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Data Center Surge Brings Risk for States and Munis, Moody's Says.

Takeaways by Bloomberg AI

- A flood of data center projects is introducing credit risks for state and local governments, according to Moody's Ratings.
- The growth of these facilities may require major expansion of power, transmission and water infrastructure, creating costs that may fall on governments or ratepayers.
- Some state and local governments are reevaluating tax incentives, scrutinizing proposals and even considering moratoriums on new data centers to minimize risk such as utility costs shifting to existing taxpayers.

A flood of data center projects with their heavy power and water demands are introducing credit risks for state and local governments, according to Moody's Ratings.

The growth of these facilities "may require major expansion of power, transmission and water infrastructure, creating costs that may fall on governments or ratepayers if not fully recovered from the new data centers," Moody's analysts said in a report on Wednesday.

New data centers, key to powering the booming artificial intelligence industry, are popping up across the country and have become a flash point in communities worried about rising electricity costs, water scarcity and noise pollution.

While they present economic growth opportunities, some municipalities and utilities are questioning the costs, and in some cases, asking the data centers to contribute more. While many governments have offered tax incentives and other agreements to attract such development, some of these agreements can "materially reduce or defer revenue benefits," according to Moody's.

Virginia's incentives reduced sales tax collections by more than \$1 billion in fiscal 2024, and are estimated to have cost the state nearly \$2 billion in fiscal 2025, according to an April [report](#) by Good Jobs First. The state, home to the world's biggest concentration of data centers, recently passed a first-of-its-kind tax on data centers' electricity consumption.

Some state and local governments are reevaluating tax incentives, scrutinizing proposals and even considering moratoriums on new data centers, Moody's said. They are trying to minimize risk such as utility costs shifting to existing taxpayers.

Still, some jurisdictions are aggressively pursuing new data centers, Moody's said.

"Moratoriums allow time for governments to evaluate data center impacts and design development policies to more effectively mitigate potential negative impacts on their communities," Moody's said. "However, this will also likely push developers to jurisdictions that are ready to take on new projects with fewer restrictions."

Bloomberg Technology

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