Sector in Focus **October 2026**

When Data Centers Come to Town: What Local Governments Should Consider Before Saying Yes

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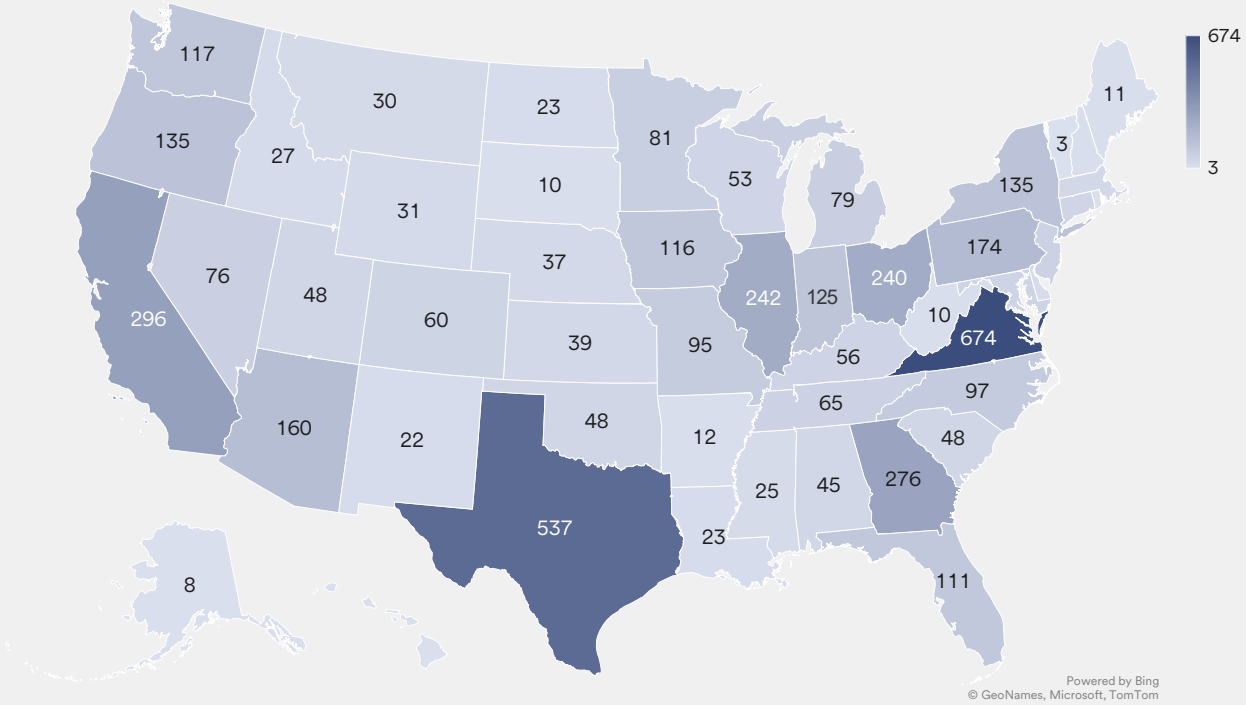
Artificial intelligence is expanding the physical infrastructure behind the digital economy. Across the country, developers and technology companies are planning data centers to support AI training, cloud services and rising inference workloads.

For local governments, the opportunity can be compelling: construction activity, private investment, and potential tax revenue. The harder question is whether the long-term benefits justify the incentives, infrastructure commitments, and resource demands that may accompany a project. Answering it requires a clear-eyed assessment of who pays, who benefits, and how risk is allocated over the life of the development.

A major investment can bring benefits without transforming the local economy

Data center location decisions are shaped by land availability; access to dependable, competitively priced power; network connectivity; permitting; exposure to natural disasters; proximity to users; and tax incentives. Large facilities used to build and train AI systems can be located farther from population centers because that work does not require an immediate response. As more people and businesses use AI in real time, smaller facilities may also be built closer to users to provide faster responses.

Data Center Locations by State



Data center development is occurring across a growing number of states, creating opportunities and challenges for local governments.
Source: DataCenterMap.com data compiled and visualized internally by U.S. Bancorp Asset Management. Data extracted October 2026.



Once a project selects a location, construction can support local contractors and investment in roads, utilities, telecommunications, and related infrastructure. In high-density markets, data centers may also contribute to a broader ecosystem of fiber, energy infrastructure, construction, and manufacturing. These benefits are meaningful, but they are not the whole economic-development story.

The operating phase looks different from construction. Data centers generally create relatively few permanent jobs for their size, limiting their effect on population growth, housing demand, and broader economic diversification. Communities should therefore evaluate projects against the benefits they are actually likely to deliver, rather than the employment profile of a labor-intensive headquarters or manufacturing facility.

The public-finance analysis begins with infrastructure and incentives

Data centers can require substantial electric capacity and, depending on design and location, water resources. A project may require power generation, transmission, substations, treatment capacity, roads, or other infrastructure. Before approving incentives or public commitments, officials should understand the full cost of serving the facility and how those costs will be allocated. If agreements and rate structures do not reflect the project's infrastructure requirements, existing taxpayers or utility customers may bear part of the cost.

Incentives add another layer to the analysis. More than 70% of states offer tax incentives to attract data centers, according to the National Conference of State Legislatures.[1] Common tools include property-tax abatements, payment-in-lieu-of-taxes agreements, and income- and sales-tax exemptions. These incentives can influence location decisions, but they may also reduce or defer public revenue for long periods.

The key question is not how the investment compares with the incentive, but whether the community's benefits outweigh its costs. Officials should compare realistic net revenue with the infrastructure, operating, and opportunity costs associated with the project while evaluating four critical areas: economic development, tax revenue, infrastructure investment, and community impact.

Potential Benefits	Key Questions
Economic Development	How many long-term benefits remain after construction?
Tax Revenue	How much revenue is retained after incentives?
Infrastructure Investment	Who pays for upgrades and maintenance?
Community Impact	How will power and water demands affect existing users?

1 *National Conference of State Legislatures, "Subsidizing Servers: How States Are Competing to Attract Data Centers," April 1, 2026.*

Make sustainable public value the decision standard

Communities do not have to choose between welcoming investment and protecting the public interest. They can pursue both by testing project assumptions, assigning infrastructure costs clearly, and planning for downside scenarios. The strongest proposals may be those that fit the community's long-term capital plan and continue to provide financial value after incentives and construction activity fade.

AI may be transforming the digital economy, but its physical footprint is local. When a data center comes to town, the most important question is not how large the announcement is. It is whether the arrangement can create sustainable public value over time.

If you have any questions or would like more information, please reach out to your relationship manager.

Related Reading

The AI buildout has implications beyond local governments. For readers interested in how data center expansion is affecting capital spending, financing strategies, free cash flow, and corporate credit profiles, explore our companion article, *The Credit Story Behind AI: How the Data Center Buildout Is Reshaping Capital Markets*.

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