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Goldman Sachs: What Impact Do Data Centers Have on Municipal Credit?

Key Takeaways

Data Center Development Has Uneven Credit Implications

Municipal impact depends on factors such as each project's entity structure, infrastructure needs, location, and economic contribution—not investment size alone.

Fiscal Benefits Must Be Weighed Against Longer-Term Risks

Data centers can expand the tax base and support redevelopment, but concentration, execution and resource pressures may create medium- to longer-term risks.

Active Credit Analysis Can Help Identify Potential Winners and Losers

Assessing who funds the infrastructure, how revenues are structured, and whether local resources can support development is critical to evaluating municipal credit quality.

With data center development accelerating across the country, we are often asked what impact these projects have on municipal credit. It is an important question without a single answer, as projects vary broadly in their impact on local economies, budgets, infrastructure, and tax and spending policies. Our view is that near-term municipal credit risk is generally limited, particularly because these projects are privately financed, with local governments retaining control over zoning and incentives. The more important credit question is the medium- to longer-term impact if data center growth creates revenue concentration, shifts infrastructure costs to taxpayers, or constrains local flexibility around power, water, and land use.

While municipalities typically encourage industrial development as a source of economic growth, job creation and tax revenue, data centers offer both opportunities and challenges. Data centers can expand the tax base and support redevelopment of underutilized properties, but often require significant power, water, and infrastructure investment while creating relatively limited permanent employment. As a result, municipal impacts depend on project structure, location, tax policy, and the need for public support.

As active managers, we review these projects seeking to identify potential benefits and risks across states and localities. Our analysis focuses less on announced capital investment and more on the fiscal, economic, and resource impacts that ultimately drive municipal credit quality. We assess how data center development **impacts municipal credit today and where longer-term risks may emerge, using projects in Virginia, Tennessee, and Ohio** as examples.

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