CITIZENS RESEARCH COUNCIL OF MICHIGAN

"The right to criticize government is also an obligation to know what you're talking about."
Lent Upson, First Director of the Citizens Research Council

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Local Government Considerations in Hyperscale Data Center Development

In a Nutshell

- Michigan's hyperscale data center boom was prompted by state tax policy, but local governments are now tasked with determining how individual projects are evaluated, negotiated, and approved.
- The public backlash to data centers has complicated development negotiations for local government officials. They will have to balance public opposition with legal obligations and the long-term best interests of their communities. While hyperscale data center proposals do come with risks, developments can also offer substantial value to a community through property tax revenues and negotiated community benefit agreements.
- Many of the concerns raised in public debate are sufficiently addressed through established state and federal regulatory processes. Local governments should concentrate their limited capacity on the issues within their scope of authority, such as appropriate zoning and land use, as well as local ordinances regarding noise pollution, light pollution, and other potential nuisances.

This Brief offers policy analysis that should not be construed as legal advice. Local officials should consult an attorney experienced in Michigan municipal and land-use law before acting on any matter discussed here.

Introduction

In December 2024, Michigan adopted a state law exempting large "enterprise" data centers from state sales and use taxes. This made Michigan more attractive to hyperscale data center developers. While dozens of data centers have quietly operated in Michigan for decades, hyperscale data centers are different. Most notably, they are bigger—potentially much bigger. Hyperscale campuses can occupy hundreds of acres of land and require electric power equivalent to hundreds of thousands of homes.

Data centers have become a focus of public attention and controversy, as detailed in Research Council's June 2026 report. While it was state tax policy that prompted hyperscale data center proposals in Michigan, it is largely the task of local government officials to evaluate, negotiate, and potentially approve each project. This Brief provides an overview of issues from a local government perspective.

Use of Moratoriums

In response to the rush of hyperscale data center proposals in Michigan (and reflecting vocal opposition), many local governments have adopted moratoriums—temporary pauses on development proposals. These moratoriums are often in response to legitimate concerns and confusion regarding what a hyperscale data center could mean for communities. However, local governments should be cautious in adopting moratoriums.

Michigan's Zoning Enabling Act (MZEA) provides local governments with substantial authority over development, but local control is not absolute. Michigan courts have upheld the use of moratoria, but only when of reasonably short duration and adopted in good faith to protect the public from specific negative impacts. Moratoriums that are overly broad and without sufficient justification may expose local governments to legal challenges (as is the case in Wixom). However, many data center developers may prioritize rapid approval and be effectively deterred by moratoriums (as was the case in Howell Township).

Considering the vehement public backlash to data center proposals, it is understandable that local governments may desire to use moratoriums as a perpetual delay tactic. Such a tactic may be successful; Michigan's power grid can accommodate only a limited number of hyperscale developments until excess electrical power generation is accounted for. Once grid capacity becomes limited, new proposals are likely to slow considerably.

On the other hand, in a future scenario where data center proposals are rare and public opposition has waned, local governments may regret discouraging such investments. Hyperscale data centers offer a unique opportunity for local governments to expand the property tax base, increase revenue, and obtain additional value through community benefit agreements.

Moratoriums Done Right

Critically, local government elected officials should work closely with legal counsel experienced in Michigan municipal law to enact moratoriums. An appropriate data center moratorium is likely to include the following features:

- A specific and narrowly targeted scope of the moratorium. A moratorium on all data centers may not withstand legal challenges and may needlessly discourage small benign investments that support local data users.
- An explanation of how the moratorium addresses a specific threat (or threats) to public health, safety, and general welfare.
- A specific ending date that provides an appropriate amount of time to evaluate the identified threat(s) in good faith and adopt revisions to local land use plan(s), zoning ordinances, or other codes as necessary to address the threat(s).

A well-designed moratorium can be legally defensible while protecting the community from potential harms from hyperscale data centers as well as other developments.

Land Use Plans and Zoning Codes

A valid use of a moratorium may be to ensure that the community master plan and zoning code are sufficient to accommodate hyperscale data centers with appropriate consideration of quality-of-life

impacts. In order for a local government to exercise control over development, there must be a zoning ordinance associated with a master plan "designed to promote the public health, safety, and general welfare, to encourage the use of lands in accordance with their character and adaptability."

An initial step in preparing for data center proposals, hyperscale or otherwise, is to review master plans and zoning codes to consider the unique attributes of data centers in a general way. Given their potential impacts and controversy, hyperscale centers may be best classified as special land uses rather than permitted by right, allowing closer review of potential impacts and tailored approval conditions.

Rural townships unfamiliar with development at this scale may need to bring in extra support. Resource-constrained governments may lack capacity for a full review and should retain consultants when needed. The MZEA and related laws permit the governments to require developers to provide reasonable escrow fees to fund necessary evaluations.

Exclusionary Zoning and Demonstrated Need

Any zoning restrictions or moratoriums must comply with the MZEA. Section 207 of the Act states:

"A zoning ordinance or zoning decision shall not have the effect of totally prohibiting the establishment of a land use within a local unit of government in the presence of a demonstrated need for that land use within either that local unit of government or the surrounding area within the state."

This provision implies that local governments cannot use zoning codes or regulations to exclude valid and reasonable land uses but requires a developer to demonstrate the local or surrounding need for a development. Michigan has had such exclusionary zoning restrictions since 1978. The impetus for this legislation was that many local governments had effectively prohibited low-income housing (i.e., mobile home parks).

It is unclear if hyperscale data center developers would be able to sufficiently demonstrate such a local or even statewide need. Because data travels at near-light speed, local demand could be served from hundreds of miles away. Restrictive zoning that effectively prohibits hyperscale data centers might withstand legal challenges, but this has not been directly litigated and remains unclear. Attempts to restrict hyperscale data center development could incur costly litigation with uncertain outcomes.

Property Tax Revenue

Despite public opposition, attracting and approving a hyperscale data center could be sound policy. Data centers can substantially increase local property tax revenue. General estimates of revenue are difficult because different properties reside in different jurisdictions with different tax rates and offering different incentives (e.g., a property will simultaneously be part of the tax base of a city or township, a school district, a county, an intermediate school district, and other taxing entities).

Van Buren Township estimates that the Google hyperscale data center approved there will generate an average of $9.3 million annually for all taxing jurisdictions during its first 12 years, including $1.8 million for the township. The estimate assumes a 50 percent Industrial Facilities Tax (IFT) exemption.

The Oracle/OpenAI 'Stargate' hyperscale AI data center in rural Saline Township has requested the

IFT exemption on an astonishing $43 billion in property value. Using 2025 millage rates, this would result in average tax revenues of nearly $50 million per year to all taxing jurisdictions, with about $3.5 million to the township.1 Expansion of the tax base in this magnitude may allow for meaningful tax rate reductions to benefit all taxpayers.

Notably, the amount of annual property tax revenue from data centers can be highly variable. Much of the taxable value is in the installed computer equipment, which is taxed as personal property. This equipment is subject to rapid depreciation and replacement schedules, imposing large swings in taxable value/revenue. For example, Van Buren Township's analysis estimates an annual revenue range of $6.3 to $12.7 million (to all taxing jurisdictions).

As these hyperscale sites have not yet become operational, it remains to be seen exactly how local communities will benefit from data center property tax revenue in Michigan. However, communities with long-established data centers (such as Loudoun County, Virginia) have been able to generously fund government services while reducing residential property tax rates.

One risk in developing a data center within a community is that a budget could become over-reliant on a single property (and one that may provide very different revenue from year-to-year). An additional risk is that property value assessments could lead to costly appeals and litigation. Local governments should consider negotiating binding property tax revenue commitments (e.g., a revenue 'floor). This could be negotiated as a condition for local approval of an IFT exemption or other tax benefits and included in a community benefits or development agreement (discussed below).

Community Benefit/Development Agreements

In addition to receiving property tax revenue, local governments that host a data center often negotiate conditions on development that include community benefit agreements.2 Community benefit agreements are legally enforceable conditions of development negotiated in exchange for good-faith cooperation in project approval and permitting, or agreeing to certain tax exemptions.

A foundational element of community benefit agreements is a requirement that public infrastructure investments and the costs of public services necessary to support the data center are covered by the developer. For example, the developer of the Google data center proposed for Van Buren Township has committed to covering all costs related to connecting to water and sewer services, acquisition of right-of-way, as well as engineering review and inspection by the township.

Community benefit agreements often include direct payments or contributions to public funds. For the Stargate data center in Saline Township, the developer is bound by a consent judgement (contingent on the approval of an IFT property tax exemption) to contribute $2 million to a Farmland Preservation Trust Fund, $2 million to a Community Investment Fund, and $8 million to local fire departments.3

Finally, development agreements can be used to formalize project requirements that prevent adverse effects from this development. Terms often reiterate expected compliance with applicable laws, regulations, and ordinances and establish consequences of non-compliance. Further, local governments often require special conditions on data center developments to mitigate potential negative impacts and accommodate community concerns. For example, the consent judgement for the Stargate data center in Saline Township includes restrictions on future expansions of the site, a requirement to adopt low water-use closed-loop cooling, landscaping requirements, noise limitations, and more.

Negotiating Around Industry Uncertainty

Many data centers are developed to support the growing demand for established cloud services (e-commerce, streaming, social media, etc.). However, much of the recent and anticipated investment in hyperscale data centers is to develop next-generation artificial intelligence tools based on large language models (LLMs). Such investments remain highly speculative—pursued without a clear path to profitability.4

It is possible that changing financial or economic conditions could cause data center developers to delay or cancel projects. Even fully funded projects could be delayed by supply-chain disruptions. A community left with an unfinished development project receives little of the promised property tax revenue and may face other consequences of a vacated site. Development agreements can limit this exposure by:

- Requiring community benefit contributions up-front or phased-in based on construction milestones.
- Establishing expiration dates for any negotiated development incentives such as property tax exemptions.
- Requiring the developer to adequately maintain a paused site.
- Requiring a surety bond or letter of credit sufficient to restore an abandoned site.
- Binding successors and assignees of the site to established agreements, with a parent company guarantee where the applicant is a single-purpose entity.

Electric Grid

Residents often fear that data centers will raise electric rates or cause blackouts. These concerns have some basis but are often overstated. With appropriate planning and cost allocation, data center electric loads may reduce rates and improve reliability.5 Because power is essential, developers usually consult the local utility before formally proposing a development. Local governments can generally rely on utilities to determine whether the load can be served.

If service is feasible, officials should request evidence and assurances that other ratepayers will not bear project costs. Extensive local review is usually unnecessary because Michigan Public Service Commission rate cases and Federal Energy Regulatory Commission regulations already address grid impacts.

Off-grid Proposals

Occasionally, a data center developer may request approval for construction even if it is not assured of immediate electric service from the local utility. Outside of Michigan, some data centers have constructed their own off-grid natural gas power plants as a 'bridge' solution until they are approved to connect to the grid. So far, no data center proposals in Michigan have pursued this. However, if Michigan approves multiple additional data centers, reserve capacity on the electric grid may become fully utilized, requiring additional infrastructure investments before additional hyperscale facilities can be accommodated. Subsequent proposals may not be approved for electric grid connections rapidly enough to meet their operational timelines. This may compel developers to propose generating power on-site or nearby through off-grid natural gas power plants. Michigan's natural gas infrastructure and relatively low fuel costs could make this a compelling option for developers.

Such a strategy would merit additional scrutiny by local permitting authorities, as there are additional local risks regarding noise and air pollution with on-site and/or off-grid power sources. Furthermore, allowing data centers to operate off-grid would forego the opportunity for data center loads to benefit a broader constituency of grid users through improved reliability and reduced rates.

Air Pollution

Data centers generally have small but measurable impacts on air pollution. Like many commercial and industrial facilities, data centers are typically equipped with emergency backup generators. If operated to fully permitted levels, the emissions from backup generators could have substantial local air quality and health impacts. However, most data centers operate backup generators very rarely.

Virginia Commonwealth University researchers evaluated the emissions from 92 data centers spread across four counties in Northern Virginia—the region known as 'data center alley.' The research found that actual data center emissions are less than five percent of permitted emissions and contribute less than two percent of total air pollution emissions to the region.

Air pollution is regulated under the Clean Air Act under authority of EGLE, who will work to ascertain that generator emissions from data centers do not result in an exceedance of ambient air quality standards. Data centers do not pose a unique air pollution concern for local governments, but may present an opportunity to review how such issues are treated under local zoning and building codes.

On-site Electricity Generation

Thus far, data centers in Michigan have been approved for immediate connection to electric service from the local utility. However (as previously noted), in many other states, delays in grid connection approval have compelled data centers to begin operations with electricity generated on-site ('behind-the-meter') using semi-permanent methane or diesel generators. As with backup generators, semi-permanent generators are regulated by the Clean Air Act. But requirements are less stringent and even if ambient air quality standards are not exceeded, on-site generation could impose health consequences for nearby residents.

Local governments should confirm with the local electric utility that a proposed data center has been approved for service. Data center proposals that include on-site power generation for non-emergency operations warrant additional scrutiny.

Water Resources

Another frequent public concern is that data centers could deplete local water resources or contribute pollution. Local governments should seek assurances from the local utility that additional water and sewage use can be accommodated without imposing additional costs on other ratepayers.

Similar to electric power, serving data center water demand can benefit other ratepayers. Adding a large customer to the system provides a significant new source of revenue that can be applied to the fixed costs of production, reducing the cost burden on other customers. While this will not always be the case, Van Buren Township, which buys water from the Great Lakes Water Authority (GLWA), projects that the additional revenue obtained by serving the Google data center will help to contain rates for residents.

Google's evaporative-cooling center may use more than three million gallons of water daily, but GLWA can supply over 1.5 billion gallons and currently operates well-below capacity. The added

demand may modestly strengthen the regional system's finances in addition to Van Buren's local system.

Many data centers use closed-loop cooling and require minimal water. The Saline Stargate data center will be drawing groundwater from on-site wells. Yet the developer anticipates using only about 20,000 gallons per day when fully operational, including for bathrooms and landscape irrigation. For context, a typical restaurant uses about 5,000 gallons per day.

The prospect of data center proposals offers a chance to review water provisions in zoning and planning, but detailed attention by local elected officials and zoning boards is rarely necessary. State and federal law already regulate water resources. Michigan's Department of Environment, Great Lakes, and Energy (EGLE) oversees utilities and large users to prevent both aquifer depletion and water pollution.

Noise Pollution

Noise pollution is controlled through local ordinances, not state or federal laws. While most local governments have adopted noise ordinances, traditional approaches are often not sufficient to protect against the unique type of noise emitted by data centers.6

A detailed noise study should be a central part of the approval process, and should be conducted by an acoustic engineer familiar with the unique issues specific to data centers. Preventing noise pollution through both pre-construction design and post-construction monitoring will be essential to confirm that the local community is not adversely impacted. Best practices in regulating data center noise pollution remain unsettled. But guidance now exists, including PennFuture's model ordinance.

Waste Heat Island Effect

A heat island is a phenomenon where development increases the local temperature. This is typically related to normal urban and suburban development—replacing green space with pavement and buildings warms the ground and air. But data centers pose a unique concern due to the immense amounts of waste heat emitted.

Emerging research shows that data centers measurably increase nearby ground and air temperatures even more than typical development. A large center or cluster could potentially increase neighborhood temperatures by as much as 5 °F on a hot day. Best practices to evaluate and mitigate waste heat from data centers are not yet settled, but early models exist. The Kentucky Resources Council's model ordinance bars thermal discharge from raising temperatures at the property line. Chester County, Pennsylvania requires a thermal mitigation plan and review of waste-heat reuse. Stow, Ohio has proposed similar requirements.

As of yet, there are no examples of such local ordinances being put into practice. It is not clear what a thermal impact study or mitigation plan would look like. Regulation and enforcement will require innovation. However, the effects of waste heat plumes from data centers should not be ignored, particularly when data centers are sited near residential areas. Michigan governments have an opportunity to lead in this space.

Light Pollution

Data centers often generate neighborhood complaints concerning light pollution—especially when sited in rural areas. Light pollution may be overlooked in local ordinances, or poorly enforced. Fortu-

nately, mitigating light pollution is fairly straightforward. Generally, artificial lighting should be limited to the areas and amount needed to maintain safety and security. Local governments should adopt light pollution ordnances that are appropriately protective and apply them to data centers as well as other land uses.

Construction Phase Disruptions

Hyperscale projects impose the most negative impacts during fast-tracked construction, which may disrupt nearby areas for a year or more. Development agreements should set and enforce limits on work hours, noise, dust, lighting, truck routes, operations, and so forth. Ensuring compliance will require active monitoring and enforcement during construction.

Although community benefit agreements often fund community programs, nearby residents may bear the greatest disruption. Direct payments to them, though uncommon in the United States,7 could be appropriate compensation for those most inconvenienced and reduce local opposition. Such payments could not likely be imposed as a condition of project approval, but developers may be willing to voluntarily negotiate such conditions in addition to other community benefits in development agreements.

Transparency

Data center developers have been scrutinized as lacking transparency. Projects are typically proposed through proxy companies, and often ask local governments to sign non-disclosure agreements (NDAs). Some have called for banning public officials and economic development groups from signing NDAs with data centers.

The backlash to data center development has brought public attention to development practices, including the use of NDAs. But data centers are similar to many industries. Most investments in commercial or industrial facilities begin with site consultants who initiate conversations anonymously. It is common for local officials to learn details about a project only after an NDA is signed. Developers request this for a variety of reasons, including protection of proprietary, sensitive, or competitive information. For example, a fast food chain such as Chick-fil-A may request an NDA because they don't want Popeye's to know that they have identified a site as an attractive location.

It may not be necessary or advantageous for local governments to be fully transparent about every interaction with a potential developer. For one thing, only a fraction of such conversations lead to formal development negotiations or subsequent agreements. Site consultants typically evaluate multiple sites for potential development. Confidentiality during site competition allows communities to participate in processes they would otherwise be excluded from, and decisions concerning major projects ultimately require public hearings and recorded votes regardless of what preceded them.

Regardless, NDAs with data centers have become a political flashpoint. Local governments should review policies regarding interactions with all potential developers to promote transparency without chasing away potential investments—data centers and otherwise. It is possible to negotiate developments without NDAs; in fact, Microsoft has pledged to stop using NDAs with local governments for data center development.

To the extent that NDAs are used, local governments should work with legal counsel to consider such factors as:

- Legal obligations under Michigan's FOIA law and Open Meetings Act.
- A narrow and specific scope of protected information.
- Termination of the NDA (or specific aspects of the agreement) such that confidentiality does not outlive the site selection process it was meant to protect.

Final Thoughts

Michigan's local governments did not ask to become the primary decision-makers on hyperscale data center development. State tax policy created the conditions that brought these proposals to Michigan. Yet it is township boards, city councils, and planning commissions who are now tasked with determining how individual developments are evaluated, negotiated, and potentially approved.

These decisions are being made under considerable political pressure. Residents have turned out in large numbers to oppose proposals, and officials who appear receptive may face significant backlash, including the prospect of recall. At the same time, local governments face real fiscal constraints, and the prospect of substantial new property tax revenue is difficult to dismiss.

Much of the public debate over data centers concerns matters that local governments do not control and cannot resolve independently. Water use, air emissions, and electric service are governed by established state and federal regulatory processes. Local attention is better spent on the issues that no other authority will address, such as noise, waste heat, light pollution, construction-phase disruption, and the terms of the development agreement itself (including community benefits).

Local officials should work closely with qualified legal counsel to navigate these issues. Nearly every significant decision described in this Brief carries legal exposure that may not be immediately apparent.

The work of preparing for a hyperscale data center proposal has value whether or not a community ever hosts one. Reviewing a master plan, modernizing a noise ordinance, adopting sensible lighting standards, and establishing clear procedures for large-scale development are improvements that serve a community regardless of what is ultimately built there. That said, the prospect of a hyperscale data center does impose unique challenges, as well as opportunities. Michigan's local governments should be as proactive as possible in preparation for such proposals.

Footnotes:

1. Research Council Analysis. Method generally adopts that applied in the Van Buren Township analysis, corrected for higher property tax value at the Oracle Saline data center and applied to all applicable taxing jurisdictions. The $43 billion figure applied for exemption has been multiplied by 60 percent to account for a depreciation and replacement schedule of computer equipment as taxable personal property. This is a rough estimate subject to different depreciation schedules, assessed values, and changing millage rates.

2. Community benefit agreements may be otherwise termed development agreements, or something similar. If reached through litigation, community benefit agreements may be covered by a consent judgement, as is the case for the Stargate data center in Saline Township.

3. It is currently unclear whether the Oracle Saline data center will receive the IFT exemption in property taxes. The next meeting of the Michigan Tax Commission is October 20, 2026.

4. See CRC Report, Appendix A: Risk of an AI Bubble, pp. 75-76.

5. See CRC Report, Chapter 3, Impacts on the Electric Grid, pp. 26-47.

6. See CRC Report, Chapter 5, Noise Pollution, pp. 54-63.

7. While uncommon, there is precedent for such direct payment approaches. For example, UK residents subject to noise related to construction of a high speed rail line are eligible for compensation. In Steuben County, NY, a wind farm developer has offered payments to nearby residents of $1,500/yr (though this also requires residents waiving some restrictions on the impact to their property).

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