Technology:

Managing Data Center Growth in Texas

October 2026

Top Line

1. **Texas has become a major destination for data centers, attracting developers with abundant land, access to electricity, and relatively few local development restrictions.**

2. **Driven by artificial intelligence, data-center development is accelerating across Texas, with companies announcing billions in new investments as state leaders reconsider how the industry should be regulated.**

3. **This rapid growth comes with significant risks for Texans, including higher electricity costs, pressure on local water supplies, and limited community control over major development decisions.**

4. **Texas must establish stronger protections before more projects move forward, giving communities a meaningful say, requiring developers to pay their fair share, and ensuring public support delivers real benefits.**

CPP Policy Research Analyst Nichole led the research and writing for this paper.

Backup

1. **Texas has become a major destination for data centers, attracting developers with abundant land, access to electricity, and relatively few local development restrictions.**

    a. **Data centers provide the computing infrastructure for digital services, including cloud computing, data storage, and artificial intelligence.**
        - Data centers are facilities that house computer servers and equipment used to store, process, and distribute information. They support everyday digital services, including websites, online banking, streaming platforms, and artificial intelligence. [1] [2]
        - Data centers range from smaller facilities to large campuses containing multiple buildings. Newer facilities designed for artificial intelligence can require **hundreds of megawatts of electricity**, making their size and energy needs considerably greater than those of many traditional facilities. [3] [4]

    b. **Texas is already one of the nation's largest data-center markets, with development expanding beyond its traditional metropolitan hubs.**
        - The Texas Tribune identified **at least 596 operating and planned data centers** across Texas in September 2026, while Baxtel lists **approximately 800 facilities.** These estimates differ because commercial databases use different methods to count buildings, campuses, and proposed projects. [5] [6]
        - Dallas-Fort Worth remains **Texas's largest established data-center market**, but development is expanding into West Texas, the Panhandle, Central Texas, El Paso, and smaller communities. [5] [6] [7]
        - **Find data centers near you:** The Texas Tribune's interactive map allows Texans to search for existing and proposed facilities in their communities. [5]

    c. **Texas attracts data-center developers through its land availability, electricity infrastructure, established technology markets, and relatively limited local land-use restrictions.**
        - Available land, access to electricity, competitive power costs, and extensive fiber-optic networks have helped establish Texas as a major destination for data-center investment. [7] [8]
        - Texas's limited local land-use regulation has also encouraged development, particularly in rural and unincorporated areas. Unlike cities, Texas counties

generally lack zoning authority to determine where data centers can be built. This makes development in some unincorporated areas easier to pursue. [9]

2. Driven by artificial intelligence, data-center development is accelerating across Texas, with companies announcing billions in new investments as state leaders reconsider how the industry should be regulated.

a. Artificial intelligence is driving rapid data-center expansion, with substantial additional growth expected over the next several years.

- Lawrence Berkeley National Laboratory projects that data centers could account for **9.5% to 15.3%** of U.S. electricity consumption by 2030, compared with approximately **4.4%** in 2023. This reflects growing demand for computing capacity, particularly for artificial intelligence. [3] [10]
- In August 2026, the Electric Reliability Council of Texas (ERCOT) was considering **approximately 474,000 megawatts** of proposed electricity demand—**more than five times** the entire ERCOT grid's record peak demand. **About 90%** of the requested capacity was associated with data centers. [11]
- The scale of the national expansion is also visible in Cleanview's interactive U.S. data-center map. As of October 2026, its database identified more than **2,700 planned projects across the US**, compared with **approximately 1,400 operating facilities currently.** [12]

b. Data centers are bringing billions of dollars in investment, construction jobs, and local tax revenue to Texas.

- Major technology companies have announced substantial investments in Texas. Google has committed **$40 billion through 2027** for cloud and artificial-intelligence infrastructure, including new data-center campuses, energy projects, and workforce initiatives. [13]
- Data-center construction can support thousands of skilled-trade jobs, although permanent employment is considerably smaller. Meta's Temple data center represents **more than $1.2 billion** in investment and supported **approximately 1,200 construction workers** at its peak. When the facility began operating in July 2026, it supported **almost 100 operational jobs.** [14]
- Data centers can also expand local tax bases. Fort Worth reports receiving **more than $83 million** in gross property-tax revenue from data centers over five years, supporting city services and infrastructure. [15]

c. **Texas has encouraged data-center investment through substantial tax incentives, which have grown rapidly in value.**
    - Qualifying data centers receive exemptions from Texas's 6.25% state sales and use tax on eligible purchases, including electricity, servers, and cooling equipment. These exemptions **can last 10 to 20 years**, depending on investment and job-creation requirements. Local sales and use taxes still apply. [1]
    - According to Texas Comptroller estimates reported by The Texas Tribune, the state was projected to forgo **at least $1.3 billion in sales-tax revenue in fiscal year 2026** through the data-center exemption. That amount is projected to approach **$1.8 billion annually by fiscal year 2030.** [16]
    - *(See Appendix 1 for the Texas Comptroller's summary of the Data Center Program, including eligibility requirements and FY2025 tax exemptions.)*

d. **Texas has begun tightening oversight of data centers as state leaders reconsider their approach to the industry.**
    - In 2025, Texas enacted Senate Bill 6, directing state regulators to establish new requirements for connecting very large electricity users to the grid, including financial commitments for infrastructure. That November, Governor Greg Abbott publicly welcomed Google's announced $40 billion Texas investment. [17] [18]
    - Abbott's position shifted in 2026. In June, he directed regulators to protect residential electricity customers from data-center infrastructure costs and called for phasing out tax incentives. In August, he ordered comprehensive audits of proposed data centers seeking ERCOT grid connections. On September 21, he directed state agencies to halt data-center permitting approvals pending the required audits and announced plans to eliminate financial incentives during the 2027 legislative session. [19] [11] [20]
    - Texas is part of a broader national policy response. In 2026, **lawmakers in 39 states** introduced legislation related to data centers and electricity, **31 states** considered water-related measures, and **15 states** considered moratoriums or bans on development. [21]

3. **This rapid growth comes with significant risks for Texans, including higher electricity costs, pressure on local water supplies, and limited community control over major development decisions.**

   a. **Growing electricity demand could strain Texas's power grid and leave households and businesses paying for infrastructure built to serve data centers.**
      - Texas may have enough electricity overall but still struggle to deliver power to areas experiencing rapid growth. In February 2026, ERCOT identified data centers as one source of growing electricity demand in Far West Texas and warned that power-line improvements might not keep pace. Under certain conditions, ERCOT could be forced to temporarily cut electricity to some customers to prevent a larger outage. [22]
      - Serving large data centers can require expensive new power plants, transmission lines, and other infrastructure. A 2024 Virginia state study projected that a typical residential customer could **face an additional $14 to $37 per month** in electricity costs by 2040 under its modeled growth scenarios. Although these estimates do not apply directly to Texas, they illustrate how growing demand can increase costs for existing customers. [23]
      - These costs also create financial risks when proposed projects are delayed, canceled, or use less electricity than expected. If utilities build infrastructure for projects that never materialize, the remaining costs could fall on other electricity customers. [23]

   b. **Data-center water consumption could worsen shortages in already water-constrained communities, while limited reporting makes future needs difficult to assess.**
      - The Houston Advanced Research Center estimates that Texas data centers consumed **approximately 25 billion gallons of water in 2025**, including water used directly for cooling and indirectly to generate electricity. Although this represents **about 0.4%** of statewide water use, consumption could reach **29 billion to 161 billion gallons** annually by 2030, depending on future development. [24]
      - Water impacts depend heavily on where facilities are built. University of Texas at Austin researchers found that several announced data-center projects in West and Central Texas overlap with areas projected to face future water shortages. Even when statewide consumption remains relatively small,

large facilities can place significant pressure on individual communities and their water supplies. [25]

- Texas also lacks reliable information about how much water many facilities use. Of the 329 data centers surveyed by the Texas Water Development Board in 2025, **fewer than 30%** submitted the required water-use information. These reporting gaps make it harder to plan for future demand and understand the effects on existing water users. [26]

c. Local communities can face significant impacts from data-center development while having limited authority to influence where projects are built.

- A June 2026 Texas Tribune investigation identified **at least 248 planned data centers across Texas**, nearly half in unincorporated areas, compared with approximately 12% of existing facilities. [27]
- Hood County illustrates these challenges. County officials faced lawsuits from developers after attempting to address concerns about proposed data centers, including unanswered questions about water supplies. Residents have also raised concerns about the effects of large developments on surrounding homes, roads, and rural communities. [27]
- Public opposition is widespread. An October 2026 University of Texas/Texas Politics Project poll found that **58%** of registered Texas voters opposed construction of a data center in their community, compared with **28%** who supported it. Opposition was particularly high among rural voters **(66%)**, compared with **58%** of suburban voters and **52%** of urban voters. [28]

d. Substantial tax incentives and limited public information make it difficult to determine whether data centers deliver enough benefits to justify public support.

- Under Texas's existing program, a large data-center project can qualify for a 20-year state sales-tax exemption by committing at least $500 million in investment and creating 40 qualifying permanent jobs, among other requirements. While these projects can generate substantial investment, the relatively small permanent workforce raises questions about whether the value of the tax exemption is justified by the benefits produced. [1]
- Public oversight is also limited. The Texas Tribune requested information about the value of tax exemptions received by individual data centers, but the Comptroller's office denied the request, citing state confidentiality laws. Without project-level information, Texans cannot easily compare the public support provided to individual facilities with the jobs, tax revenue, and other benefits they deliver. [16]

4. **Texas must establish stronger protections before more projects move forward, giving communities a meaningful say, requiring developers to pay their fair share, and ensuring public support delivers real benefits.**

   a. **Give communities a greater say in data-center development.**
      - Expand county authority to regulate large data-center developments, particularly in rural and unincorporated areas where local governments have limited control.
      - Require public notice, meaningful community input, and reasonable protections against noise, traffic, pollution, and other local impacts before projects move forward. [27]

   b. **Require Community Benefits Agreements that deliver real benefits to local residents.**
      - Require developers receiving public incentives or substantial taxpayer-funded support to enter into enforceable Community Benefits Agreements (CBAs) shaped by affected residents.
      - Agreements should include measurable investments in schools, infrastructure, workforce training, or other community priorities, with clear deadlines and consequences for unmet commitments. El Paso is exploring this approach, while New Jersey provides guidance for communities negotiating these agreements. [29] [30] *(See item 7 in "More Information" below for resources related to CBA guidelines).*

   c. **Reevaluate tax breaks and demand accountability for public spending.**
      - Reduce or eliminate data-center tax exemptions that fail to deliver meaningful public benefits. Taxpayer support should be tied to measurable results, including permanent jobs and community investment.
      - Require public reporting on the value of tax exemptions received by individual projects, jobs created, and benefits delivered so Texans can evaluate what they're getting in return. [1] [16]

   d. **Make data centers pay their fair share of electricity costs.**
      - Enforce and evaluate Texas's new requirements for large electricity users to ensure data centers cover the infrastructure costs they create rather than shifting those costs to households and small businesses.

- Hold developers financially responsible when projects are canceled or use less electricity than expected, strengthening existing protections where necessary. [17] [31]

e. **Protect Texas's water supplies.**
   - Require large data centers to disclose their water needs and demonstrate that local supplies can support their operations without threatening existing communities.
   - Require practical water conservation measures, including recycled water, reclaimed water, and water-efficient cooling systems, particularly in water-scarce regions. Minnesota's 2025 law offers a model for considering these measures during water permitting. Developers should also pay their fair share of new water infrastructure costs. [24] [25] [26] [32]
   - Create a statewide public database of operating and proposed data centers, including their locations, development status, expected electricity and water use, and public incentives received.
   - Require state regulators to verify that major proposed projects are likely to move forward before committing to costly infrastructure improvements. Build on Texas's existing project review requirements to prevent unnecessary costs for taxpayers and electricity customers. [5] [11] [17] [31]

Texas has an opportunity to shape how data-center development moves forward while much of the industry's expansion is still ahead. These projects can bring significant investment, jobs, and tax revenue, but their long-term value depends on how well Texas manages the demands they place on public infrastructure, natural resources, and surrounding communities.

Recent state actions are a step toward greater oversight, but lasting protections will require stronger laws and public accountability. Texans deserve a meaningful voice in local development decisions, protection from costs created by large corporations, and clear benefits when public resources support private investment. By establishing these expectations now, Texas can support economic growth while protecting the people, communities, and resources that make that growth possible.

More Information

1. **Houston Advanced Research Center, "Powering Texas' Digital Economy: Data Centers and the Future of the Grid"** — This two-part Texas-focused policy brief explains why data centers are expanding in the state and examines how continued growth could affect electricity demand, water use, land development, and grid planning. It also discusses policy options for managing large new electricity loads and resource demands. https://harcresearch.org/research/powering-texas-digital-economy-data-centers-and-the-future-of-the-grid/
2. **Texas Comptroller of Public Accounts, "State Sales Tax Exemption for Qualifying Data Centers and Qualifying Large Data Center Projects"** — Provides the official requirements for Texas's data-center sales-tax exemption programs, including minimum investment and job requirements, qualifying purchases, exemption periods, and the state's process for verifying whether projects meet program requirements. https://comptroller.texas.gov/taxes/data-centers/
3. **Baxtel, "Texas Data Center Market"** — Provides a commercial database of operating, planned, and under-construction data centers across Texas, with information on individual facilities, companies, locations, development status, and major regional markets. Because Baxtel is a privately maintained industry database rather than an official state inventory, its project counts and classifications may differ from other sources. https://baxtel.com/data-center/texas
4. **University of Texas at Austin COMPASS Research Consortium, "Water Use Requirements for Data Centers in Texas"** — This August 2026 white paper examines the direct and indirect water requirements of Texas data centers, how different cooling technologies affect water and electricity use, and how water needs vary across the state. It also compares the locations of data-center development with projected regional water shortages and discusses water reporting, reuse, siting, and integrated infrastructure planning. https://compass.beg.utexas.edu/files/publications/Water_Requirements_for_DC_White_Paper.pdf
5. **Virginia Joint Legislative Audit and Review Commission, "Data Centers in Virginia"** — This comprehensive state study examines the economic benefits and infrastructure challenges associated with one of the country's largest data-center markets. It covers construction and permanent employment, local tax revenue, electricity demand and infrastructure costs, water and land use, noise and other community impacts, tax incentives, and policy options considered by Virginia lawmakers. https://jlarc.virginia.gov/landing-2024-data-centers-in-virginia.asp

6. **Brookings Institution, "Why Community Benefit Agreements Are Necessary for Data Centers"** — Explains how community benefit agreements can help communities identify and negotiate the costs and benefits of major data-center projects before development moves forward. The article discusses job and tax-revenue expectations, infrastructure costs, water and electricity use, noise, workforce training, community investment, transparency, and enforcement, with examples of agreements used by communities around the country. https://www.brookings.edu/articles/why-community-benefit-agreements-are-necessary-for-data-centers/
7. **New Jersey Economic Development Authority, "Data Center Community Benefits Agreement General Guidance"** — Provides practical guidance for local governments evaluating and negotiating community benefit agreements for data centers. It recommends reviewing infrastructure and resource demands, water and sewer systems, roads, emergency-response capacity, workforce impacts, community engagement, and potential developer-funded improvements before an agreement is finalized. https://www.njeda.gov/datacentergeneralguidance/

Sources

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5. The Texas Tribune, 2026, https://www.texastribune.org/2026/09/02/texas-data-center-information-lookups/
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8. CBRE, 2026, https://www.cbre.com/insights/briefs/2026-north-american-data-center-investor-intentions-survey

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Appendix 1 — Texas Data Center Sales-Tax Exemption Program (FY2025)

Tax Abatement Programs

Table 29D

For the Fiscal Year Ended August 31, 2025 (Amounts in Thousands)

	Other Programs	
Description	Texas Data Center Program Exemption	Certified Rehabilitation of Certified Historic Structures Credit
Purpose of Program:	Provides a sales and use tax exemption on certain goods and services necessary and essential to the operation of single-operator data centers.	Earns a franchise tax credit for expenses incurred for the rehabilitation of a certified historic structure in which the entity has an ownership interest.
Tax being abated:	Sales and Use Tax	Franchise Tax
Authority granting abatement:	*Texas Tax Code* Sections 151.359 and 151.3595	*Texas Tax Code* Section 172.103-172.108.
Criteria to be eligible:	•Data center must be single-occupant •Obtain exemption through application •Required to create at least 20 qualifying jobs •Make capital investment of at least $200 million over a five year period beginning on the date the data center is certified by the Comptroller's office as a qualifying data center.	•Acquire certificate of eligibility from the Texas Historical Commission. •Rehabilitation/certified costs exceed $5,000 in the year the structure is placed in service.
How taxes are reduced/amount of abatement is determined:	Qualified items are not subject to the state's sales and use tax of 6.25 percent at the time of purchase or as a refund.	•Amount is limited to 25 percent of the total eligible cost and expenses incurred. •May not exceed the amount of franchise tax due. •May carry credit forward no more than five years. •An entity that has established eligibility may assign or sell credits to another entity.
Provision for recapture:	Each entity or person that has their registration number revoked is liable for the state sales and use tax, including penalty and interest from the date of purchase on all tax-free purchases made under the qualified data center exemption.	N/A
Additional commitment by the state other than to reduce taxes:	No other commitments are made	No other commitments are made
Amount of Taxes Abated:	$ 617,614	$ 12,620

Source: Texas Comptroller of Public Accounts, 2025, State of Texas Annual Comprehensive Financial Report, https://comptroller.texas.gov/transparency/reports/comprehensive-annual-financial/2025/basic.pdf