CREC CENTER FOR REGIONAL ECONOMIC COMPETITIVENESS

The Digital Backbone

Data Centers, Community Tradeoffs, and Regional Competitiveness

Helping states and regions weigh data center investments with clear evidence, sound governance, and an eye toward long-term competitiveness.

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Executive Summary

Artificial intelligence is reshaping the economy, and data centers are its most visible physical form. They supply the computing power, connectivity, and storage behind financial transactions, healthcare systems, logistics, advanced manufacturing, and AI applications across nearly every sector (Stanford Institute for Human-Centered AI, 2025; U.S. Department of Energy, 2024). They are also arriving faster than many states and communities can evaluate them, and the resulting debates rank among the most contested in economic development today.

The opportunities are substantial. Data centers bring billions of dollars in private investment, expand local tax bases, and fund grid, fiber, and water improvements that communities would otherwise finance alone. Counties receiving their first large facility saw total private employment rise 4 to 5 percent over five to six years (Bahar & Wright, 2026). In Virginia, the industry supports an estimated 74,000 permanent jobs, $5.5 billion in labor income, and $9.1 billion in annual gross domestic product, though much of that impact stems from construction and supply-chain activity rather than ongoing operations (JLARC, 2024).

The costs are equally real. Data centers consumed about 4.4 percent of U.S. electricity in 2023 and could reach 6.7 to 12 percent by 2028 (Shehabi et al., 2024). Communities raise legitimate questions about electricity demand and who pays for it, water consumption, air quality, land use, and the value they receive for the incentives they grant (Congressional Research Service, 2025; JLARC, 2024; Lincoln Institute of Land Policy, 2026). Benefits concentrate where deals are well structured. They thin where communities accept investment figures at face value.

This paper offers guidance to the state, regional, and local leaders who face these decisions, and the economic development professionals who advise them. It offers a grounded account of both sides. It treats data centers as enabling infrastructure, comparable to ports, airports, and electric grids, whose value lies in the activity they support. It also highlights areas in which disputes about the evidence persist and where local expectations outrun what research supports. Siting debates have grown emotional, and public meetings have turned adversarial in

ways that strain civic trust well beyond a single project (Data Center Watch, 2026). State leaders hold the instruments that shape these outcomes, including tax policy, utility regulation, and the scope of local authority. The aim here is to help them apply those instruments with evidence rather than assumption, and to help the communities they serve enter these decisions prepared.

Why This Matters for Regional Competitiveness

Economic development has always adapted to major technological transitions. Railroads reshaped trade. Electrification transformed manufacturing. Interstate highways changed the geography of commerce. Today's digital transition, accelerated by artificial intelligence, may prove equally consequential. AI is not simply another industry sector. It is a general-purpose technology with the potential to raise productivity, accelerate innovation, reshape occupations, and change how firms organize production (Bresnahan & Trajtenberg, 1995; Brynjolfsson et al., 2023; Stanford Institute for Human-Centered AI, 2025).

The question that data centers pose is whether states and regions are positioning themselves to participate in the broader economic opportunities that AI and digital technologies create. Policy leaders should view data centers as enabling infrastructure rather than the end goal. Like airports, ports, highways, and electric grids, their value lies less in the jobs they create directly and more in the economic activity they support, including cloud computing, cybersecurity, advanced analytics, research computing, and AI applications.

At the same time, infrastructure decisions are never neutral. Data centers raise legitimate questions about siting, environmental impacts, energy demand, water use, as well as who benefits or bears the burden. These questions often carry implications for environmental justice, especially when facilities, power infrastructure, or related emissions affect communities already facing economic or environmental stress. Debates over individual projects can quickly consume public conversation. Because data centers affect land use, electricity systems, and neighborhood character, they have become lightning rods for public debate. Concerns about location, mitigation, and accountability deserve serious attention. But they should not crowd out the larger economic question of how AI will affect local industries, workforce needs, small businesses, and future sources of competitive advantage.

Successfully navigating these choices requires institutional capacity. Few communities possess all the expertise needed to address the intersections of economic development, energy, workforce, environmental stewardship, land use, and public engagement. States and regions with access to objective analysis, trusted intermediaries, and cross-sector collaboration are more likely to adapt effectively. Public trust is itself a competitive asset because transparency,

accountability, and meaningful engagement build the legitimacy needed to make difficult choices and sustain long-term prosperity (Sabin Center for Climate Change Law, 2024).

Data center development is shifting toward rural America where communities often have less capacity to assess the costs and benefits. About 67 percent of the roughly 1,500 facilities now in development plan to locate in rural areas, even though 87 percent of existing facilities are in urban areas. Nearly 40 percent would locate in counties with no existing data center today, and three-quarters operate in the South and Midwest (Seets & Radde, 2026). Most of these communities have no experience with data centers and limited staff to evaluate their effects.

How far that shift reaches depends on how one defines rural. For their research, Pew used the Census Bureau urban-rural classification, which counts low-density areas on the outskirts of metropolitan counties as rural. The Daily Yonder applied a stricter standard, in which rural means any county outside a metropolitan statistical area. It places about 30 of 529 operating facilities in rural counties, roughly 6 percent, along with about 12 percent of projects approved or under construction, and it finds rural facilities clustered along high-voltage corridors at a median distance of about four miles from lines carrying 345 kilovolts or more. That analysis draws on a crowd-sourced database its compilers describe as preliminary (Tilton & Melotte, 2026).

Peer-reviewed work aligns with these findings. A study of the Washington Metropolitan Area finds data centers concentrated in metropolitan areas, with their uneven distribution driving inter-county competition for tax revenue (Bast et al., 2022), and a Texas suitability model ranked metropolitan regions most suitable on infrastructure, workforce, and energy network resilience (Arzumanyan et al., 2025). Practitioner analysis made by private investors describes the same geography in operational terms, characterizing next-wave sites as exurban parcels that look remote on a map and central on a grid map (Steers Center for Global Real Assets, 2026). Proximity to transmission, rather than settlement type, sets the practical boundary. Loudoun County, Virginia, where a substantial concentration occurs around the Washington metropolitan area, illustrates the mature form of that pattern at the metropolitan edge.

This shift alters the competitive position of rural places. Rural communities have long lost large projects because they cannot assemble deep labor pools. A facility that employs a few hundred people rather than a few thousand reduces that barrier and shifts the competition toward assets rural areas already hold, including large contiguous parcels, water access, proximity to power generation, and lower land costs (Gines, 2026). But it also shifts the debate to areas with the least capacity to independently analyze benefits and costs as well as communities where the lack of transparency and independence create can result in the poorly informed opinions on both sides of the debate that in turn leads to headlines even before a land use decision is made.

Data Centers as Essential Infrastructure

Data centers occupy an unusual place in economic development. They are real estate projects, utility customers, technology infrastructure, and economic development investments all wrapped up together. Evaluated solely by traditional measures such as permanent jobs and payroll, they can appear underwhelming. A hyperscale facility may employ only a few dozen workers once operational, although construction and supply-chain impacts can be substantial (JLARC, 2024). They also vary widely. Hyperscale campuses, colocation centers, and small edge facilities differ in size, employment, water and power use, and incentive practice, and conflating them distorts the debate.

Yet that perspective overlooks their broader significance. Data centers increasingly function as foundational infrastructure for the digital economy, supporting cloud services, financial transactions, healthcare systems, logistics networks, advanced manufacturing, cybersecurity, research computing, and AI applications. Like ports, airports, electric grids, and telecommunications networks, their value lies less in what happens within the facility and more in the economic activity they enable elsewhere.

The scale of investment is substantial. Individual facilities often represent investments measured in hundreds of millions or even billions of dollars. Construction can unfold over five to ten years, creating sustained demand for engineering firms, contractors, suppliers, and skilled trades (JLARC, 2024).

These facilities also require significant inputs from the private sector, including abundant electricity, high-capacity fiber connectivity, suitable land, and sophisticated cooling systems. As a result, they influence utility planning, land-use decisions, and infrastructure investments. Northern Virginia illustrates both the opportunities and the complexities. As of 2024, the region accounted for about 13 percent of global data center operational capacity and 25 percent of capacity in the Americas, raising important questions about infrastructure expansion, cost allocation, and community benefits (JLARC, 2024). Policy leaders, including even staunch supporters, experience constraints in siting these facilities. Large facilities cluster near major transmission and fiber, so relatively few communities will host a hyperscale campus even as many debate the prospect (American Public Power Association, 2026).

For a narrow set of speed-sensitive industries, proximity to the right data center is itself a competitive advantage. Financial trading firms, for example, place their systems beside the exchanges to gain fractions of a second, an edge valuable enough to justify hundreds of millions of dollars in faster connections (Budish, Cramton, & Shim, 2015). Where milliseconds carry commercial value, hosting or sitting near this infrastructure becomes a location factor that can attract high-wage employers.

However, for the most part, the value of these facilities is to the national economy. Unlike a port or a highway interchange, a data center rarely gives its host region a competitive edge, because its computing serves users far away and proximity offers most nearby employers no measurable practical advantage. For the host community, the benefit is therefore indirect. It comes from the grid, fiber, road, and water investments the project funds to enter the area, from the tax base it adds, and from the community benefits it negotiates. That real value is engineered rather than automatic. Communities capture it by planning the resulting infrastructure for shared use and by negotiating deliberately.

The challenge is to become expert at evaluating these investments as part of a broader strategy for regional competitiveness, recognizing both the opportunities they create and the tradeoffs they entail.

Opportunities Presented by Data Center Development

Data center debates often become polarized because participants emphasize different measures of success. Critics focus on the relatively small number of permanent jobs these facilities create relative to the costs. Supporters point to the scale of investment and fiscal benefits. Both perspectives capture only part of the picture.

Hyperscale data centers represent the largest private investments communities are likely to ever attract. Individual facilities commonly involve investments ranging from several hundred million dollars to more than $2 billion, while multi-phase campuses can exceed $10 billion. In Virginia, a single active construction site can employ up to 1,500 workers (JLARC, 2024). The long build-out phase can provide sustained economic activity for the construction sector as well.

Data centers can also generate meaningful public revenue through business personal property taxes, real property taxes, utility taxes, permit fees, and related assessments. JLARC found that these revenues support schools, transportation systems, public safety, and other local services in Virginia (JLARC, 2024). For rural communities or areas with limited options to expand their tax base, this revenue can be especially important. At the same time, its magnitude underscores the need for incentives that are transparent, justified, and periodically evaluated, reforms emphasized by some accountability advocates (Good Jobs First, 2025a). The outcomes documented show both the scale of the fiscal effect and its dependence on timing. For instance, in Quincy, Washington, a state workgroup found the city's levy rate is approximately 70 percent below its 2006 level, so other taxpayers in the city generally pay significantly less (Washington State Department of Revenue, 2025).

These gains coexist with substantial forgone revenue, which is why deal terms matter more than headline investment. In Caldwell County, North Carolina, Google's Lenoir campus carried

an assessed value of about $1.2 billion and paid roughly $5.2 million in property taxes in a recent year, close to 10 percent of tax collections for a significantly distressed county (Business North Carolina, 2026; Inside Climate News, 2026). The county and city also approved performance-based grants rebating 50 percent of real property and 85 percent of personal property taxes over 20 years, awarded only on proof of performance and protected by clawbacks (City of Lenoir, 2024).

Although permanent operational employment is modest, construction phases create opportunities for skilled trades and apprenticeships. Partnerships with community colleges, labor organizations, and K-12 systems, communities can help maximize these benefits to build workforce pathways that extend beyond a single project (Good Jobs First, 2025b).

Data centers can also accelerate investment in fiber networks, electrical infrastructure, and utility modernization. When integrated into broader regional strategies, these assets can strengthen competitiveness and help attract technology firms, research institutions, advanced manufacturers, and other industries that increasingly depend on digital capabilities. The greatest opportunity lies not simply in hosting a data center, but in leveraging it to support long-term economic growth and resilience.

Recent causal evidence gives this expectation firmer footing and sharper limits. Comparing roughly 770 facilities against matched control counties, researchers found that counties receiving their first large data center saw total private employment rise 4 to 5 percent over five to six years, with construction up 11 percent and information sector employment up 22 percent. In those counties with data centers, wages also rose 3 to 4 percent without a significant effect on home prices. The study cautioned, however, that simple comparisons may overstate the employment effect in faster growth counties (Bahar & Wright, 2026).

Facility type and scale determine whether those gains appear. Hyperscale campuses draw fiber installers, network operations, managed service providers, and IT contractors to locate nearby to serve them. Colocation facilities lease space to remote tenants who often have no local presence, so they tend to show no comparable information sector effect. Clustering matters as much as type. Counties with a single facility see modest overall employment gains and no significant information sector growth, while counties with four or more see information sector employment rise 23 percent (Bahar & Wright, 2026). Communities weighing a first, standalone facility should size their expectations accordingly.

Traditional economic development emphasizes direct job creation. Data centers challenge that metric. Their greatest value typically lies in the digital capabilities and broader economic activity they enable. Communities should expect tangible public value, evaluating both immediate returns and the long-term competitive advantages these investments support.

Loudoun County, Virginia marks the outer bound of this fiscal effect. Data centers occupy about 4 percent of the county's commercial land and produce 38 percent of general fund revenue, along with nearly half of all property tax revenue. Assessed value reaches $609 per square foot, roughly triple other commercial uses, and the county reports $26 in tax revenue for every $1 in services it provides to these facilities. That base has generated more than $100 million in new revenue each year (Loudoun County, 2026b, 2026c). The Board lowered the real property tax rate every year for a decade, from $1.145 per $100 of assessed value in tax year 2016 to $0.805 in tax year 2025, the lowest rate in northern Virginia, and held it there for tax year 2026 (Loudoun County, 2026a, 2026b). Without the industry, county officials estimate the rate would exceed $1.00 (Loudoun County, 2026c).

The county treats that same concentration as a risk to manage. Personal property now carries enough of the budget that real property supplies revenue in the low 50 percent range, below the 60 percent Virginia average. Budget staff expect data center personal property revenue to plateau within five to ten years, and they note that the Board must manage spending growth in anticipation or face the prospect of raising future real property or vehicle tax rates. The Board has established and fully funded a revenue stabilization fund drawn from data center receipts, and it treats avoiding dependence on a single evolving revenue source as a standing budget objective (Loudoun County, 2026b). The Commonwealth carries a cost alongside the local gain, since the state sales-and-use tax exemption for data center equipment totaled about $1 billion in 2024 (JLARC, 2024).

Loudoun also shows how much authority rests above the locality. Virginia law bars the Board from adopting a moratorium because leaders must judge each application on its own merits. The Board may not treat electrical demand as grounds for denial, and the State Corporation Commission approves transmission line routes. The county acted through the tools it does control, ending "by-right" data center development in March 2025 and requiring approval of a special exception (Loudoun County, 2026a, 2026c).

That authority varies widely by state. Zoning enabling acts in New Hampshire, Oregon, and Minnesota grant local governments explicit moratorium power. The Pennsylvania Supreme Court has held that the power to enact zoning does not carry the power to suspend it. West Virginia has gone further, barring ordinances that limit high impact data center projects. Communities have adopted at least 100 data center moratoria nationwide (Metzger, 2026). The lesson runs in both directions. A tax base of this scale delivers measurable relief to residents, and it creates a fiscal exposure that the host government must plan around from the start.

Managing the Tradeoffs: Community Concerns and Legitimate Questions

Data center development has become contentious because the tradeoffs are immediate and visible. Unlike many economic development projects, data centers place significant demands on public infrastructure while generating limited direct employment. Taking these concerns seriously reflects an understanding that long-term competitiveness depends on balancing economic opportunity with environmental stewardship, fiscal responsibility, and public trust.

- **Jobs.** A typical hyperscale facility employs about 30 to 100 workers once operational, far fewer than most manufacturing facilities occupying similar amounts of land (JLARC, 2024). Yet focusing solely on direct employment overlooks construction activity, supply-chain impacts, fiscal benefits, and the broader economic value that digital infrastructure enables. Construction, by contrast, can be substantial and sustained. Large multi-building campuses can generate several years of work across multiple phases, and gigawatt-scale campuses can require several thousand workers at peak, which is significant for rural labor markets (Hamm Institute for American Energy, 2025).
- **Energy demand.** U.S. data center electricity consumption grew from 58 terawatt-hours in 2014 to 176 in 2023 and could reach as much as 580 by 2028 (Shehabi et al., 2024). Communities increasingly ask whether existing systems can accommodate this growth and who should bear the costs. Harvard researchers have documented how utility arrangements may shift costs to households and small businesses, and JLARC estimated that some regional ratepayers could face annual increases of $150 to $450 by 2040 absent reforms (JLARC, 2024; Martin & Peskoe, 2025). Some states are adopting rate designs intended to prevent this shift. In Georgia, for instance, regulators now require new large-load customers above 100 megawatts to accept terms that cover the upstream generation, transmission, and distribution costs they impose, explicitly to protect other ratepayers (Georgia Public Service Commission, 2025).
- **Water, air, and community character.** A 100-megawatt facility may consume 530,000 gallons of water daily, depending on cooling technology and operating conditions (Congressional Research Service, 2025). In drought-prone regions, these demands may compete with residential and agricultural uses (Lincoln Institute of Land Policy, 2026). Residents also raise concerns about noise, traffic, lighting, and the loss of open space. Air quality warrants specific attention. Some operators install on-site natural gas turbines to avoid constrained grids, and grid-connected facilities rely on diesel backup generators. Both produce fine particulate matter and nitrogen oxides, which the U.S. Environmental Protection Agency identifies as harmful to human health, though isolating any single facility's contribution to local air quality remains difficult (Ulaky, 2026). Choices in

cooling can change this figure substantially. Closed-loop systems recirculate water after an initial fill, and some facilities use reclaimed wastewater rather than potable supply, reducing community water draw to a fraction of these estimates (Environmental and Energy Study Institute, 2025).

- **Incentives and transparency.** Virginia's data center sales and use tax exemption totaled about $1 billion in 2024 alone (JLARC, 2024), while non-disclosure agreements have fueled transparency concerns: a University of Mary Washington study found that 25 of 31 Virginia localities with data centers had signed such agreements (Bonds, 2025). Incentive practice also varies by operator and by deal. Some hyperscalers have pledged to forgo local property tax abatements while others accept large, multi-year ones, so blanket claims about data center subsidies can mislead (Tax Foundation, 2026). The targeting question matters more than the total incentives since they to only about 2 percent of construction investment in hyperscale counties. For those projects, siting turns instead on the availability of power, land, and fiber. Incentives can represent a much larger share of costs for colocation sites, but those projects generate smaller employment gains (Bahar & Wright, 2026).
- **Long-term use.** Technology changes could shorten the useful life of these facilities. Communities should consider what happens to a large, single-purpose building and its site if computing needs shift and should weigh reuse and decommissioning terms at the outset (Global Data Center Hub, 2025).
- **Community trust.** Finally, data center project proposals can strain civic relationships. Public meetings have grown adversarial, and the resulting conflict can damage the trust regional organizations depend on, sometimes spreading to other kinds of development. Managing the process well is critical not only in gaining the best community advantage but also in sustaining ongoing relations for all future community negotiations (Data Center Watch, 2026).

These tradeoffs do not make data centers inherently beneficial or harmful. They highlight the need for transparent, evidence-based decision-making that balances innovation, affordability, environmental stewardship, and community priorities.

Questions Leaders Should Be Asking

State and regional leaders evaluating data center proposals face uncertainty, incomplete information, and competing priorities. The questions below are the ones worth asking, and pressing partners to answer, before committing to a course of action. They offer a framework for leaders at every level to consider, including the state agencies that set the terms, the

regional councils and development organizations that coordinate across communities, and the local governments that host these facilities.

- *How does a proposed data center investment advance the region's broader economic strategy?* States and regions should consider whether it strengthens digital infrastructure, supports priority industries, enhances resilience, and positions the region to participate in the AI economy.
- *What public value justifies public support for a project?* Incentives should never be automatic entitlements. Leaders should define the fiscal benefits, workforce opportunities, infrastructure improvements, environmental commitments, and community investments they expect in return.
- *Who bears the costs, and are they allocated fairly?* Growth can require investments in energy systems, roads, water infrastructure, and public services. Communities should understand who pays, whether households face unintended burdens, and what safeguards protect affordability.
- *How can short-term activity create long-term opportunity?* Because most employment occurs during construction, states and regions should leverage these projects to build workforce pathways through apprenticeships, community college partnerships, local hiring efforts, and supplier development initiatives (Good Jobs First, 2025b).
- *What environmental safeguards are appropriate given local conditions?* Water availability, electricity systems, and land-use patterns vary widely across regions. Policies should reflect local realities and include mitigation, monitoring, and contingency planning.
- *How transparent is the decision-making process?* Residents should have access to meaningful information about incentives, anticipated impacts, expected benefits, and performance expectations. Transparency does not guarantee consensus, but it strengthens legitimacy and public trust.

Data centers may operate for decades, shaping communities long after construction ends. State, regional, and local leaders are each positioned to insist that these projects deliver more robust infrastructure, expanded workforce capacity, and broader opportunity. Economic development increasingly resembles stewardship rather than competition for projects, and success depends on navigating technological change, environmental pressures, and public expectations.

Principles for Responsible Decision-Making

Across these questions runs a common set of principles. Leaders at the state, regional, and local levels can use them to weigh a project and to set consistent expectations across the many decisions their communities will face.

- **Treat data centers as enabling infrastructure.** Judge them by the economic activity they enable, not by direct job counts alone.
- **Weigh evidence over advocacy.** Consider benefits and costs together, grounded in objective analysis rather than the claims of proponents or opponents.
- **Require public value for public support.** Tie incentives to measurable commitments and evaluate them periodically, rather than treating them as permanent entitlements (Good Jobs First, 2025a).
- **Allocate costs fairly.** Ensure that large electricity and water users contribute appropriately to the systems they require, protecting households and small businesses (Martin & Peskoe, 2025).
- **Fit safeguards to place.** Match energy, water, and land-use policies to local conditions, with mitigation, monitoring, and contingency planning.
- **Insist on transparency and accountability.** Give residents meaningful information and enforceable commitments; transparency builds the legitimacy that sustains difficult choices (Sabin Center for Climate Change Law, 2024).
- **Steward the long term.** Convert short-term construction activity into durable workforce pathways and lasting regional capabilities (Good Jobs First, 2025b).

Public Policy Priorities: Establishing the Rules of the Road

The rapid growth of data centers is shifting the policy conversation from attraction to governance. The focus is less on recruiting these investments since many will arrive regardless. Instead, leaders are asking how this growth can help states and regions participate more fully in the digital economy while ensuring it advances the public interest. Policymakers introduced more than 300 data center bills across more than 30 states during the opening weeks of the 2026 legislative sessions, reflecting this shift (MultiState Associates, 2026).

Several priorities have emerged. Policymakers are seeking to allocate infrastructure costs fairly by ensuring that large electricity users contribute appropriately to the systems they require. At least 18 states considered special rate structures for large energy users, and South Carolina and Maryland both recently enacted laws governing negotiations between utilities and major customers (MultiState Associates, 2026).

Incentives are drawing greater scrutiny to ensure they are transparent, justified, periodically evaluated, and tied to measurable public benefits rather than functioning as permanent entitlements. Thirty-seven states offer incentives targeted to data center development, and Virginia's sales and use tax exemption alone totaled about $2.7 billion cumulatively between 2015 and 2024 (JLARC, 2024; National Conference of State Legislatures, 2026).

Some states are building accountability directly into these incentives. Louisiana's 2024 data center law, for example, conditions its state and local sales-tax rebate on a sworn commitment of at least 50 permanent jobs and $200 million in new capital investment, sets a defined 20-year term, and authorizes the state to recapture rebates if a facility fails to meet its obligations (Louisiana Act 730, 2024). Louisiana has since gone further. A June 2026 executive order directs the state to make a Ratepayer and Community Protection Framework a condition of that same exemption, requiring companies to attest, before they can participate, to how a project will protect ratepayers, strengthen grid reliability, support workforce development, contribute to local tax bases, steward natural resources, and maintain transparency and accountability (Louisiana Office of the Governor, 2026).

Communities are also strengthening environmental safeguards by examining water use, emissions, cooling technologies, and mitigation strategies tailored to local conditions. Minnesota established separate water-permitting requirements for data centers in 2025, and other states are weighing similar approaches (MultiState Associates, 2026). Local governments are updating zoning standards, setbacks, and design requirements to preserve meaningful influence over how growth occurs. Many localities are also enacting temporary moratoria to give themselves time to plan, an increasingly common first step (MultiState Associates, 2026).

Transparency has become equally important. Residents increasingly expect access to information about incentives, ownership structures, anticipated impacts, community commitments, and performance outcomes. Policymakers are also looking beyond direct employment to maximize broader economic benefits through apprenticeships, workforce partnerships, supplier diversity initiatives, and digital skills investments (Good Jobs First, 2025b).

Competitiveness and stewardship are not opposing objectives. Regions that establish clear expectations, transparent processes, and predictable rules may become more attractive to both investors and residents. Effective governance itself is a competitive advantage in the age of artificial intelligence.

The Roles of State, Regional, and Local Leaders

Data center outcomes depend on coordinated action at the local, regional, and state levels because each controls decisions and tools the others do not. State agencies set the terms,

regional organizations coordinate planning across boundaries, and local governments make the land-use decision itself. The sections below describe what each level can do, followed by the responsibilities they share.

State Leaders

State economic development agencies hold a distinctive position. Much of the authority that shapes data center outcomes rests at the state level. States set the tax treatment that drives project economics. State utility regulators approve the rate structures that allocate infrastructure costs. State law defines which tools local governments may use. State agencies also reach the communities least equipped to evaluate these proposals on their own, and that reach is becoming more valuable as development moves toward counties with no prior experience hosting these facilities.

- **Set incentive terms and evaluate them.** State exemptions usually represent the largest public contribution to these projects. Virginia's data center sales and use tax exemption totaled about $1 billion in 2024 (JLARC, 2024). Louisiana conditioned its incentives on ratepayer and community protections (Louisiana Office of the Governor, 2026). Agencies can tie eligibility to measurable commitments and schedule periodic evaluation.
- **Equip local governments before proposals arrive.** Communities that hold site profiles, fiscal impact templates, and model benefit agreements negotiate from a stronger position than those responding under deadline (Gines, 2026). Few localities can build these tools alone, and states can supply them at scale.
- **Clarify what authority localities hold.** Moratorium and zoning authority varies widely across states, and some legislatures have moved to restrict local control (Metzger, 2026). State agencies can advise legislatures on where clearer local authority serves state competitiveness and where preemption erodes the public trust these projects require.
- **Engage utility regulators on cost allocation.** Rate design determines who pays for grid expansion. Georgia now requires large loads above 100 megawatts to cover the upstream costs they impose (Georgia Public Service Commission, 2025). Economic development agencies have a direct stake in structures that protect households while keeping the state attractive to investment.
- **Commission independent analysis.** Developer projections rarely satisfy skeptical residents. Virginia's legislative review gave policymakers a shared evidence base covering employment, fiscal effects, and ratepayer exposure (JLARC, 2024). States can fund comparable work and publish it openly.
- **Track statewide exposure.** Concentration risk accumulates beyond any single jurisdiction. Loudoun County shows both the scale of the fiscal gain and the discipline

required to plan for a plateau (Loudoun County, 2026b). States can monitor aggregate revenue dependence and forgone revenue together.

- **Connect projects to workforce systems.** Construction carries most of the employment these facilities generate (Hamm Institute for American Energy, 2025). State workforce and economic development agencies can align apprenticeship and training pipelines to multi-year build schedules.

Regional Leaders

Regional councils of governments and development organizations occupy the middle tier, and their value grows as facilities and their grid, water, and road impacts cross jurisdictional lines. These bodies hold no permitting authority, but their advisory and coordinating role is well suited to a decision that rarely respects municipal boundaries (Center for the Study of Federalism, 2023).

- **Coordinate across jurisdictions.** A data center in one county can strain the transmission, water, and roads of its neighbors. Regional bodies convene the affected jurisdictions to plan for infrastructure and mitigation needs to avoid fights that may emerge afterward.
- **Pool technical capacity.** Small localities rarely have the fiscal, utility, and land-use expertise these proposals demand. Regional organizations often can hold that capacity once and extend it to every member, which matters most in the rural counties now seeing first-time proposals.
- **Spread lessons and steady the field.** Regional councils are already briefing members on data center impacts and mapping regional activity to inform local decisions (Treasure Coast Regional Planning Council, 2026). Peer learning helps neighboring jurisdictions compare terms and avoid competing incentives into a race to the bottom.

Local Leaders

Local governments make the decision that determines whether developers can build a facility and on what terms. They control the levers closest to the ground, and they carry the public trust that a contested project can strain.

- **Own the land-use decision.** Zoning, special-exception review, setbacks, and site plan approval rest with local government. Clear standards set before a proposal arrives give a community firmer footing than rules written under deadline.
- **Negotiate the community benefit.** Local leaders negotiate community benefit agreements for each project. This is the primary mechanism for converting private investment into shared public value. Communities capture the most when they know what to ask for and ask early.

- **Run a process that holds trust.** Local leaders set the tone of the public process. Transparent information, genuine engagement, and honest treatment of tradeoffs determine whether a decision, either way, leaves the civic fabric intact.
- **Prepare before proposals arrive.** Site profiles, fiscal impact templates, and model benefit terms developed in advance let a local government enter discussions with clear expectations rather than react to a developer's timeline.

Shared Responsibilities

Some obligations fall on every level, and they are where the principles above become practice. Leaders at each tier should insist on evidence over developer projections, tie public support to measurable public value, and weigh a facility's decades-long life and the concentration risk a large tax base can create. Each level protects the same asset, a neutral and transparent process that residents can trust. The levers differ by tier, but the standard does not.

Communities hold more leverage in these conversations than they often assume. Demand for viable sites is high, so developers need communities as much as communities need them, and that balance creates room to negotiate on workforce commitments, infrastructure, and resource use (Ulaky, 2026). These roles share a common thread. State agencies shape the conditions under which investors make data center site location decisions, but localities determine whether the private sector can build the facility.

The Current State of Practice

Traditional attraction strategies built around investment announcements and projected tax revenues no longer satisfy skeptical communities. Residents increasingly want to understand the factors influencing decisions, who benefits, who bears the costs, and what safeguards ensure commitments are honored over time. In response, economic and workforce development practice is evolving toward greater transparency, accountability, and stewardship.

Community decision-makers are increasingly using legally binding Community Benefit Agreements (CBAs) to address local concerns and translate investment into measurable public value (Sabin Center for Climate Change Law, 2024). In 2025, for example, Lancaster, Pennsylvania, secured about $20 million in community investments along with a clean-energy requirement, illustrating the importance of clear standards and enforceable obligations (LancasterOnline, 2025). Effective agreements tend to include specific local-hiring goals, resources for worker training or work-based learning, clawback provisions, direct community payments tied to defined obligations, environmental monitoring, and clearly identified owners and enforcement terms.

Developers are also responding to heightened expectations around sustainability. Renewable energy procurement, water stewardship, emissions reductions, and public reporting have become common features of proposed projects. Communities have learned that broad aspirations are insufficient; the most credible commitments are specific, time-bound, and independently verifiable.

The modest operational workforce associated with data centers has prompted workforce leaders and economic developers to broaden their focus. Rather than concentrating only on permanent jobs within a facility, they are working to leverage these investments to strengthen regional talent systems, especially for construction. Partnerships among community colleges, apprenticeship programs, labor organizations, K-12 systems, veterans' initiatives, and employers can convert temporary construction demand into long-term career pathways and enhanced regional capabilities.

Economic developers increasingly serve as conveners of stakeholders, translators of technical information, facilitators of community dialogue, negotiators of public value, brokers of partnerships, and stewards of public trust. Workforce leaders are undergoing a similar evolution, moving beyond traditional program administration to become architects of regional talent ecosystems who anticipate emerging skill needs, align education and training systems, engage employers, and connect residents to opportunity.

This evolving response reflects a broader transformation in regional leadership. Success increasingly depends not simply on closing deals, but also on helping communities navigate complexity, align stakeholders, and ensure that economic transitions generate benefits that are transparent, broadly shared, and consistent with local values. The public debate over data centers is itself creating new leverage to engage private investors in building the public infrastructure that competitive regional economies require.

Opportunities for State Leadership

For leaders at the state, regional, and local levels, the debate surrounding data centers reflects a broader challenge facing economic development. States, regions, and communities must decide questions at the intersection of technology, infrastructure, workforce systems, environmental stewardship, utility regulation, and public engagement. Few hold the analytical capacity or cross-sector expertise to work through these issues alone. State economic development leadership sits closest to that gap, with statewide perspective, standing relationships with utilities and legislatures, and a mandate that reaches the communities most affected.

States can close that gap by building capability that serves every community facing a contested project, rather than by responding one case at a time. The role is that of a trusted intermediary,

supplying evidence and structure instead of taking a position for or against particular projects. Five investments would carry the field furthest, and states could help move these efforts forward.

- **Decision frameworks.** Structured tools that help communities weigh fiscal, workforce, infrastructure, environmental, and competitiveness tradeoffs. States can build these once and let localities adapt them.
- **Readiness tools and model practices.** Site profiles, model benefit agreements, and guidance on public engagement, transparency, and accountability that local leaders can put in place before a proposal arrives.
- **Peer learning networks.** Convenings that connect economic developers, workforce leaders, utilities, planners, researchers, and community representatives, within a state and across state lines, so hard-won lessons travel.
- **Independent fiscal and economic analysis.** Objective assessment that grounds difficult conversations in evidence, including the design and review of community benefit agreements. States that commission and publish this work spare communities from negotiating against developer projections alone.
- **An applied research agenda.** Work on AI-driven electricity demand, water stewardship, the workforce implications of automation, and effective regional governance, pursued with universities and research partners.

The greatest contribution state leaders can make extends well beyond any single siting decision. Technology will change, and the pattern will repeat. States and communities will keep facing large, contested projects that arrive faster than local capacity can absorb them. States that build durable analytical capacity now will be ready for whatever follows data centers, and the communities they serve will enter those decisions informed rather than reactive.

Conclusion

Artificial intelligence and digital technologies are reshaping how firms compete, how workers create value, and how regions position themselves for growth. Data centers have become one of the most visible manifestations of this transition because they occupy physical space, consume significant resources, and require communities to make difficult choices in real time (Shehabi et al., 2024; Stanford Institute for Human-Centered AI, 2025).

The larger data center story lesson ties to how states and regions navigate technological change. Economic development has always involved helping regions adapt to transformation, from railroads and electrification to highways and broadband. AI and the digital economy represent the latest chapter in that ongoing story.

The debates surrounding data centers remind us that economic development involves more than a contest focused on individual projects. Communities increasingly expect growth accompanied by transparency, accountability, environmental stewardship, and broadly shared opportunity. These expectations are an increasingly integral part of the competitiveness agenda.

The challenge facing leaders at the state, regional, and local levels, and the economic developers and utilities they work with, is building the capacity to make thoughtful decisions under uncertainty. What matters is the quality of the decision-making process. Do communities have access to objective information? Are tradeoffs understood? Are residents meaningfully engaged? Are commitments transparent and enforceable?

Data centers may be the digital backbone of the emerging economy, but resilient institutions, informed leaders, and engaged communities form the civic backbone that ensures the benefits of technological progress are broadly shared.

Communities face these choices every day, and data centers are only the most recent manifestation. A critical opportunity lies in equipping leaders with the evidence, tools, and frameworks they need to navigate them well, and in turning a contentious moment into lasting regional prosperity. State economic development agencies must position themselves to build that capacity across the communities they serve.

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