nothing changes in Texas, between 2025 and 2030 the state could forgo **\$9 billion** in tax revenue. Losing vital tax revenue

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<sup>1</sup> The exact count varies, with **Stream Data Centers reporting 41 states** offering incentives, **Husch Blackwell reporting 37**, and The **National Caucus of Environmental Legislators reporting 38**. Of note, there are data center-specific programs and general-purpose programs that data centers take advantage of, which leads to some variance in the count. In addition, this count is complicated by state moratoria and legislation that end subsidy programs.



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through these subsidy programs can undermine a state's general fund, straining their ability to pay for **public services and infrastructure** such as schools, roads, public transit, and healthcare.

Property tax abatements are another common subsidy offered to data centers, though these happen at the local level. Costs associated with property tax abatement are also growing substantially. For example, in Oregon, data centers **received \$616 million** in property tax abatements between 2016 and 2025 and are on track to receive **\$450 million** in 2026 alone. Foregone property tax revenue impacts local budgets and can divert money from public services and school districts. For example, in 2025, Morrow County School District in Oregon **reported losing** \$26 million to economic development tax abatements, 87 percent of which were subsidies for Amazon data centers.

Data center subsidy program costs add to existing fiscal pressures facing state and local governments. The ending of federal funding for pandemic relief, cuts to programs such as Medicaid and Supplemental Nutrition Assistance Program (SNAP) under the **One Big Beautiful Bill Act**, along with



rising inflation, is shifting more costs onto states and making government operations more expensive. Together, these pressures mean states and localities will face increasingly difficult choices about which programs to fund and which to cut.

Unfortunately, limited disclosure requirements obscure the full picture of data center subsidies. Across the roughly 40 states offering data center subsidies, only **11 states disclose** subsidy recipients, **19 states report revenue losses**, and **14 states do not systematically report any lost tax revenue online**. Some states do not require companies to report how much sales and use tax they avoid paying, while other states face reporting delays.<sup>2</sup> Passive revenue<sup>3</sup> losses at the local level are **even more difficult to find due to limited disclosure or a lack of reporting**. While it's clear that states and localities are losing much-needed tax revenue to data centers, the patchwork of information limits capacity for pinpointing the extent of the loss. Even where it is known, the state may not be required by law to disclose that information to the public. These are common trends with other tax programs, including **fossil fuel subsidies**.

This lack of transparency extends to job and wage reporting. Only four states—Illinois, Indiana, Nevada, and Ohio—disclose how many jobs data centers promise in exchange for subsidies, and only **Illinois** and **Nevada** disclose any wage information. Beyond those four states, most do not collect data on data center job numbers. *For more information on subsidy disclosure and other transparency considerations around data centers, see Climate XChange's **Transparency and Accountability Toolkit** from this series.*

Analyses of the fiscal impact of data center subsidy programs have found net state tax revenue losses tied

<sup>2</sup> Iowa publishes its foregone tax revenue every five years and Maryland published its **2024 tax expenditure report** in 2026.

<sup>3</sup> Passive revenue losses are tax revenue reductions that automatically occur because of a subsidy program at another level of government. For example, a state-level data center program can abate both state and local sales and use tax revenue in a single action. A county government decision to abate a data center property taxes can automatically abate a city's or a school district's tax revenue as well.

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to these programs. **Virginia, Washington, and Georgia** found that for every dollar spent on these subsidies, those states lost **52 to 91 cents** in tax revenue overall. In addition, Georgia researchers determined that **70 percent of data center projects** would have moved to the state even without subsidies, suggesting they do not attract data centers as much as proponents would claim.<sup>4</sup> Data center tax subsidies themselves can be uncapped, offered for decades, and awarded with minimal investment and job creation requirements. **In Ohio, between 2014 and 2018**, Amazon, Meta, and Google signed agreements to receive an uncapped 100 percent sales tax exemption for their data center facilities for up to 40 years. These agreements contained requirements to create as few as 20 jobs.

One argument used to justify data center attraction is the hope of increased *local* tax revenue, however Good Jobs First has documented that data centers often **receive property tax breaks** that reduce or **eliminate company tax obligations** altogether. These tax breaks often eliminate 75% or even 90% of a company's tax obligation, meaning data centers pay only 25% or less of the taxes they owe. While this can still be significant revenue for local budgets, especially in rural communities, it falls well short of what trillion-dollar companies could easily afford to pay and what local communities need and deserve. All to say, significant tax revenue is unnecessarily forfeited. Furthermore, as explored below, no amount of new tax revenue can offset the broader costs of these projects to communities and the environment.

Job creation is also used as justification for granting data center subsidies, though the **return on investment** is minimal when comparing **job creation against subsidy amount**. One data center in Illinois received \$38 million in sales tax exemptions but **only created 20 permanent jobs**, while one in New York could receive \$801 million in tax breaks in exchange for 125 jobs—**\$6.4 million for every job created**.



Compared to tax subsidies in similar industries, each job created by a data center costs the government substantially more money: **a recent cost-benefit modeling exercise** for Chattanooga, Tennessee estimated payment in lieu of tax (PILOT) abatement costs at roughly \$10,000 per job for a typical manufacturing and professional-services development project. When considering that **half of states offering data center subsidies** do not include job creation requirements in their agreements, the existing structure acts to solely subsidize development as opposed to creating opportunity for meaningful employment.

It's also important to consider the quality of jobs created by data centers. Data centers create fewer permanent jobs than other capital-intensive industries, **such as manufacturing**. They also create **100 times fewer jobs** than other economic development projects by the amount of power used, and create **fewer permanent jobs per dollar**

<sup>4</sup> This finding is aligned with **existing research** (Bartik, 2018) showing that at least 75 percent of subsidized companies would make the same location or expansion decision even without subsidies.

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**invested** than building out and operating the energy infrastructure needed to power them.

However, some construction and electrician unions are pushing against this narrative. In an **interview with Good Jobs First**, Rico Albacarys from the International Brotherhood of Electrical Workers (IBEW) argues that characterizing the data center job impacts as “thin” minimizes the economic impact of construction workers. The IBEW has been **outspoken against data center moratoria**, arguing that they reduce union jobs and impact the economies of local communities, while pushing for fair labor standards. Yet, while data centers **do create jobs** for construction workers, they are typically filled by **non-local workers**, and usually are **temporary** positions. The influx of temporary workers into a community can **increase rental prices**, making units unaffordable to local community members, thereby leaving communities to cope with economic fallout when short-term workers move to their next job.

Advocates of the economic benefits of data centers often push for larger facilities, or clusters of facilities, to amplify purported benefits. One research study found that data centers **can increase local employment, businesses creation, wages, and**

**median household income** and clustering data centers amplifies those benefits, but these clusters are typically concentrated in metropolitan areas.

For example, data centers provide **17,000 jobs** in Loudon County, Virginia, the **data center capital of the world**, and the extra tax revenue has enabled the county to fund **schools, upgraded roads, emergency services, and a community center**. However, research has linked **tens of millions of dollars in annual health damages** to a single facility in the county. More broadly, **recent research** estimates that data center air pollution alone could impose up to \$20 billion in annual public health costs nationally by 2028.

The increasing number and scale of data center facilities also creates more opportunity for environmental disasters: In New Jersey, a computer glitch at a data center caused **5,000 gallons of oil to leak** into a nearby water supply. States and localities should weigh the tradeoffs of increased air pollution, water use, grid demand, affordability concerns, and many other health and environmental harms associated with data center buildout with claims of economic benefits and job creation.



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### THE VALUE OF A HOLISTIC APPROACH

Even if data center subsidies were reformed, the industry still creates impacts far beyond tax and employment outcomes, including on electric rates and reliability; on water resources; on greenhouse gas (GHG) emissions; on local air quality and other environmental factors, such as noise pollution; on opportunities to attract other industries; and more. These issues should be considered in tandem, and subsidy programs and tax treatment should be one element of a coordinated strategy to mitigate data center impacts.

States that cut their tax subsidies for data centers, but fail to regulate how they are imposing costs on the grid may find that their ratepayers end up indirectly subsidizing data center development. States with higher sensitivity to certain data center impacts, like water availability, may find a conditional subsidy that incentivizes certain data center behavior or regional investments can help achieve the state's goals. The tax structure of data centers should not be considered in a vacuum.

Climate XChange is publishing five toolkits for regulating data centers at the state level, focusing on taxes and economic justice, **water, electricity rates and reliability, transparency, and greenhouse gas emissions**. We encourage policymakers to consider these resources in tandem to help identify the combination of policy approaches that works best for their jurisdiction.



### STATE JURISDICTION OVER EMPLOYMENT, TAX, AND ECONOMIC FACTORS

State legislatures hold jurisdiction over a variety of subsidies for data center development, and they can modify, rescind, or impose important community, worker, and environmental conditions on them. The subsidies most valuable to data center companies are typically sales and use tax exemptions and property tax abatements, since both scale with a company's investments.

Data center sales and use tax exemptions were created specifically for the industry, while local property tax abatements are individually negotiated agreements under existing programs open to many other industries. Property tax abatements are typically approved locally, while sales tax exemptions are administered by state agencies. While these are the two most valuable types of subsidies for the data center industry, there are often additional subsidies available for developers. Table 1 shows a generalized model of how common subsidy types are created, approved, and administered across states (actual roles vary by state and program).

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TABLE 1 — STATE ECONOMIC DEVELOPMENT INCENTIVES: ROLES AND RESPONSIBILITIES<sup>5</sup>

| INCENTIVE TYPE                                                                     | CREATED BY        | INCENTIVE AWARDS<br>APPROVED BY                                                                                                                                   | ADMINISTERED BY                                     |
|------------------------------------------------------------------------------------|-------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------|
| Sales and use tax exemptions (state and local rates)                               | State legislators | Commerce department or department of revenue                                                                                                                      | Commerce department or department of revenue        |
| Property tax abatements (Payments in Lieu of Taxes (PILOTs), property tax rebates) | State legislators | City or county lawmakers; or public benefit corporations (approval of individual deals under a state-enabled program); occasionally the state commerce department | Local economic development offices                  |
| Income tax credits (based on job creation or investment)                           | State legislators | Commerce department                                                                                                                                               | Commerce department or department of revenue        |
| Infrastructure development                                                         | State legislators | Commerce department or department of transportation                                                                                                               | Commerce department or department of transportation |
| Workforce development training                                                     | State legislators | Commerce department or community college system                                                                                                                   | Commerce department or community college system     |
| Expedited permitting                                                               | Local lawmakers   | Local economic development office                                                                                                                                 | Local economic development office                   |
| Favorable electricity rates and interconnection agreements                         | Utility companies | Public Utility Commissions                                                                                                                                        | Utility companies                                   |
| Favorable water rates and service agreements                                       | Utility companies | Public Utility Commissions, unless exempt as a municipal company                                                                                                  | Utility companies                                   |

<sup>5</sup> Table developed by Kasia Tarczynska, Good Jobs First

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While Table 1 serves as a general model, there are some noteworthy differences. For example, there is variation across states as to whether state and local or just state taxes are exempted. In Pennsylvania, only the state portion is exempt. Application and administration of these subsidies also vary between states, but in most cases, data centers must submit a formal application to a state agency. In some instances, data centers must obtain an approval letter from the department of commerce and then apply for sales tax exemption certification with the department of revenue. In other instances, data centers apply for the exemption directly with the department of revenue, using a generic form available to any eligible industry. Other states require formal contracts or memoranda of understanding between companies and the state.

Regardless of which entity administers a program, **state legislatures hold legal jurisdiction over most data center subsidy programs**—both in creating these programs and in setting the standards that govern them, including accountability and transparency requirements. This gives state lawmakers significant leverage to strengthen community, worker, and environmental protections, as described in Strategy 3.

While state lawmakers can condition subsidy approvals on accountability and transparency standards, it is equally important that they preserve localities' ability to make independent decisions about their own tax revenue. In most states, data center sales and use tax exemptions abate *both* the state *and* local share of sales tax. These local losses can be significant: Georgia localities are projected to lose **\$1.1 billion in 2026**, and a recent Phoenix audit found the city involuntarily forgoes roughly **\$12 million a year** because of a state-granted subsidy. Because these local tax revenue losses occur automatically and without local input, the onus is on state lawmakers to amend such programs and remove the automatic local sales tax break and preserve local control over local revenue.

State legislatures create and govern the rules for nearly every major data center subsidy, and they are the most effective point of leverage for subsidy reform. States can attach strong standards such as public participation requirements, job-quality standards, transparency over tax breaks, water and power use, and air pollution directly to subsidy programs or other permitting processes. Any underlying structural problems, such as opaque approval processes, unchecked tax breaks, and lack of transparency can be addressed by creating new laws and regulations or reforming existing ones.



# Minimizing Economic and Fiscal Impacts from Data Centers

*State and local governments have a menu of policy options for mitigating the negative impacts that data centers have on state tax revenue, employment, and economics. The following five strategies are organized from most to least stringent, while outlining realistic paths forward under a variety of state contexts (for example, states with greater political will to influence data center development, or states with stronger or weaker labor protections).*

## FIVE STRATEGIES TO TACKLE DATA CENTER IMPACTS ON TAX, EMPLOYMENT, AND ECONOMIC JUSTICE

*State tools to regulate data centers' economic impacts fall into the following categories:*

- 1** Imposing moratoria on data centers until states can fully study their economic and fiscal impacts.
- 2** Pausing or sunseting data center subsidies.
- 3** Establishing subsidy reforms.
- 4** Levying new taxes and fees on data centers.
- 5** Preserving community choice.



# 1

## STRATEGY ONE

### Imposing moratoria on data centers until states can fully study the their economic and fiscal impacts

*In an industry growing at a rapid pace, moratoria, or a temporary delay of activity, are a tool to ensure that states have time to understand the fiscal impacts of data centers before committing to substantive requirements or reforms. This Strategy is a suggested first step towards data center fiscal regulation so that new facilities are not being constructed while states are deciding how to oversee their development.*

Both **Good Jobs First** and **Climate XChange** have been tracking state-level data center moratoria, and **at least 16 states** have proposed new moratoria in 2026 sessions, a noticeable shift from **just one proposed in 2025**.

While the focus of this Strategy is to study the financial harm of data center investments, moratoria also offer an opportunity to study affordability and grid reliability, water and emissions impacts, and transparency impacts. States should consider all data center impacts holistically, and can see **Climate XChange's resources for regulating data centers** for other strategies to address them.

During a moratorium, state legislators have many options to require impact analyses on data centers. State legislatures can create commissions or task forces and assign specific work to be completed during the moratorium period, with clear responsibilities designated to specific agencies and committees. These bodies should include budget, tax, economic development, environmental, consumer protection, labor, and land use experts, as well as other experts from both the public and private sectors, community groups, nongovernmental organizations, and academia. **The Urban Institute** provides a list of 25 questions for policymakers to ask about data center development during a moratorium period.



## MORATORIA EXAMPLES

### Executive

On July 14, 2026, New York Governor Kathy Hochul issued **Executive Order 62**, imposing up to a one-year moratorium on issuing data center permits in the state. During the moratorium, the Department of Public Service is tasked with studying and reporting the environmental impacts of data center development across the state broadly, including electricity and water consumption, air pollution, land use, public health impacts, and the use of public funds. Other efforts required under the Order include the development of a Community Benefits framework, as well as recommendations on establishing a Grid Accelerator Fund with data center contributions. While the Order does not include a requirement to study tax breaks, **more stringent legislation** awaiting a decision from the Governor proposes a one-year moratorium, with requirements to catalog all state and local tax incentives offered to data centers (among other requirements).

### Legislative

Wisconsin **SB 1061** (2026, proposed) prohibits the operation of a data center in Wisconsin until several key provisions are met: (1) establishing a statewide data center planning authority; (2) prohibiting cost shifting to residential customers; (3) creating a land and community recovery funding mechanism; (4) eliminating state and local financial subsidies; (5) setting a 100 percent renewable requirement; (6) creating prevailing wage or collectively bargained wage requirements; (7) prohibiting non-disclosure agreements; and (8) establishing a requirement that data centers must receive local voter approval by referendum before they can be built.

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**NOTE** While the Wisconsin example would issue a pause on data center development, there are pitfalls to delaying development until the above criteria are met. Without a clear deadline, these provisions might not be achieved and result in an indefinite data center pause without any guardrails developed. In practice, this delay could result in data center development moving to states without any guardrails in place.

Moratoria are a tool that give policymakers time to study data centers impact on their states, but they **should not be used as a substitute** for data center regulation and accountability. With a fuller understanding of the costs and benefits of data centers on state budgets, communities, and the environment, states may turn towards the

subsequent tools in this toolkit to manage their data center industry and its tax treatment. Where studies reveal that data centers may cause unjustifiable harm to a state's economy or environment, states may transition from a moratorium to a long-term ban on developing data center projects over a certain size.

# 2

## STRATEGY TWO

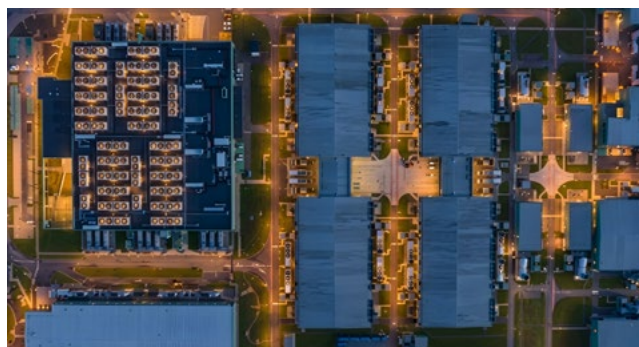
### Pausing or Sunsetting Data Center Subsidies

While Strategy 1 focuses on halting data center construction, this Strategy addresses data center subsidies themselves. State legislatures are increasingly responding to ballooning subsidy costs and public pressure with proposals to pause or sunset data center subsidies. In the 2025–2026 legislative sessions, lawmakers in **25 states** introduced proposals to repeal or curtail data center subsidies and more recently, governors in **Illinois, Kentucky, Massachusetts, Nevada, Nebraska, Ohio, and Pennsylvania** have used executive power to curb or rescind data center subsidies.<sup>6</sup>

#### NEW V. EXISTING DATA CENTER SUBSIDIES

State legislators can explore legal possibilities to ensure that moratoria and sunsets apply not only to new data center applications but also to existing projects already benefiting from the subsidies. Existing projects will keep purchasing equipment (such as servers that need to be replaced every few years) sales-tax-free for the duration of their agreement with the state government. Therefore, not addressing **costs related to existing projects** or their expansions is a significant limitation, since the existing projects have driven program costs to their current high levels. Lawmakers in states that require a formal memorandum of understanding or a contract with data center companies could explore the possibility of renegotiating those contracts.

If a full, immediate sunset of data center subsidies is not feasible, a pause on those programs offers an alternative path providing policymakers with time to review and evaluate their fiscal impacts. Governors in Illinois, Massachusetts, and Ohio have paused exemptions for new data centers. In Arizona, Governor Katie Hobbs pushed for a full repeal of the state's data center tax exemption, and as a compromise, the legislature included a **three-year moratorium** on new applications as part of the FY2026–2027 budget deal.



<sup>6</sup> Seven states as of mid-September 2026.

Understanding the state *and* local fiscal impacts of data center subsidies is important because in many instances subsidy programs abate both state and local taxes without local officials having a say in the subsidy agreement. This pause also gives policymakers an opportunity to study the industry's impact on overall economic development, including its impact on utility prices and availability to serve other large projects, water consumption and quality, fossil fuel use, public health, land use, and opportunity costs of forgoing other industries. This time, if used wisely, can allow lawmakers to determine whether subsidies should be eliminated or reformed, or even if the data center industry is worth pursuing at all.

Beyond sales and use tax exemptions and property tax abatements, incentive evaluations should cover other state and local programs available to the data center industry, such as income tax credits (research and development or investment credits), infrastructure development programs, or workforce development programs.

Subsidy evaluations should include both a fiscal impact analysis and cost-benefit analysis. These studies should be conducted by independent public research agencies or universities, and not by private consultants, data center developers, or the agencies that administer the subsidies themselves. Pew Charitable Trust offers a high quality **guide for public officials** on how to effectively evaluate subsidy programs.

If lawmakers ultimately decide to retain data center subsidies, strict guidelines should be implemented, as discussed further in Section 3.

## SUBSIDY SUNSETTING EXAMPLES

### Legislative

Virginia **SB 30 (2026 Budget)** (2026, proposed) would move the sunset date for the sales and use tax exemptions for data center operators and tenants from 2035 to July 1, 2026, effectively ending the program nearly a decade earlier.

### Legislative

Maine **LD 713** (2026, enacted) excludes new data centers' eligibility for tax subsidies under two broad-based programs: the Business Equipment Tax Exemption, which provides **100 percent property tax exemptions**, and the Dirigo Business Incentives, which provides **refundable income tax credits** based on investment amounts and employment. This prohibits new projects from benefiting from major tax breaks in the state (Maine does not have sales and use tax exemption for data centers). The law also requires the Department of Economic and Community Development to study and produce a report on all possible subsidies that data centers could utilize.



## SUBSIDY PAUSE EXAMPLES

### Executive

On May 27, 2026, the Governor of Ohio **directed** the Ohio Tax Credit Authority to pause consideration for data center tax exemptions. While the pause does not apply to existing contracts, allowing many companies to keep benefiting from significant tax breaks, it was immediate and prevented companies from rushing to put in applications. The pause will be in place while the Ohio General Assembly's Joint Data Center Committee studies the industry's impact on the state. The pause did not apply to incentives offered through Jobs Ohio, another state-level economic development agency.

### Executive

On June 25, 2026, the Governor of Massachusetts **paused** the Commonwealth's data center sales tax exemption applications until stronger community, worker, and environmental protections are in place. The framework requires developers to fund their own clean energy and infrastructure, protect water and air quality, minimize noise, support union jobs, and engage meaningfully with communities before receiving public subsidies. However, the framework does not address the growing cost of those tax exemptions.



## STUDYING INCENTIVE IMPACT EXAMPLES

### Legislative

In 2024, Virginia's Joint Legislative Audit and Review Commission (JLARC) issued a **comprehensive audit** of the data center industry's impact on the state's economy. The report analyzed data center impacts on tax revenue, and found that for every dollar abated through the state's data center sales tax exemption, Virginia recovers only 48 cents in additional tax revenue.

### Executive

The Georgia Department of Audits and Accounts commissioned a 2025 **audit of data center tax subsidies**, evaluated by University of Georgia researchers. The audit compared the tax revenue generated by data centers against the tax revenue foregone through sales and use tax exemptions and found that the program resulted in net losses to state tax revenue. The audit also tested whether the tax break is necessary to attract investment and estimated that 70 percent of data center projects would still have been built in Georgia, even without the subsidy.

# STRATEGY THREE

## Establishing Subsidy Reforms

*If states cannot sunset their data center subsidies, or if states decide to keep some form of subsidy following a review of their impact, they can substantially reform those subsidies to protect the public interest. If subsidies must remain, policymakers should consider implementing additional guardrails on them to help mitigate the fiscal harms associated with unchecked data center subsidies. Subsidy reform may include imposing cost controls, local hiring and economic impact targets, other conditions related to environmental or grid impacts, and transparency and local input requirements. These controls are detailed in the sub-strategies below.*

### 1 Imposing Data Center Subsidy Cost Controls

Data center subsidies can be designed with a variety of cost controls to ensure that they are not overexploited, redundant, or perpetual. Most data center subsidy programs were designed as open-ended commitments. For example, once a facility qualifies for a sales and use tax exemption, that exemption can apply not just to the initial construction, but to equipment replacement cycles for years afterward. This open-ended structure creates runaway costs.

Short of a full repeal, lawmakers can amend their data center tax exemption enabling legislation to narrow the scope, cost, and duration of these programs. The list below offers a menu of cost control options available to policymakers:

**Cap** the total amount of tax breaks any single facility can receive each year and over its lifetime.

**Cap** how much revenue the program can grant tax exemptions for each year.

**Disqualify** crypto mining facilities from eligibility, as these facilities are **particularly extractive**.



**Disqualify** utility purchases from sales and use tax exemptions.

**Disqualify** construction material purchases from sales and use tax exemptions.

**Limit** sales and use tax exemptions to the initial construction phase only, excluding ongoing equipment replacement cycles.

**Prohibit** data centers from receiving multiple forms of subsidies for a single project, such as property tax abatements provided alongside sales and use tax exemptions (e.g., **Georgia's High Technology Data Center Equipment Exemption**, rule (9)).

**Shorten** data center owners' and tenants' eligibility for incentives to three years at most and require annual certification.

**Require** a state performance evaluation of data center incentive programs every three years, tied to triennial program sunsets.

**Require** annual state reporting of aggregate income, property, and sales and use tax revenue losses caused by data center programs.

**Require** benefiting companies to submit project-specific incentive data to a designated state agency for analysis and be made publicly available. Companies that fail to submit this data should be automatically barred from receiving the subsidy.

**Clearly** designate which state agency is responsible for collecting and publicly disclosing project-specific and program-specific incentive data, at least annually.



## DATA CENTER SUBSIDY COST CONTROL EXAMPLES

### Legislative

Mississippi **SB 3168** (proposed, 2025) would prohibit crypto mining data centers from qualifying for income tax, sales tax, and franchise tax subsidies. The original bill included statutory definitions of “digital asset” and “digital asset mining.”

### Legislative

Washington **SB 6231** (enacted, 2026) eliminated the sales and use tax exemption for data center equipment replacement, affecting both existing certifications and new applicants. It removed “replacement server equipment” from the list of purchases eligible for the exemption. Notably, the bill’s clear statutory definitions distinguished replacement equipment from original equipment, a model other states could adopt to avoid ambiguity in their own statutes.

### Legislative

Minnesota **HF 1346** (enacted, 2025), the state’s tax omnibus bill, removed electricity from the list of purchases eligible for the data center sales and use tax exemption program.

### Regulatory

**Georgia’s High Technology Data Center Equipment Exemption**, rule (9). While data centers are exempt from state and local sales and use tax (as long as key conditions are met, see Rule 3, “Scope of the Exemption”), those centers that hold a valid exemption certificate cannot claim any other tax credits for jobs, investments, or any other business activity connected to the data center.

## 2 Requiring local hiring and economic targets for data centers.

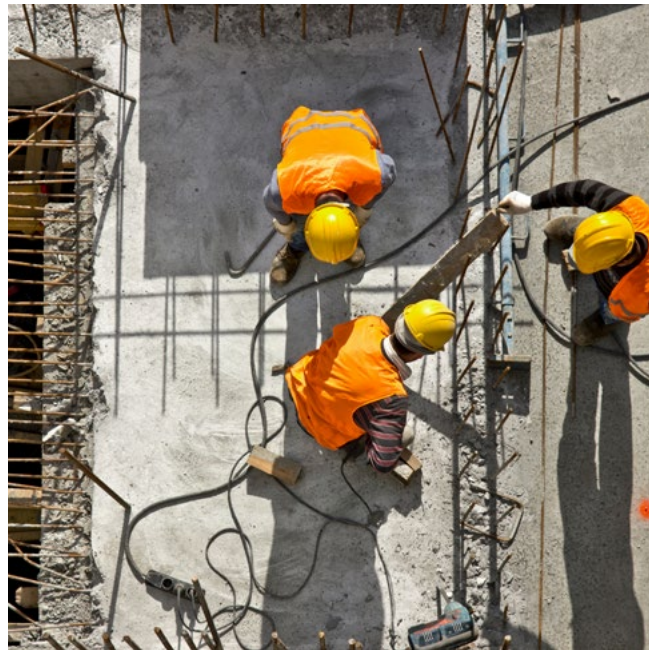
Lawmakers should attach strong job creation, job quality, investment, and other requirements to any economic subsidy program or deal for data centers. It is important to note that subsidies are not necessary to deliver economic benefits from additional jobs, but if a state must offer subsidies, at minimum, the following job requirements should include:

**Local hiring.** Companies should be required to hire from the local or regional labor force. At minimum, lawmakers can include a requirement that permanent jobs and a certain percentage of construction hours are filled by state residents.

**Living wages.** Wages should be sufficient to support a family's basic needs. One option is to require all workers to earn regional median wage for industry, with that figure indexed to inflation over time. Lawmakers can use tools such as [MIT Living Wage Calculator](#) or [Economic Policy Institute's Family Budget Calculator](#) to determine those wages. However, lawmakers must avoid putting into legislation specific amounts workers should be earning, whether those are hourly wages or annual salaries. Specific wages risk stagnation and require frequent amendments to keep the wage requirement meaningful.

**Healthcare coverage.** Beyond strong wages, data centers should be required to provide all workers with healthcare benefits and to cover at least 50 percent of the premium costs.

**Direct employment only.** Only direct, full-time employees should be counted towards job creation goals. Lawmakers should ensure that subsidies do not apply to positions that are filled through staffing or temporary agencies as those tend to have lower job security standards.



**Construction-phase standards.** During construction, a set percentage of work hours should go to local or regional workers, preferably union labor, paid at prevailing wage rates. Companies can also be required to partner with state-certified apprenticeship programs.

**Labor Peace Agreements (LPAs) and Project Labor Agreements (PLAs).** Companies can be required to work with unions on LPAs and PLAs. LPAs require companies to work with unions in a way that gives permanent workers the ability to choose whether they want union representation. PLAs require companies to work with unions to set standards for all construction workers on a project.

Good Jobs First's [guide on using economic development incentives for equity and shared prosperity](#) provides additional standards that lawmakers can attach to data center subsidies to maximize public benefit.

## LOCAL BENEFITS REQUIREMENT EXAMPLES

### Legislative

Illinois' Sales and Use Tax Exemption for data centers (**20 ILCS 605/605-1025**) requires that participating data center companies ensure that their contractors sign project labor agreements. Those agreements set job standards for union and non-union construction workers.

### Legislative

Nevada's data center tax abatements program (**Nev. Rev. Stat. 360.754**, or see program **requirements description**) requires participating companies to hire Nevada residents, including a requirement that at least 50 percent of construction jobs be filled by state residents (although this requirement can be waived under certain circumstances). Companies must offer a health insurance plan to all workers and cover at least 65 percent of the premium costs. Additionally, large data center projects must provide workers with 12 weeks of family and medical leave and pay workers no less than 55 percent of their regular wage.



## 3 Requiring data centers to demonstrate their commitment to clean energy, water efficiency, energy affordability, grid reliability, and emissions targets in order to qualify for tax breaks.

States can make any data center subsidies conditional on meeting requirements to minimize qualifying projects' impact on emissions, energy affordability and reliability, water use, and more. They can also require that qualifying data centers make disclosures about their impacts on the local community and environment, including conducting any necessary studies to properly reveal that impact. Each of these types of requirements is detailed more thoroughly **in other issue-specific toolkits in this series**, but this section will highlight some key provisions that state authorities may wish to prioritize in setting conditions on data center subsidies.

**Requiring data centers to utilize clean energy, either on-site or off-site.** For example, Massachusetts has paused its data center tax subsidies, while **issuing a framework** specifying that when they are resumed, data centers seeking a sales and use tax exemption will be expected to bring or fund clean energy generation sufficient to meet 100 percent of the data center's demand.

**Requiring data centers to meet certain on-site energy efficiency standards.** For example, **Illinois law provides** that, in order to qualify for subsidies, data centers must certify within two years that they are carbon neutral, or have been built to a green building standard (including BREEAM, ENERGY STAR, ISO-50001, LEED, Green Globes, or others specified by the Department of Commerce and Economic Opportunity).

**Requiring data centers to pay the full cost of serving their electric demand.** For example, Pennsylvania's governor has **issued a framework for data center regulation** that includes a requirement that data centers pay 100 percent of their costs to the grid. Subsequently, Pennsylvania's **Executive Order 2026-05** compelled the Department of Revenue to

update the state's Sales and Use Tax Exemption to require applicants comply with this and other framework requirements.

**Requiring data centers to co-locate with other energy users** who might productively complement their energy profile, including offtaking waste heat in a thermal energy network.

**Requiring load flexibility in data center operations**, curtailing demand or meeting it with on-site sources during periods of peak grid demand in order to maintain system reliability and minimize the need for grid upgrades.

**Requiring data centers to meet certain water usage standards**, utilize best practice water efficiency technologies, mitigate impacts to water resources, or invest in other water conservation efforts across their region. For example, Colorado **SB25-280** (2025, proposed) would require data center applicants for tax benefits to commit to implementing water stewardship strategies that optimize operational water management, and include water resource availability and water management and stewardship plans in their application.

These and many other provisions have been explored in states looking to minimize data centers' impacts on the grid, their local communities, and the environment at large. While many of these provisions are best deployed as mandates, they can also be attached as conditions to qualifying for existing data center tax breaks, in line with the other subsidy reforms recommended in this section.

To amplify benefits, states can pair the above requirements with the cost controls outlined in Strategy 3.1 to ensure the subsidies that do remain protect the public interest and contain appropriate guardrails. For a 50-state review on state tax subsidy requirements for data centers, see **Table 2** from the National Conference of State Legislatures' (NCSL) report.

## 4 Creating Strong Enforcement Requirements of Subsidy Conditions.

Strong data center subsidy requirements are meaningless without strong enforcement. Whether subsidy requirements address cost, local economic benefits, or other environmental or grid metrics, lawmakers should ensure that every data center subsidy program or deal has robust accountability mechanisms built in from the start. These mechanisms can include:

**Reporting requirements:** Require that data center companies report regularly to public agencies on their progress toward program requirements. Public agencies should establish processes that include independent verification of the reported data.

**Clawback provisions:** Write provisions into legislation that require a company to forfeit or repay subsidies it received if it fails to meet the conditions attached to the award. Those provisions could include an immediate suspension from the subsidy program and repayment of benefits already received. If lawmakers establish monetary fines, they should be set high enough to genuinely deter noncompliance, otherwise companies may prefer to pay fines rather than meet the obligations. Clawback provisions should not allow any grace periods or partial compliance thresholds before they are triggered, such as implementing a clawback only when a company fails to create 80 percent of required jobs. By allowing these kinds of loopholes, subsidy requirements would be made meaningless.

**Transparency:** To ensure full public accountability, state and local governments should publicly disclose company applications, performance data, any penalty or clawback actions taken, the reasons for those actions, and the clawback status. Lawmakers can write those requirements into enabling legislation, or they can amend other laws that might prohibit public agencies from disclosing such documents.

## ENFORCING SUBSIDY CONDITIONS EXAMPLES

### Legislative

Illinois Sales and Use Tax Exemption for data centers (**20 ILCS 605/605-1025**) requires data center companies to report annually to the Illinois Department of Commerce and Economic Opportunity on the amount of exemptions claimed. Companies that fail to submit these reports risk losing their exemption certification and, with it, their eligibility for the subsidy. Lawmakers may strengthen this accountability provision and ensure consistent enforcement by revising the language from “may result in suspension or revocation” to “will result in suspension or revocation.”

### Legislative

Texas State and Local Sales Tax Exemption for Qualifying Large Data Center Projects (**TX Tax Code Sec. 151.3595**) holds that if a data center company fails to meet job creation, investment, or power purchase requirements, the Texas Comptroller will revoke the company’s registration in the program, and the company must repay all taxes owed, including penalties and interest. This is an example of a non-discretionary penalty, meaning it applies automatically rather than being left to administrative decision, however, states should still be cautious that terms of these agreements cannot be renegotiated after the fact to avoid compliance, as has been **documented in Texas.**

## 5 Requiring project disclosures, prioritizing local process safeguards that enable more effective civic engagement.

### *Pre-Approval Disclosures*

Lawmakers and public officials must ensure that economic development subsidy deals for data centers are approved through a transparent, democratic process. This should include a minimum of 90-day advance disclosure period. This time allows for the public and policymakers to inspect potentially complex documents and understand a project’s impact on local communities. Community members can form coalitions to ask questions and make their voices heard. During this time all relevant documents regarding a data center project or subsidy application should be made available for public inspection, including:

Full accounting of any state and local subsidies being requested, including tax incentives, grants, infrastructure development support and any other public assistance.

An independently conducted cost-benefit analysis of each project with clearly stated underlying assumptions.



An independent fiscal analysis on all affected jurisdictions, including the state, school districts, municipality and county governments, and other taxing jurisdictions, covering both direct revenue losses from the tax break and any passive revenue loss (i.e. any revenue reductions occurring as a side effect of a subsidy program design).

Unredacted project applications for state and local subsidies or permits, including the legal name of the facility's end user or owner (not merely the developer, an LLC, or a project code name).

The amount of standby power generation the facility will have, the associated air pollution, and the heat produced by on-site power generation.

The amount of water the facility will use, along with the contaminants it will discharge and their concentrations.

The amount of power the facility will consume and whether new power transmission lines will be required.

The noise pollution the facility will generate, including decibel levels and distance from other land uses.

### REQUIRING PUBLIC DISCLOSURE OF STATE AND LOCAL SUBSIDIES AND PERMIT EXAMPLES

#### *Regulatory*

Under Massachusetts's data center sales and use tax exemption program, applications and other documents submitted to the Executive Office of Economic Development are public records, subject to disclosure (40 CMR 9.08).



### *Post-Approval Disclosure*

Similarly, lawmakers must ensure that information about companies actively receiving subsidies and the benefits associated with those awards are transparent and easily accessible after they are awarded. This transparency allows the public and public officials to analyze whether data center subsidies are effective in growing the economy over time. It also ensures that government officials and the public have the information they need to hold individual companies accountable.

Disclosure requirements should include:

The names of all companies receiving subsidies, including data center owners, operators, and occupants, as well as the ultimate corporate parent of each subsidy recipient.

Approved and projected subsidy amounts, as well as the amounts received by each recipient.

Promised and actual job creation, worker wages and benefits, and company investments.

The full street address of each subsidized project.

Any additional subsidies or public assistance the project receives including property tax abatements, corporate income tax credits, dedicated infrastructure construction, or workforce training support.

This information should be published on an easily accessible public website in a clear, user-friendly format and updated at least annually. To facilitate this transparency, lawmakers might need to require companies receiving subsidies to submit project-specific tax-break data to a designated state agency for analysis and public disclosure. Companies that fail to provide the required information should be automatically barred from receiving subsidies.

In some instances, lawmakers might have to evaluate existing transparency laws to determine whether overly broad confidentiality requirements prevent the public, and public agencies, from accessing information about subsidies and their recipients. *For a full list of the types of disclosures policymakers can require from data centers, see Climate XChange's [Data Center Transparency and Accountability Toolkit](#) and [Disclosure Table](#).*

### **Requiring Community Engagement**

Policymakers should ensure that when data center projects come to a locality, the public is included in the decision-making process and have access to key information in the advance disclosure period. These requirements can be made a condition of receiving subsidies, or may be imposed pursuant to receiving any other permit.

Lawmakers can establish state-level community engagement policies similar to those already governing **Tax Increment Financing (TIF)**, an economic development tool used across the country. Under many state TIF statutes a public hearing is required before a TIF district can be created, giving residents the opportunity to learn about the project and provide feedback.





In Illinois, **Public Act 102-0127** requires public hearings and convenes a Joint Review Board, which includes representatives from affected local taxing jurisdictions who must review development plans. In Oregon, state law **requires** that in addition to regular public hearings, individuals that own real property and are registered voters in a municipality where a TIF district is proposed must be informed about the proposal by mail. Similar participation requirements could be extended to programs governing property tax abatements for data centers.

Many state-level public hearing laws require that public hearing notices are only published in local newspapers. Lawmakers could consider updating such laws by requiring public hearing notices be posted on social media, government websites, sent by mail, and electronically via email or text message to registered voters. State lawmakers can also amend state public hearing laws to prohibit closed or executive meetings of public officials related to data centers.

State lawmakers can ensure that if their state sales and use tax exemption program for data centers abates any portion of local sales tax, local officials have the ability to opt-in or -out of each incentive agreement.<sup>7</sup> At minimum, state agencies should inform local jurisdictions that the state approved a data center for subsidies that will affect their tax revenues, similarly to Connecticut requirements (**Public Act 21-1**).

## ENSURING DISCLOSURE AND ENGAGEMENT EXAMPLES

### Legislative

New York **S.10642** (2026, proposed): no data center would be permitted unless, three months prior to permit issuance, the project has held at least one in-person public hearing in at least one host community. Developers must give communities 30 days notice prior to hearings, as well as provide project information, energy and water impacts, and “a detailed explanation of state and local economic incentives the large data center is applying for and those it has already been awarded.”

### Legislative

Connecticut **Public Act 21-1** (2021, enacted) requires data center developers to enter into a negotiated host municipality fee agreement with the municipalities in which they will be located. Department of Economic and Community Development (DECD) agreements with data centers and host municipalities must include provisions to recoup taxes exempted under the act if the data center fails to meet agreement terms. Further, the DECD must notify any municipalities where data centers will receive property tax exemptions and identify the relevant parties, terms of the agreement, and effective date.

<sup>7</sup> Officials should check if their state operates under **Dillion's Rule (localities only have power granted by the state legislature)** or **Home Rule (localities can govern themselves)**. Climate XChange notes which rule applies to each state on the **State Climate Policy Dashboard**.

### Prohibiting Non-Disclosure Agreements

Lawmakers should prohibit the use of non-disclosure agreements (NDAs) in the approval process for data center subsidies or permits. At minimum, lawmakers should require that any data center related NDAs expire at least 90 days before a binding vote or decision is made at the state or local level. As Public Citizen **recommends**, this prohibition should apply broadly to public officials, employees, and staff, using an inclusive definition of “public employee” to close potential loopholes. States should also establish civil fines for officials who sign prohibited NDAs, and require officials and companies to publicly report any NDAs already in place.

For additional strategies and legislative examples on data center transparency and accountability, see Climate XChange’s Data Center **Transparency and Accountability Toolkit**.

#### BLOCKING NDA EXAMPLES

##### Legislative

Minnesota **SF 4548** (2026, proposed) would prohibit local elected officials from signing NDAs that would restrict public access to information about potential data center development.

##### Legislative

New Jersey **A6181** (2025, proposed) would prohibit data center developers or their agents from entering NDAs with municipal authorities or property sellers. Applicants would have to verify that no party in the real estate transaction used an NDA. Municipalities could not approve site plans or subdivisions for applicants who violate these provisions.

### REFORMING NONFINANCIAL SUBSIDIES

Data center developers often value other project supports, such as expedited permitting and interconnection or negotiated utility rates, more than they value tax breaks. With developers under considerable pressure to deploy the latest processors, offering greater speed-to-market is widely seen as an effective data center subsidy. The judicious use of these types of incentives is explored **in other toolkits in this series**.

The reforms discussed under Strategy 3 need not be limited to tax breaks. For data centers to qualify for expedited permitting, priority interconnection queue placement, and other similar speed-to-market incentives, data centers can be required to show that they are fully disclosing their impacts publicly, maximizing local hiring and economic development, and minimizing their impacts on air emissions, water supply, fossil fuel infrastructure, and other environmental and community externalities. Best practices in the tax context will apply to other nonfinancial subsidies.



# 4

## STRATEGY FOUR

### Levying New Taxes and Fees on Data Centers

*In state contexts where subsidies cannot be sunsetted, states can **levy new taxes** and fees on both new and existing data centers to recoup some of the foregone revenue from subsidies. States can also consider implementing the additional subsidy reforms discussed in Section 3 to ensure that if subsidies must remain, they have cost controls.*

As noted previously, data center subsidies put a strain on state revenues, reducing funding for **public services and infrastructure** including schools, roads, public transit, and healthcare. These challenges are particularly pronounced in light of recent federal cuts to healthcare and food assistance programs. States have two options to recoup some of the funds they forfeit to data center subsidies: (1) Levying new taxes on data centers, specifically by using data center economic activity (such as the purchase of equipment, the property taxes, or electricity use) as a source of state revenue; or (2) levying fees on data centers, which can be directed towards communities and causes that are impacted by data center development, such as historically underserved communities, clean energy investments, infrastructure, electricity efficiency and affordability funds, and job creation.

States should particularly avoid having taxes or fees support general tax cuts or other corporate subsidies and prioritize community feedback on how those funds should be spent.



## NEW DATA CENTER TAX AND FEE EXAMPLES

### Legislative

Illinois **HB5513 / SB4016** (2026, proposed)

An expansive data center regulatory bill, this would create the Hyperscale Data Center Public Benefits and Affordability Fund, funded by annual fees based on data centers' peak demand (up to \$12 million annually). Funding would support state programs such as: Low-Income Home Energy Assistance, Home Weatherization, and Utility Disconnection Avoidance. The Public Benefits and Affordability Fund would also support the Environmental Justice Grant Fund and the Data Center Community Intervenor Compensation Fund, a program created in the bill that provides financial support to community representatives participating in legal or regulatory proceedings for data centers. All funds will be prioritized in communities with data centers and low-income electric customers. Notably, the bill offers special protections for **Equity Investment Eligible Communities** (EIEC), which the state has designated as historically discriminated communities for priority

equitable investment. Data centers cannot be built within three miles of EIECs, until the state Environmental Protection Agency conducts a thorough cumulative impact assessment, which includes both emissions estimates and recommended limits to mitigate identified impacts.

### Legislative

Virginia **SB 30 (2026 Budget), Item 3-5.24 #1c**

From July 1, 2026 until July 1, 2028, data centers will pay an energy usage tax of 1.1 cents per kilowatt-hour of electricity consumed monthly. Revenue from the fee will be deposited into the general fund, and capped at \$600 million annually.

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**NOTE** this fee is small and limited in duration, as legislators were initially pushing for a repeal on tax exemptions. In the future, policymakers could consider creating a larger and indefinite tax on data center electricity usage.

# STRATEGY FIVE

## Preserving Community Choice

*As the tax treatment of data centers is regulated using the strategies outlined thus far in this toolkit, it's important that states don't overlook community choice and local control surrounding data centers. Data centers are local projects mostly impacting their host communities, and state legislatures should empower localities to make permitting, construction, and zoning decisions (e.g., Illinois **SB4206**) or to reject any applications or site plans (e.g., Michigan **SB 1050**, below). Once a community decides to host a data center, they must also have a say in how data center revenue (through state and local taxes and fees) is spent and any additional economic requirements for the center to meet.*

### 1 Enabling Community Engagement in Budgeting

Data center revenue streams are nuanced: state taxes, such as sales and use taxes on data centers funnel into state general funds, while property tax abatements are created at the state level, but administered by local government and directed to local budgets. In other instances, the state may establish a new fee on data centers and specify how those dollars will be spent (e.g., Illinois **HB5513** / **SB4016**). The onus is on state and local governments to include opportunities for public comment and input into their budgeting process.

There are numerous ways for the public to have a greater say in how budgets are developed. Many of the disclosures discussed in Strategy 3.5 can also be used to make the budgeting process more transparent. The **Institute for Local Government** and the **University of North Carolina** offer several strategies for involving the public in budgeting—the more tools a government uses, the greater engagement they will see. Key strategies include:

Distributing online, phone, mail, or in-person surveys to better understand community opinions.

Distributing education and outreach materials by making budgeting documents publicly available, creating fact sheets about the budget and the budgeting process, and hosting community meetings.

Creating advisory boards, commissions, and committees of diverse community members to offer input on budget issues, goals, priorities, and decisions.

Hosting workshops and deliberative forums for communities to gain information, ask questions, engage in deep dialogue, and offer feedback.

**Participatory budgeting**, which allows residents to vote on how a limited pot of money or special fund is spent (though this option has been fairly limited in the US).

## 2 Opting for Community Benefits Agreements and Community Benefits Ordinances

One tool that communities have used in the past to gain more benefits from large development projects is a Community Benefits Agreement (CBA). CBAs are legally binding contracts between companies and local coalitions or NGOs that require companies to meet a set of standards in exchange for a community supporting a project's development. CBAs have historically won real benefits for communities, but they have also been used by developers as a trivial public-relations tool to build support for projects with minimal community benefits.

Community Benefits Ordinances (CBOs), like CBAs, are legally binding agreements requiring data center developers to meet certain standards in exchange for a community's support. While CBAs are agreements between companies and local coalitions or NGOs, CBOs are legally binding agreements between a company and a local governing body.

As former Good Jobs First Executive Director Greg LeRoy points out, **hyperscale data centers present a particular challenge** for the CBO/CBA model. Given the scale, demands, and harms of these facilities, it's unclear whether CBOs and CBAs can reshape such large, extractive projects into truly win-win arrangements. The lack of transparency and the speed at which data centers are built leave communities with little time or resources to organize an effective CBO or CBA campaign before deals are finalized.

We recommend communities proceed with caution before establishing CBAs or CBOs, as many safeguards need to be in place to ensure these agreements follow from good faith negotiation and symmetric information. For example:

The data center development process should be slow and transparent enough to accommodate community inputs and agreements.

Data center development companies should be willing to negotiate in good faith.

Communities must have technical support for negotiating and drafting the agreements.

From there, CBOs and CBAs can include local hiring requirements, prevailing wages, require apprenticeships or union labor. CBOs can also designate how data center taxes and fees should be spent to benefit local economies.

### COMMUNITY BENEFIT ORDINANCE EXAMPLE

#### City Ordinance

Memphis, Tennessee **Ordinance No. 5953** (2025, enacted)

The xAI project in Memphis was approved without any community notice or local input. **Advocates rallied against the project** and worked to integrate community protections. The Memphis City Council ultimately approved an ordinance allowing xAI property tax revenue to support surrounding areas. Twenty-five percent of the property tax collected (up to \$100 million) will fund public benefits projects within a 5-mile radius from the xAI site. The city has developed **a budget proposal** for spending that revenue, which includes priorities such as home repair and weatherization, public safety, road and infrastructure repairs, and more. Some advocates have also discussed scaling this model up to the state level.

**NOTE** that the environmental justice harms and the **legal implications** of the xAI data center should not be overlooked. This CBO offers an intermediary step in harm reduction, but transparency and community notice from the beginning would have significantly reduced local impacts.

## INCORPORATING LOCAL ECONOMIC BENEFITS INTO CBAS EXAMPLE

### Legislative

Illinois **HB5513 / SB4016** (2026, proposed)

Requires data center developers to enter into legally binding, publicly disclosed community benefits agreements with local advisory boards or coalitions. The agreements must prioritize investments that benefit residents of a host community, including through workforce development, community improvements (such as green space development, constructing and renovating community centers, investment in parks and affordable housing), and environmental monitoring. The subsequently-developed Community Benefit Fund will be created and funded by the developer and operated and managed by the community. Developers must also publicly disclose all information on a community reporting website.

Additionally, there are several resources that can help guarantee community protection during the process of negotiating a CBO or CBA. See the NAACP's **Community Benefits Agreement Template**, Connect Humanity's **Negotiation Guide**, AI Now Institute's **Considerations for Community Benefits Agreements**, Climate Mayors' **Data Centers and the Climate Landscape**.

State lawmakers have the ability to create strong regulations to protect communities, workers, and the environment and to set transparency and accountability standards during data center development. Data centers most affect the communities where they're built, and so it is vitally important that those communities have the final say.

Ultimately, localities should be granted autonomy and flexibility to approve or deny data center development; and they should not feel obligated to enter CBAs or CBOs, but still retain state-level protection under law. As discussed throughout this toolkit, data centers are overly subsidized, and instead of benefitting multi-billion dollar corporations, revenue from their development should be directed back to communities, should they agree to host a data center.

## CODIFYING COMMUNITY PROTECTIONS INTO STATE LAW EXAMPLE

### Legislative Example:

Michigan **SB 1050** (2026, proposed)

Would require data center operators to enter into a legally binding agreement between themselves and community stakeholders, including the local government. The agreement must outline how the data center will "accommodate and benefit the public health, safety, and general welfare" of the host community, and if a data center developer cannot show that benefit, local governments can reject the agreement, and subsequently reject all project permits, site plans, and authorizations.

**NOTE** While the language of this bill is vague, local control is an essential step in enshrining community protections into state law. Policymakers could also consider requiring CBAs or CBOs to outline how a data center will offer local tax and economic benefits. Given that Michigan, and nearly 40 other states do offer data center subsidies, using legislative text to highlight the over-subsidization of data centers and the importance of re-allocating funds to community needs is essential in mitigating economic impacts from data center development.

# Conclusion

Due to ballooning tax break program costs, states have recently begun considering the fiscal and economic impacts of data center development, with a growing number implementing new guardrails on their subsidies. Throughout this report, we offer examples of states that have begun to impose moratoria on data center development while assessing fiscal and other risks, have paused their subsidies, and are working to implement subsidy reforms, levy new fees, and shift more control to localities.

The paradigm for data center subsidies has shifted just in the past year, and states should consider

alternatives for cost controls moving forward. It's true that data centers can benefit state and local economies, but those benefits do not justify billions of dollars in unchecked subsidies. States could consider pausing data center construction to better understand the economic and fiscal impacts before deciding on how to reform or eliminate their subsidies altogether. Revenue generated from data centers should fund programs that mitigate harms to local communities or support general state budget health. Finally, local control and autonomy is essential and local communities should have a say in how data center dollars can benefit them the most.



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