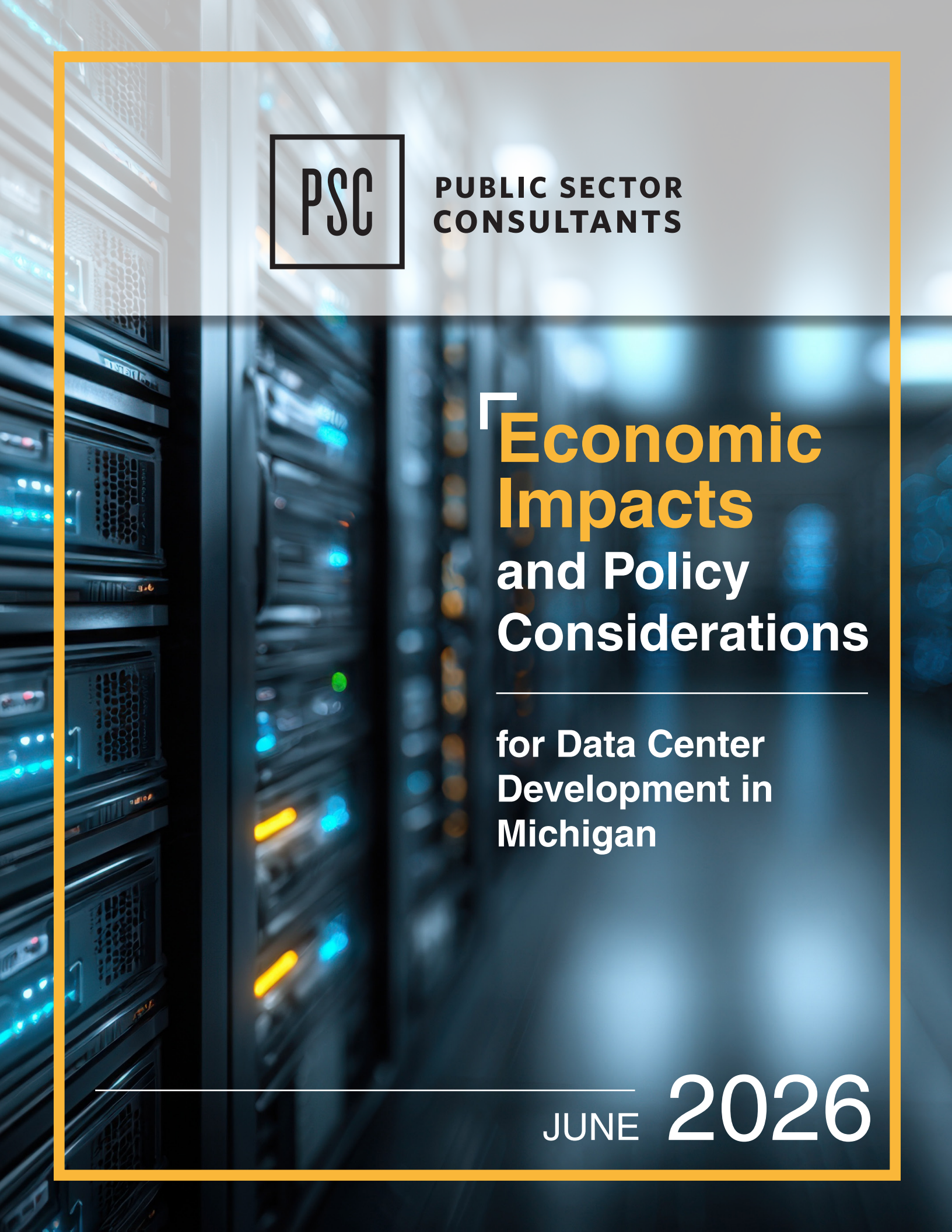

PUBLIC SECTOR CONSULTANTS

Economic Impacts and Policy Considerations

for Data Center Development in Michigan

JUNE 2026

PUBLIC SECTOR CONSULTANTS

Prepared by
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Prepared for
Michigan Chamber Foundation, in partnership with the Detroit Regional Chamber.
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Overview

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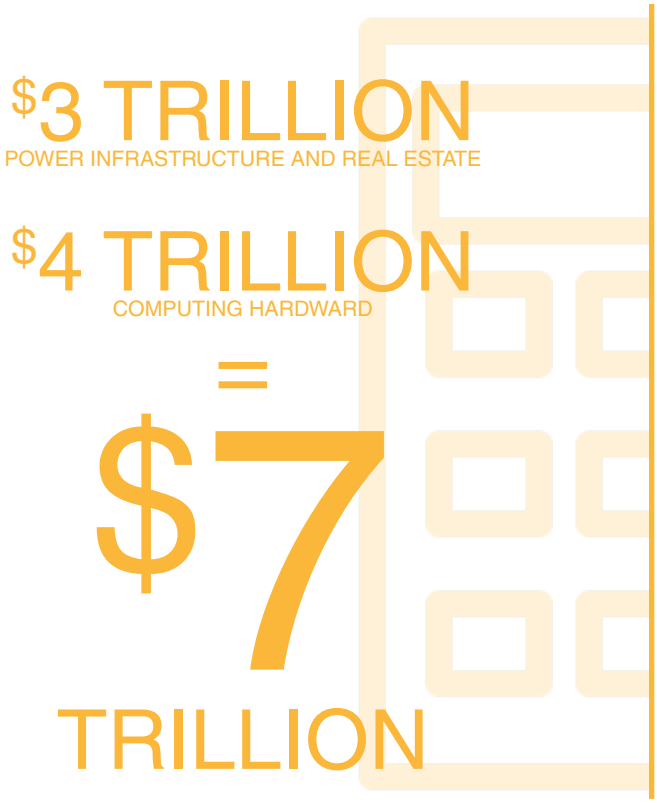
OVERVIEW

Data centers are essential infrastructure for the modern economy. Most people use data processed by data centers every day. Companies rely on these physical facilities to house the data and computing equipment that support e-commerce, online banking, video conferencing, and collaborative tools. Consumers depend on the reliability and speed of computing processes for nearly every aspect of daily life, from cloud storage and driving directions to streaming services like YouTube and Netflix. They supply computing power to support modern research across fields ranging from drug discovery to climate modeling. And they are the backbone of the artificial intelligence (AI) tools that will transform our economy.

Data centers are not new, but the increasing demand for digital connectivity and the speed and pace of technological advances have rapidly increased both the scale and pace of new data center development.

THE OPPORTUNITY

Data center investment is growing rapidly. McKinsey (2025) estimates that companies will invest almost $7 trillion in data center infrastructure over the next five years. Computing hardware accounts for roughly $4 trillion, with the rest spent on investments such as power infrastructure and real estate. About 40 percent of this spending will be in the United States.



Synergy Research Group (2026) estimates there are currently 580 hyperscale data centers in the United States, with 437 more coming online in the next several years. They note that Northern Virginia has the largest concentration of data centers. Texas leads in proposed data centers, while Wisconsin, Indiana, Missouri, and Michigan are growing rapidly in importance.

Michigan has a once-in-a-generation opportunity to attract significant new investments into the state through data center development. This investment could provide local governments with millions in new revenue, modernize Michigan's energy grid, and create thousands of new jobs. However, Michigan faces stiff competition for data centers from other states. As Gov. Gretchen Whitmer said in her letter of support for the Stargate project, Michigan needs to decide whether it wants to lead in data center development and seize this opportunity:

> ***"The reality is that data centers are going to be a big part of America's future. The question isn't whether they will be built, but rather: Can Michigan benefit from these jobs and build data centers in a smarter way while upholding our strong environmental laws to protect our natural resources? We have an opportunity to do both. We can set an example for the rest of the nation on how to build these facilities the right way and grow our economy at the same time."***
>
> ***-Governor Gretchen Whitmer***

ECONOMIC IMPACT

Data centers are also a boon to construction and building trades jobs. Thousands of skilled-trades workers are required for the construction of a hyperscale data center. While many of these construction jobs are temporary, the construction of a data center can span several years, providing important support for Michigan's skilled-trades workforce, including helping this workforce grow and develop additional skills.

Data centers can attract investment from high-technology companies that benefit from the low-latency speed resulting from data center proximity and from the communications and power infrastructure supporting data centers. Virginia, a leader in data center development, offers a good example of the opportunity. In 2023, Virginia had approximately 12,000 operations jobs and 14,000 construction jobs directly tied to data centers, and the ripple effects of this activity supported an additional 52,000 jobs in the state (Northern Virginia Regional Commission n.d.).

Hyperscale data centers can pay millions of dollars per year in property taxes. These taxes support schools, public safety workers, and parks, helping make communities more vibrant.

PUBLIC CONCERNS

The rapid announcements for multiple hyperscale data centers across Michigan have generated significant community concerns. Decisions often need to be made rapidly, and important details of data center projects are often protected by nondisclosure agreements (NDAs). The public can feel left in the dark on important issues such as the impact of a proposed data center on utility rates and the environment. The relative costs and benefits of a data center are often unclear to community members who are reacting to a policy announcement instead of having participated in a planning process. Asking people to make rapid decisions without full information often leads to opposition. Similarly, some communities have faced costly litigation over zoning disputes, which can also increase public opposition (Callaway 2025).

The public's opinion on data centers is rapidly shifting. A February poll by the Detroit Regional Chamber of Commerce (Majestic 2026) showed that many voters had yet to form an opinion, but more recent polling shows a decidedly negative shift in sentiment. Only one-third of respondents are initially open to a data center located within 25 miles of their homes. However, that sentiment shifts if respondents can be assured their concerns are met. Specifically, Michiganders want to be sure that:

- Data center electricity costs are not passed on to other residents or businesses
- Government officials are not signing NDAs for data center developments
- Michigan's water is not negatively impacted by data centers
- A share of data centers' electricity use comes from renewable sources
- Michigan is not providing additional incentives or tax benefits to attract data centers

With these protections in place, a plurality of the respondents shifted to being supportive of a data center being located within 25 miles of their home. The good news is that many of these issues are being addressed within Michigan's current regulatory framework and companies have issued public pledges to operate in a way that mitigates these concerns. Other public concerns are not insurmountable but will require updates to regulations and more engagement with the public.

POLICY RECOMMENDATIONS

This report presents a set of recommendations to enhance Michigan's regulatory framework and address the public's primary concerns, including safeguarding Michiganders from utility rate increases, protecting Michigan's environment, and enhancing transparency around data center development. A summary of these policy recommendations follows.

MAXIMIZE THE ECONOMIC BENEFITS

- When offering incentives like property tax exemptions to attract a data center, Michigan should ensure that those incentives lead to additional investment and high-technology jobs beyond the data center's own operations. *While data centers create positive economic impacts, their greatest potential economic benefit is attracting other high-tech investment and jobs. For example, the state could offer a PA 198 property tax abatement to a data center if its operator invests in projects outside the data center that create more high-tech jobs, such as a research lab.*

PROTECT RATEPAYERS

- The Michigan Public Service Commission (MPSC) should continue following best practices to protect customers from rate increases when approving projects for high-energy customers such as hyperscale data centers. In addition, publicly disclosing the details of these protections will help build consumer confidence around data center investments.

- Lawmakers should enshrine ratepayer protection best practices already utilized and followed by the regulated utilities into state law so that the same regulatory standards are applied to all data centers. This would ensure utility or data center projects outside the MPSC's scope would still have adequate rate payer protections and energy accounting in place. *Concerns that data centers raise electricity rates are causing public opposition. Michigan's regulated utility market and the MPSC already have safeguards in place to prevent data center–related utility hikes, but more should be done to make the public aware of these protections—enshrining them in state law would provide an added level of confidence.*

PROTECTING MICHIGAN'S ENVIRONMENT

- Require any data center directly drawing groundwater to use a low-water-usage cooling technology.
- Consider amending the water requirement in Michigan's enterprise data center sales tax exemption to allow low-water-usage technologies in addition to municipal water as a means of qualifying for the sales tax exemption. The municipal water requirement is in place to address concerns about data centers that use millions of gallons of water per day. However, there is technology that drastically reduces water usage. Mandating any groundwater-using data center to adopt low-water-usage technologies will minimize the impact of data centers on Michigan's watershed.
- Create incentives for data centers to locate on brownfields and former industrial sites. These incentives could include assisting in land assembly, providing direct grants, expanding brownfield tax increment financing (TIF) capture eligibility, or restoring Michigan's brownfield business tax credit. *Michigan has many abandoned industrial sites that can be repurposed for data centers and Michigan should encourage this use.*

INCREASE TRANSPARENCY

- Consider additional public engagement processes, including how to incorporate the investments in improving the community where the data center is located.
- Limit NDA use by governments and public officials and consider restricting information included in NDAs, requiring expiration dates on NDAs, or adding transparency requirements such as disclosing the presence of NDAs within 30 days of the NDAs being signed. *NDAs and the resulting secrecy often undermine public trust. They also make it difficult to compare projects and identify and implement best practices. While an NDA may help advance an individual project, collectively they are harming public support for Michigan data centers. Michigan should look for the best way to provide transparency around data center development while still allowing companies to protect trade secrets.*
- Require the Michigan State Tax Commission to publish property tax guidance for data centers to help taxpayers and communities understand how much property tax a data center will pay.
- Consider exempting hyperscale data centers from property tax and instead applying a newly created specific tax or have communities secure property tax guarantees with data centers to create more certainty around tax payments. *The property taxes paid by data centers are an important benefit to local communities. However, it is difficult to discern how much property tax individual data centers will pay. Steps that add certainty can build public support now and reduce future conflict.*

Saline, Township

Data Centers in Michigan

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DATA CENTERS IN MICHIGAN

A data center is a physical facility that organizations use to house their critical computer networks, applications, and data (Cisco 2026). Data centers have become an important policy topic due in part to a surge in their construction driven by the AI boom and the large scale of some proposed projects. For example, the Stargate data center in Saline Township, Michigan, called The Barn, will be a 250-acre development on a 1,000-acre parcel. The project will cost more than $7 billion to build and use an estimated 1.4 gigawatts (GW) of electricity—enough to power more than 1 million homes. The remaining land at the site will be preserved as open space (House 2025 and The Barn 2026).

But data centers are not new in Michigan. It is difficult to accurately count data centers because definitions vary and are unclear. Based on the different estimates, Michigan has between 50 and 80 operational data centers. One frequently cited source, Data Center Map, shows the location of each data center it counts and lists 53 data centers in Michigan.

The vast majority of these (approximately 42) are small centers using between 1 megawatt (MW) and 5MWs of electricity (see Exhibit 2). The issues associated with facilities of this size are vastly different from those associated with a hyperscale data center that can use 1GW of electricity. (1GW is equal to 1,000 MW). Michigan does not currently have any hyperscale data centers in operation. The state's largest currently operating data center is the Switch facility in Grand Rapids, which is designed to use up to 320 MW of power and is the only operational data center in Michigan that uses more than 100MW (Switch n.d.).

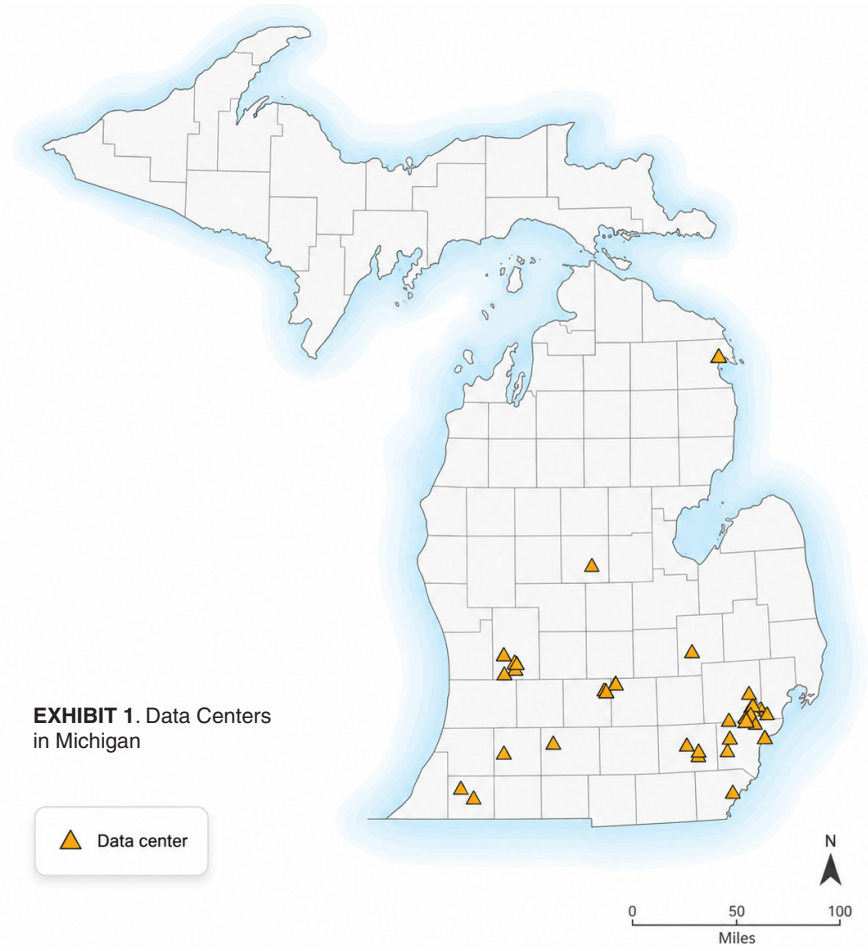
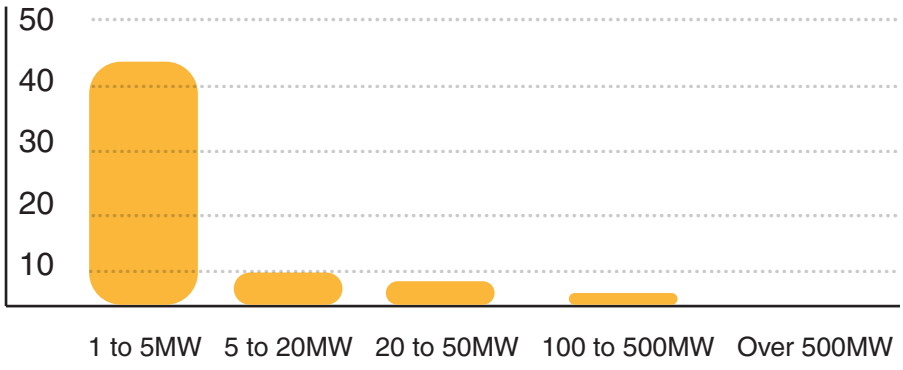


EXHIBIT 1. Data Centers in Michigan

Data Center Map lists 72 data centers as the top line number for Michigan but several of the data centers included in that total are not yet in operation. Datacenters.com lists 45 Michigan data centers, while baxtel.com states that Michigan has 67 data centers.

Source: Data Center Map n.d.

EXHIBIT 2. Estimated Number of Michigan Data Centers in Operation by Size



Source: Data Center Map n.d. and PSC calculations

The recent growth of larger data centers, especially hyperscale ones, is due to increasing demand for AI services and cloud computing as well as the rapid expansion of digital infrastructure supporting key sectors like healthcare, education, and national security. Rapidly growing consumer demand is also increasing the need for data centers. U.S. Synergy (2026) estimates there are 580 hyperscale data centers in the U.S. now and predicts 437 more will be built in the coming years. This has created a brief chance for developers and states to compete for large investments as AI and cloud computing infrastructure expands.

Michigan does not yet have a hyperscale data center yet, but several have been proposed. These include the Stargate data center in Saline Township, Project Cannoli in Van Buren Township, Project Flex in Lyon Township, and Microsoft data centers in Lowell and Gaines Townships. Numerous other smaller projects have also been proposed across the state.

PROJECT NAME	LOCATION	DEVELOPER
Stargate	Saline Township, Washtenaw County	Related Digital (Open AI/Oracle)
Project Cannoli	Van Buren Township, Wayne County	Panattoni (Google)
Microsoft data centers	Gaines Township and Lowell Township, Kent County	Microsoft
Project Flex	Lyon Township, Oakland County	Verrus (Alphabet)
Project Ironwood	Dundee Township, Monroe County	Cloverleaf (Anthropic/Claude)
Project Cherry Blossom	Frenchtown Township, Monroe County	Cloverleaf
University of Michigan Research Hub	Ypsilanti, Washtenaw County	University of Michigan
Dowagiac Data Center	Dowagiac, Cass County	Hyperscale Data Inc.

Sources: Busse 2026; Executive Office of the Governor 2025a; Lyon Township 2025; Microsoft 2026; Cloverleaf Infrastructure n.d.; Clark 2025; Ypsilanti Township n.d.; Roose 2026

Note: Note: the previously announced projects for META in Howell, Prologis in Washington Township, Sansone Group in York Township, and Deep Green in Lansing were not included because these projects are no longer moving forward.

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The Economic Benefit of Data Centers

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THE ECONOMIC BENEFITS OF DATA CENTERS

The construction and operation of a data center can create value for state and local economies in several important ways (McKinsey 2025). Even small-scale data centers can create hundreds of construction jobs.

- **Economic growth—**The construction of data centers can inject billions of dollars into the economy and create thousands of skilled-trades jobs. While a data center's operational employment is substantially smaller than the level of construction employment, a hyperscale data center can still directly employ hundreds of people.
- **Workforce development—**Data center construction supports thousands of skilled trade workers and ongoing operations can employ engineers, technicians, and other skilled staff. These employment opportunities help to build and support a skilled workforce.
- **Community support—**Hyperscale data centers can pay millions of dollars in taxes annually, supporting local schools, police, fire, parks, and other community amenities.
- **Related industry support—**Data centers can attract high-technology industries that seek to locate in proximity to the center.

TYPES OF DATA CENTERS

Enterprise data centers—
Private data center facilities that support a single business or organization.

Co-located data centers—
Data centers run by a third party that rents space to companies to house their infrastructure.

Hyperscale data centers—
Massive data centers used by large corporations to provide cloud storage and computing power for applications like AI. These data centers are highly scalable (can expand capacity without disrupting operations) and are noted for their massive computing power and high-power consumption.

Edge data centers—
Data centers designed to be built near the businesses for whom proximity to the data center is important. They have significantly lower latency times, which is needed for certain applications such as autonomous vehicles, banking, or robotic surgery (pwc 2026).

Green data centers—
Data centers with a strong emphasis on energy efficiency, environmental impact, and sustainability. These data centers are often powered by renewable energy, minimize water use, and promote environmentally friendly operations (STL Partners 2017).

CONSTRUCTION AND CAPITAL INVESTMENT

McKinsey found that by 2030, companies will invest almost $7 trillion in capital expenditures on data center infrastructure globally. Of that, approximately $4 trillion will go to computing hardware investments and $3 trillion to real estate and power infrastructure. More than 40 percent ($2.8 trillion) of this spending will occur in the United States.

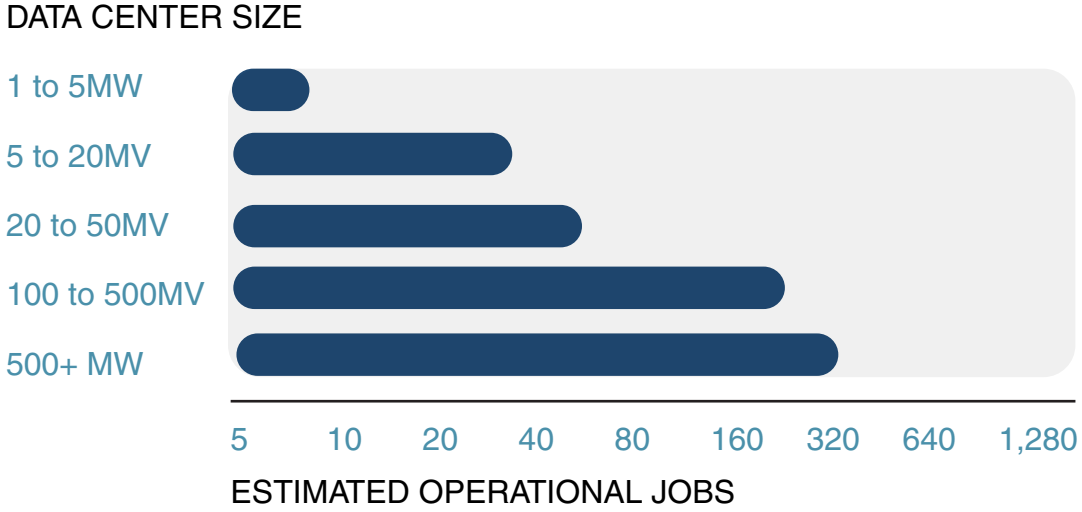
According to ENCOR Advisors, construction costs for data centers are estimated to average at approximately $9.5 million per megawatt in the U.S., and once facilities are built, annual operating expenses can range from $50,000 to $100,000 for a small center to $10 to $25 million for a larger facility.

DATA CENTER JOBS

Data center construction can create thousands of jobs. While many of these jobs are temporary, they represent a significant contribution to Michigan's economy while the construction is occurring. The proposed Project Flex in Lyon Township, a 400MW–500MW data center, is expected to create 1,500 to 2,000 construction jobs, while the Stargate project in Saline is projected to create 2,500 construction jobs (Bromley 2026; Lyon Township 2025; State of Michigan 2025). These jobs will help build and support Michigan's skilled-trades workforce.

A typical data center employs few people once operational. Most Michigan data centers, typically 1MW to 5MW, usually need 8 to 15 employees (see Exhibit 4). Hyperscale data centers are an order of magnitude larger with a larger employment footprint. A data center over 500MW can employ hundreds. Project Flex is projected to directly employ 210 people, while Stargate is projected to create 450 permanent jobs (Oracle n.d.).

EXHIBIT 4. Estimated Operational Employees by Data Center Size



CO-LOCATING AND CROSS-SECTOR GROWTH/INNOVATION INVESTMENTS

Part of the excitement around data centers is the potential for spinoff jobs. High-tech companies often want to locate close to data centers and large data centers have the potential to be catalysts that create new high-tech employment clusters. The Joint Legislative Audit and Review Commission in Virginia completed a careful study of the economic impact of data centers in Virginia (2024). Northern Virginia has over 250 data centers (Northern Virginia Regional Commission n.d.). Each direct operational data center job in Virginia created an additional 2.4 spinoff jobs (a multiplier of 3.4). A study of the same region by the Northern Virginia Technology Council found a somewhat smaller jobs multiplier, with each direct job creating 1.9 spinoff jobs (a multiplier of 2.9).

Spinoff jobs from new corporate investments usually come from two sources. First, the firm's and its employees' purchases create jobs, and the more local the supply chain, the more local these spinoff jobs will be. For example, an auto assembly plant in Michigan would have many local jobs because Michigan has many automotive parts manufacturers in its supply chain.

DTE's recent announcement of a joint $1.6 billion investment with LG Energy Solution Vertech is a good example of the types of spinoff jobs that can be created by data center investments (DTE 2026). The agreement will support eight projects, including the data center project in Saline Township, with battery systems delivered over a two-year period. The agreement will support 1,800 jobs at LG Energy Solution's Holland Michigan manufacturing plant and an additional 350 jobs in construction and operations. The battery storage will make the electric grid cleaner, more reliable, and resilient.

Second, spinoff jobs may be created if companies choose to locate near the new investment. Some factors make companies want to locate near data centers, greatly increasing spinoff job potential. Some technology firms rely on low-latency speeds and want to be near edge data centers that provide this service. If a new data center comes with a major upgrade to a community's electric and telecommunications infrastructure, that infrastructure—not the data center—could attract high-tech firms and jobs to Michigan. Communities can also seek promises of extra investment when working with companies planning to locate data centers.

CASE STUDY

MICROSOFT INVESTMENT IN MOUNT PLEASANT, WISCONSIN

Microsoft is investing $7 billion in two data centers in Mount Pleasant, Wisconsin. These data centers will employ 3,000 workers during the construction phase and 800 people in operations after the second data center is complete. These data centers will bring a host of benefits to the community. Microsoft is partnering with Gateway Technical College to launch the Datacenter Academy, which will train more than 1,000 workers in five years for high-demand data center jobs. They are also sponsoring a manufacturing-focused AI Co-Innovation Lab on the campus of the University of Wisconsin–Milwaukee. The lab has already helped 23 companies turn AI ideas into real-world solutions. The project has also included expanding broadband access to more than 9,300 rural Wisconsin residents (Smith 2025).

Brookings (Goetzel, Muro, and Methkupally 2026) argues that in the current environment—in which companies are racing to find locations for hyperscale data centers—state and local governments have more negotiating leverage in site negotiations than they did five years ago. They believe communities should exchange faster permitting and approvals for investments that promote economic goals such as research and development partnerships, talent development, and investment in AI startup intermediaries. Brookings cites Microsoft's AI data center investment in Mount Pleasant, Wisconsin and its help opening a manufacturing-focused AI innovation lab at the University of Wisconsin–Milwaukee as an example. This lab has provided support to several dozen Wisconsin companies.

Michigan should carefully consider how data centers can support its long-term economic development goals. Although data centers employ relatively few people, the investments they bring could create more jobs or help meet other development objectives. Some of this additional investment may happen organically, but if Michigan can take active steps to increase this additional investment, it should do so.

The process of siting a hyperscale data center often requires significant land assembly, zoning changes, water permitting, and power generating and transmission capacity. Hyperscale data centers also pay significant taxes to local communities. There are a variety of ways Michigan could make it easier for data centers to locate here. For example, the state could help with land assembly, streamline zoning requirements, or abate some of the taxes data centers pay through tools like PA 198 tax abatements. In exchange, the state could look for additional investment from data center operators beyond the operational employment data center. This investment could include additional increased investment and employment not directly related to data center operations, research and development partnerships, and workforce training support.
Policy recommendation: When providing incentives to attract a data center, such as property tax exemptions or assistance in land assembly, Michigan should ensure that the data center can be leveraged to generate additional investment and high-tech jobs beyond the operational employment of the data center.

TAX BENEFITS

The taxes paid by data centers also provide significant economic benefits. They create jobs directly by supporting the hiring of government workers. For example, the property taxes paid by the Stargate data center in Saline Township will support dozens of school employees. Data center taxes can also support the development of parks and other amenities or be used to help lower community tax rates, both of which can make a community more desirable for businesses and workers.

POLICY CONSIDERATIONS REGARDING DATA CENTERS

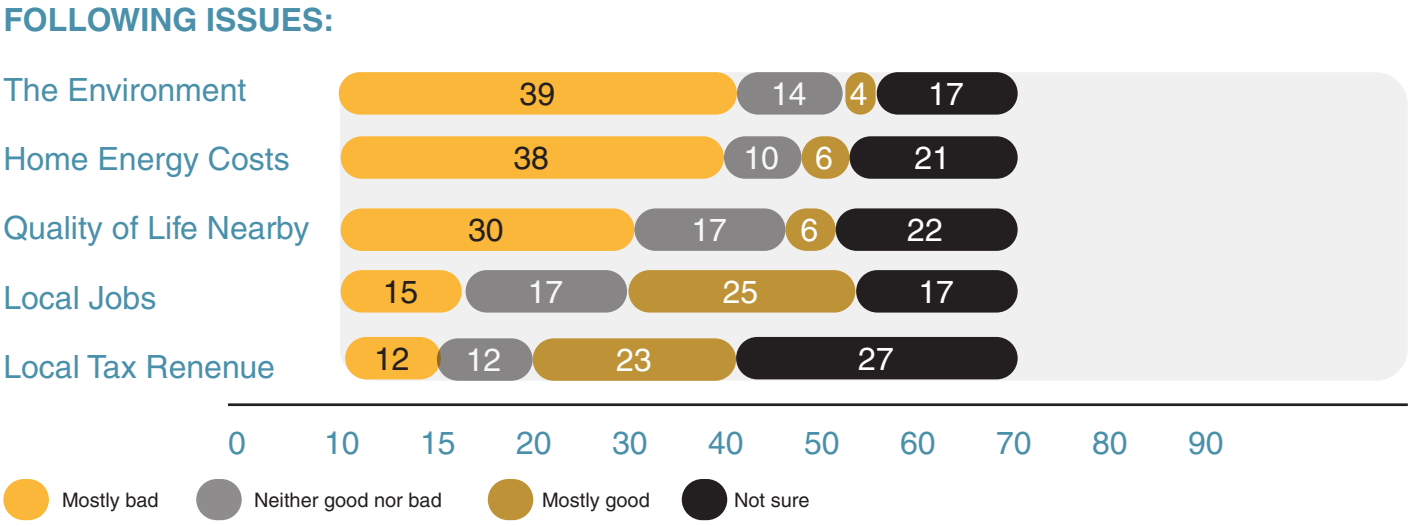
No single law governs data center construction or operations. This is true nationwide. Instead, data center construction and operation are regulated through a patchwork of existing frameworks that provide oversight across several key areas:

- **Energy utilization**
- **Environmental impacts**
- **Water use**
- **Construction standards**
- **Site selection (zoning)**

While not designed specifically for data centers, Michigan's robust regulatory structure helps prevent adverse impacts on Michigan's residents and environment, but its complexity makes it difficult for developers to navigate the different layers of government (local and state, MPSC, etc.) and for Michiganders to understand the protections that current law provides.

As data centers become more common, the public grows more aware, especially when the data center is proposed for their community. The swiftness of the new developments, sometimes with communities having less than 48 hours to make a decision about changing zoning ordinances, the mistrust in AI, and a strong public information campaign from those opposed to data center developments have created an anti-data center narrative that is starting to show up in public opinion polling, as shown in Exhibit 5 (Gramlich et al. 2026).

EXHIBIT 5. Americans' Opinions of Data Center Impacts



Source: Gramlich, Kennedy, McClain, and Stocking (2026).
Note: Those who did not answer and those who have not heard about data centers are not shown. Survey conducted January 20 to 26, 2026.

The rapid proposed data center expansion highlights challenges states like Michigan must address in regulations. These include:

- Energy utilization
- Environmental and community impact
- Taxation issues

The following section explains these challenges, Michigan's current policy and regulatory structure, and potential recommendations for policymakers to weigh as they balance the value data centers create against public sentiment.

CASE STUDY:

Data Center Opposition

Polling shows people worry about data centers' effects on the environment, home energy costs, and the quality of life for those who live in proximity. Community concerns have already delayed or canceled several projects in Michigan. In December, developers of a $1 billion data center withdrew their proposal to build a data center in Howell after community members raised concerns about its impact on utility rates and water use (Allnut 2025). A proposal to build the Deep Green data center on a vacant lot in downtown Lansing was withdrawn due to community opposition. Residents stated a desire to find better use for the property, which has been empty for years (Fulton 2026). In March, Mason's city council voted to repeal an ordinance that would allow a data center project after residents raised concerns about noise pollution and the safety of the local water supply (Huff and Priehs 2026).

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Energy Use

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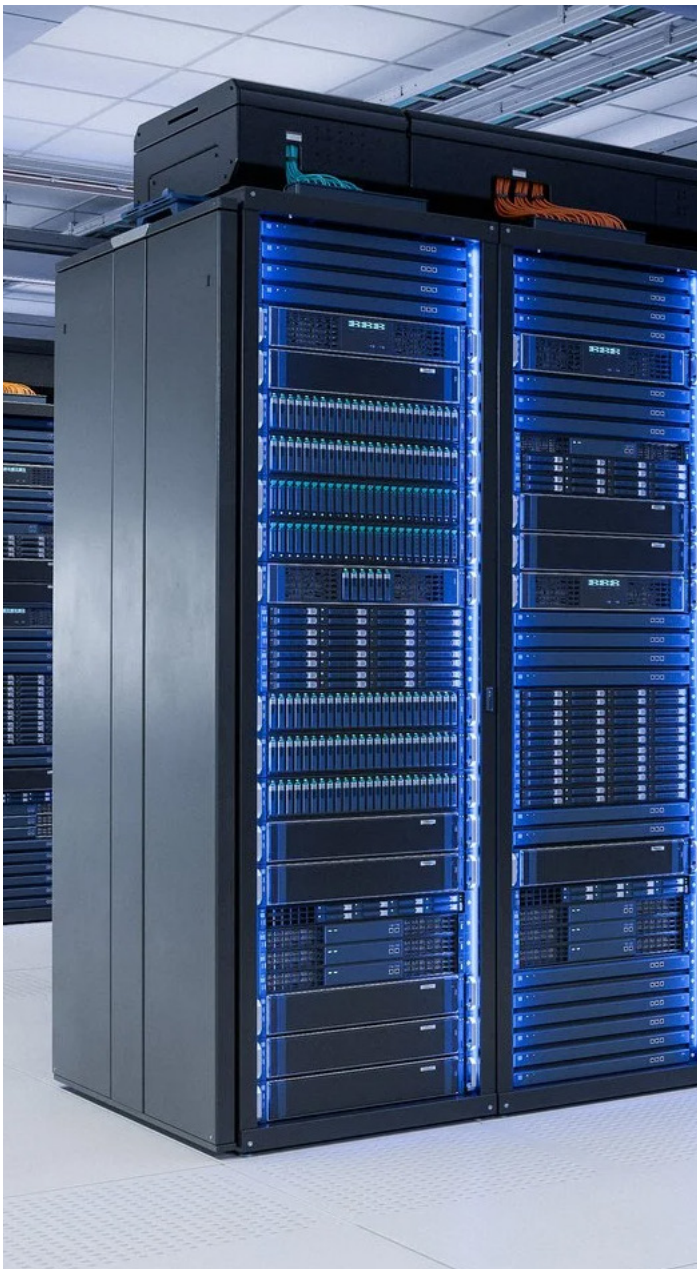

ENERGY USE

One of the most frequently cited data center concerns is that they will increase electricity rates for businesses and households. The U.S. Department of Energy found that data centers consumed about 4.4 percent of total U.S. electricity in 2023 and are expected to consume between 6 percent and 12 percent of U.S. electricity by 2028. The New York Times (Penn and Weise 2025) reported that data centers are on track to increase electricity bills nationwide and have already caused significant cost increases in Virginia. Cost drivers include the need to build out generation and transmission infrastructure. Costs may be passed to existing customers through socializing or "peanut-buttering" the costs of new transmission infrastructure without proper regulations (Silverman 2024). There is also a risk of stranded costs being passed on to consumers if new infrastructure is built to support a data center that subsequently significantly reduces its power needs or closes altogether.

In Michigan, the Michigan Public Service Commission regulates investor-owned utilities and has the mandate to protect ratepayers from excessive costs. The MPSC has recently approved Consumers Energy and DTE requests for the terms and conditions for serving data centers and other large-load customers (for Consumers). This is a key difference to how Michigan's regulated energy market differs from many of the other states that have experienced large cost-shifts.

Data centers often require significant infrastructure investments that take years to pay off. Best practices like guaranteed contract terms and collateral requirements ensure data centers fully pay infrastructure costs, significantly reducing risks of ratepayers covering stranded costs.

Best practices to protect ratepayers from data center risks have emerged. These were adopted by the MPSC in recent data center proceedings (MPSC 2026) and provide Michiganders with protections against rate hikes and stranded costs related to proposed data centers. These best practices include:

- Contract term—A minimum contract term of 15 years; automatic extensions of five years with a four-year notice for termination. The minimum contract term ensures the data center will continue making payments while any infrastructure investment is paid for.
- Minimum contract charges—A minimum billing demand which must be met regardless of use. Minimum contract terms lengths are designed to ensure the data center is committed to stay on the system and continue to pay for any infrastructure added to support the facility. The contract term can be aligned with the cost-recovery period of the grid assets.
- Ramp-up period—A time frame of up to five years to reach full service levels. A ramp-up period helps to align capacity growth with actual usage, preventing premature investment costs.

- Exit fee—A charge equal to the minimum monthly bill multiplied by the number of months remaining on the customer's contract. Exit fees are designed to discourage data centers from leaving a utility contract early or overestimating their power needs. If the data center closes or does not meet expected power usage, the fees can help cover the utility's costs.
- Assignment—The exit fee can be reduced if excess capacity is reassigned to other customers. Capacity reassignment would allow a data center to transfer part of its contracted capacity to another qualified customer if it no longer needs it. Items like exit fees could be waived if the data center found a buyer for the power it is contractually required to procure.
- Collateral—Collateral is required to be a standby irrevocable letter of credit for the full collateral requirement. The MPSC required default collateral equal to half of a large-load customer's exit fee; the collateral will be reduced over the course of the user's contract. A different form of collateral can be requested subject to MPSC approval. Collateral requirements protect ratepayers by ensuring utility infrastructure costs can be met if the data center closes, defaults, or leaves the contract early. The goal is to reduce the likelihood of ratepayers having to cover stranded costs.
- Reduced capacity request—Customers can seek a one-time capacity reduction of 10 percent (with a four-year written notice); requests to reduce capacity more than 10 percent requires MPSC approval.

Policy recommendation: The MPSC should continue using best practices to protect customers from rate increases when approving projects for high-energy users like hyperscale data centers. Also, publicly disclosing details of large-load tariffs will boost consumer confidence in data center investments.

Policy recommendation: Enshrine the best practices for protecting ratepayers that are already utilized for regulated utilities into state law and regulations to ensure uniform regulatory standards for all data centers. This ensures utility or data center projects outside MPSC purview still have adequate ratepayer protections and energy accounting in place.

MICHIGAN PUBLIC SERVICE COMMISSION

The MPSC is a three-member regulatory board that oversees Michigan investor-owned utilities. Members are appointed by the governor, with no more than two members from the same political party. The MPSC sets the rates charged by utilities and ensures that they are just and reasonable. When approving electric energy contracts for data centers, the MPSC adds requirements to protect customers from increases. At a recent contract approval, MPSC Chair Dan Scripps said, "the MPSC heard from thousands of Michiganders concerned about the risks of higher utility bills for everyday customers and reversal of progress the state has made in decarbonizing its energy production. The MPSC shares those concerns and finds that today's approval enacts strong protections for ratepayers against the risk of stranded costs and cost subsidization. The order shields DTE Electric customers from future price risk while supporting economic development." The MPSC found data centers can improve affordability for other customers by paying fixed costs that would otherwise be recovered solely from existing customers (MPSC 2025a).

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Environmental and Community Impact

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ENVIRONMENTAL AND COMMUNITY IMPACT

Opponents of data center construction frequently cite environmental and community concerns. Among these are:

- **Greenhouse gas emissions**—Concerns that the power generation needed to support data centers will increase greenhouse gases
- **Water usage**—The large amount of water consumed by some data centers raises concerns over groundwater depletion and similar issues
- **Land use**—Some hyperscale data centers are built in rural areas, which sparks concerns around farmland preservation
- **Nuisance factors**—Some community members raise concerns regarding the noise produced by data centers, the light pollution, or other factors
- **Nondisclosure agreements**—NDA use reduces transparency around many key aspects of data center development, increasing community concerns

GREENHOUSE GAS EMISSIONS

In 2023, Michigan set an electric generation standard requiring 80 percent clean energy by 2035 and 100 percent by 2040, with 50 percent generated by renewable energy by 2030 and 60 percent by 2035 (EGLE 2023). Clean energy is electricity generated without emitting greenhouse gases or from natural gas with at least 90 percent of its carbon dioxide captured.

Michigan's clean energy standard is ambitious, and rising electric demand will make it harder to meet. As utilities comply with the 2023 energy law, they must ensure they can supply baseload energy to heavy users. Currently, natural gas with carbon capture is the only approved zero- and low-carbon technology that can handle these energy intensive loads. Michigan utilities will likely need more generation capacity to support hyperscale data centers.

WATER USE

Data centers use water to cool equipment, but the amount of water used can vary dramatically, making water use a complex issue. For example, the Stargate data center in Saline Township is projected to use 10,000 to 20,000 gallons per day (Allnut 2025), while Project Cannoli in Wayne County is projected to use at least 2 million gallons of water per day (Busse 2026). Water usage varies depending on the technologies used. Evaporative cooling, a common method, cools through evaporation, so most of the water is lost to the atmosphere. Closed loop cooling systems reuse water in a sealed system, greatly reducing water use (Alliance for the Great Lakes 2026). Data centers also use water indirectly through power generation. Energy generation is the largest water-using sector in the Great Lakes region (Alliance of the Great Lakes 2026).

The concern about water usage is that water may be consumed faster than it can be replenished. This can be particularly problematic for groundwater. Numerous anecdotal reports suggest that data centers have caused issues with local water systems, such as the META facility in Georgia (Fleury and Jimenez 2025), and Amazon's data centers in Oregon (Cooper 2025) and Indiana (Parrott 2026). In Michigan, groundwater withdrawals exceeding 100,000 gallons per day must utilize the state's Water Withdrawal Assessment Tool, which ensures that such withdrawals do not adversely impact nearby lakes, streams, or other groundwater users. Furthermore, Michigan law mandates permits for private wells pumping more than 2 million gallons per day. Public water supplies are also required to obtain permits to expand their capacity.

Some Michigan water utilities get their water directly from the Great Lakes, a more plentiful source. For example, although Project Cannoli uses much more water than the Stargate data center, it gets its water from the Great Lakes Water Authority (GLWA), which sources water from Lake Huron and the Detroit River. GLWA has plenty of extra capacity, and the data center will use o

The Michigan Department of Environment, Great Lakes, and Energy said there have been no recent requests from private developers or municipal systems to drill a well or expand capacity because of a data center (Thompson 2026).

Policy Recommendation: Require any data center directly drawing groundwater to use a low-water-usage cooling technology.

Policy Recommendation: Consider amending the water requirement in Michigan's enterprise data center sales tax exemption to allow for using low-water-usage technologies in addition to municipal water as a means to qualifying for the sales tax exemption.

LAND USE

Hyperscale data centers can be large land users. These data centers can range from 200 to 500 acres and in some cases exceed 1,000 acres (Datacenters.com 2025). The Ford Rouge Factory Complex in Dearborn, Michigan's largest auto assembly plant, covers 600 acres (Brown 2025).

A proposed META data center in Howell would have used more than 1,000 acres—the largest data center proposed to date in Michigan. However, the developer withdrew the zoning application due to public opposition. Stargate in Saline is estimated to use 575 acres. The Microsoft project in Gaines Township is projected to use 316 acres, and Project Cannoli in Van Buren Township 280 acres (Smoicic Larson 2025).

Michigan has a long history of trying to protect farmland and green space, and so the large campuses proposed in some rural areas have raised concerns. In addition, Michigan's long industrial history has left the state with more than 27,000 brownfield sites (EGLE 2025). Brownfields and other industrially zoned properties offer advantages for data center siting. Brownfields and other industrial properties are often in urban areas, have proximity to electric generation and transmission, and are on municipal water supplies. They are also often not adjacent to residential areas. For the largest data centers, assembling a parcel of appropriate size may be challenging, but for most data centers, they present a good opportunity to put the land back to productive use.

There has been some policy movement at the federal level to incent data center development in brownfields. In a recent op-ed, U.S. Environmental Protection Agency (EPA) director Lee Zeldin stated that President Trump's recent executive order "promotes using remediated Brownfield and Superfund sites under EPA's purview for data center development." In addition, Congress is considering bolstering the federal brownfields program, which could make it easier to build data centers in brownfields (Zarghamee et al. 2026).

Michigan has some incentives for locating data centers in brownfields. The enterprise data center sales tax exemption lasts 15 years longer when located in a brownfield. In addition, Michigan's Brownfield TIF program allows developers to capture the incremental tax revenue from a redeveloped brownfield site to help offset the costs of property redevelopment (Michigan Economic Development Corporation n.d.). While helpful, but Michigan may need to do more to incent data centers to redevelop brownfields and former industrial sites. There are several options the state could consider:

- Assisting in land assembly, providing direct grants, and supporting local infrastructure (e.g., upgrades to roads, water/sewer connections) in exchange for data centers choosing to develop former industrial sites instead of green spaces
- Modifying the existing enterprise data center sales tax exemption to only be available to data centers located on former industrial sites
- Enhancing the incentive for developing a data center in a brownfield
- Enhancements could include a corporate income tax credit similar to the credit Michigan had under the single business tax or an expansion of the activities eligible for capture under Michigan's current brownfield TIF plan.

Policy recommendation: Incentivize data centers to locate on brownfields and former industrial sites. Possible incentives include assisting in land assembly, direct grants, an expansion of activities eligible for brownfield TIF capture, and restoring Michigan's brownfield business tax credit.

COMMUNITY SUPPORT

Communities often raise concerns about data centers' noise, light pollution, and air quality. Although these issues are not unique to data centers, they are common sources of local opposition. Companies and communities can use a community benefits agreement to address these concerns. These agreements can provide mitigation measures and tangible local benefits, such as stronger standards for water efficiency and air quality monitoring, new public amenities like parks, limits on operating impacts, or other developer-funded community investments.

This process could be improved by actively involving the community early to include their input in the proposal and investment strategy. In January, Microsoft announced the Building Community-First AI Infrastructure Initiative to address public concerns about new data centers in their

communities (Smith 2026). Their commitment focused on five key principles:

1. Paying their way to ensure their data centers don't increase electricity prices
2. Minimizing water use and replenishing more of water than they use
3. Creating local jobs
4. Adding to the tax base to support local critical infrastructure and community benefits
5. Investing in local AI training and nonprofits

NONDISCLOSURE AGREEMENTS

Companies siting data centers often request nondisclosure agreements with local officials, state policymakers, and others involved in the project. NDAs can help companies protect proprietary information and make it easier to get a project organized before having to react to public opposition. However, they come at a steep cost. NDAs and the accompanying lack of transparency often undermine public trust. They also make it difficult to compare projects and as a result make it harder to identify and implement best practices. While an NDA might help an individual project move forward, collectively they hurt public support for Michigan data centers.

Microsoft recently announced they will stop using NDAs for data centers. They noted that while NDAs are common in the industry, they "made the decision that being transparent with the communities where [they] operate is paramount" (Microsoft n.d.). To build support for data centers, Michigan should discourage their use and move toward increased transparency. To build support for data centers, Michigan should discourage their use and increase transparency.

One option is to exclude certain information from NDAs so politicians can answer community questions about a proposed data center without revealing company trade secrets. Michigan could also improve transparency by requiring that the presence of NDAs be disclosed promptly.

Policy recommendation: Michigan should limit NDA use and consider restricting some information from inclusion in NDAs, requiring expiration dates on NDAs, or adding transparency requirements such as disclosing the presence of NDAs within 30 days of the NDAs being signed.

MICROSOFT COMMUNITY-FIRST AI INFRASTRUCTURE PLAN

1. We'll pay our way to ensure our datacenters don't increase your electricity prices.

- Pay utility rates that are high enough to cover our electricity costs
- Collaborate with utilities on plans to add to the electricity we will need
- Innovate to make our datacenters more efficient
- Advocate for public policies needed for affordable, reliable, and sustainable power

2. We'll minimize our water use and replenish more of your water than we use.

- Reduce the amount of water our datacenters use
- Replenish more water than we use
- Provide greater local transparency
- Advocate for public policy that helps minimize water use

3. We'll create jobs for your residents.

- Invest in partnerships to train local construction workers
- Expand our Datacenter Academy program to train more individuals for ongoing operations roles
- Encourage policymakers to support new job opportunities

4. We'll add to the tax base that funds local hospitals, schools, parks, and libraries.

- We won't ask municipalities to reduce their local property tax rates for datacenters
- We'll support policies to invest the added taxes we pay in the vital services the community cares about

5. We'll strengthen your community by investing in local AI training and non-profits.

- Partner with schools, community colleges and universities to provide AI training
- Support adults with AI tools and skills through AI learning hubs in local libraries
- Support AI skills training for businesses
- Invest in local non-profits

Policy recommendation: Consider additional public engagement processes, including how to incorporate the investments in improving the community where the data center is located.

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Tax Issues

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TAX ISSUES

Tax policy is an important consideration with respect to data centers. On the one hand, there is interest in lowering the taxes paid by data centers to increase their likelihood of locating in Michigan. On the other hand, the property taxes paid by data centers are frequently cited as one of the key benefits data centers bring to Michigan.

PROPERTY TAXES

The assertions of financial benefits accruing from property taxes on data centers are accurate. The Stargate data center proposed for Saline is projected to pay $1.6 million in property taxes to Saline Township (Saline Township 2025). Given that Saline Township levied less than $600,000 in property taxes in 2024, this is a substantial increase. The data center would also annually pay $2.2 million to the Washtenaw County Intermediate School District, and $8 million in other state and local property taxes, and this is with a portion of the property taxes being abated.

One challenge for communities is accurately estimating the property taxes a hyperscale data center will pay. Since they are new, construction and equipment costs likely won't accurately indicate the property's final assessed value. The assessed value of data centers is likely to cause disputes between local governments and operators, with significant risks of litigation.

Data centers are also substantial technological investments. As with any technology investment, there is a risk that new innovations will render existing investments obsolete. As a result, technological innovation could lead to a rapid depreciation in the value of a data center, and with that the property taxes paid. Published property tax guidance from the state around data center valuation could be valuable for communities and taxpayers trying to determine what the ultimate data center property tax bill will be.

Michigan could reduce uncertainty about property taxes by replacing the property tax on hyperscale data centers with a specific tax. Under Michigan's constitution, property taxes must be based on the true cash value of property, and the difficulty in assessing true cash value often leads to protracted legal conflicts between communities and companies. Exempting hyperscale data centers from the property tax and instead levying a specific tax would provide certainty on payments to both data center owners and local communities. This approach was recently used for certain solar facilities through the Solar Facilities Taxation Act (PA 108 of 2023).

Communities could also consider pursuing a property tax guarantee with data center operators, like the one negotiated for the Groveland Mine Solar Project in Dickinson County. Under this agreement, the mine operators committed to a floor on property tax payments to the local governments (Graham Sustainability Institute 2026).

Policy recommendation: The Michigan State Tax Commission should publish property tax guidance relating to data centers to make it easier for taxpayers and communities to discern how much property taxes a data center will ultimately pay.

Policy recommendation: To create more certainty around tax payments, Michigan should consider exempting hyperscale data centers from the property tax and instead subject them to a newly created specific tax, or communities could seek property tax guarantees with data centers.

SALES AND USE TAXES

Absent abatements, building materials for a data center and the equipment inside it would be subject to Michigan's sales tax. A CNBC analysis found 42 states offer some type of full or partial sales tax exemption for data centers. Almost all states with a sales tax exempt the equipment, while some states also exempt building materials and/or the electricity consumed.

Data center building materials and equipment can be exempt from the sales tax in Michigan if the data center falls within one of two special cases. First, Michigan offers an exemption for "qualified data centers." The Michigan Sales Tax Act defines a qualified data center as follows (MCL 205.54ee(10)(i):

'Qualified data center' means a facility composed of 1 or more buildings located in this state and the facility is owned or operated by an entity engaged at that facility in operating, managing, or maintaining a group of networked computers or networked facilities for the purpose of centralizing, or allowing 1 or more collocated businesses to centralize, the storage, processing, management, or dissemination of data of 1 or more other persons who is not an affiliate of the owner or operator of a qualified data center or of a collocated business and that entity receives 75% or more of its revenue from collocated businesses that are not an affiliate of the owner or operator of the qualified data center.

This exemption was added to the sales tax act in 2015 to attract the Switch data center to Grand Rapids (Heinlein 2015), but any other data center meeting the definition can claim the exemption.

Michigan also provides a building material and equipment sales tax exemption for "enterprise data centers." To qualify for this exemption, the Michigan Strategic Fund (MSF)

needs to certify that a business is eligible. To be eligible, a business needs to meet the following requirements (Michigan Economic Development Corporation n.d.b):

- **Capital investment**—Must be at least $250 million.
- **New jobs**—Create at least 30 new jobs with an annual wage of at least 150 percent of the median wage of the region in which the data center is located. The jobs must be maintained at least through 2050.
- **Tax abatements**—The facility cannot receive property tax abatements unless these abatements are approved by a resolution of the local governments where the facility is located.
- **Electric rates**—Cannot pay an electric rate that causes residential customers to subsidize infrastructure costs.
- **Environmental requirements**—The data center must:
    - Within three years of being placed into service need to certify that the facility has attained one of several green building standards outlined in the act
    - Procure clean energy
    - Use municipal water at the time the facility is placed into service

The enterprise data center exemption was enacted into law in 2024, and as of this writing, the MSF has not certified any data center for the exemption.

INCOME TAXES

Income taxes are a relatively minor issue for data centers. Since data centers employ relatively few people, Michigan's individual income tax rate of 4.25 percent should not be a deterrent to data centers locating here, and data centers along will not generate significant individual income tax revenues for the state, outside of the income taxes paid by the workers involved in data center construction.

Similarly, the way Michigan apportions profits for the state's corporate income tax (CIT) means that the location of a data center in Michigan will likely have little impact on a company's Michigan CIT payment. Michigan apportions corporate profits based on a firm's sales in Michigan. The location of property, equipment, or employees has no impact on a company's CIT payment. Therefore, investment in Michigan data centers by large multinational companies will not have a meaningful impact on the state's CIT collections.

Conclusion

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CONCLUSION

Data centers are an important economic opportunity for Michigan. The sudden surge of announcements to locate hyperscale data centers in Michigan, coupled with a lack of understanding about Michigan's regulatory framework is rapidly eroding public support for data centers. Overall, Michigan has strong regulations to protect energy ratepayers, water resources, and ensure state incentives practice best practices in development. By making a handful of policy changes, Michigan policymakers can address many of the public concerns driving this opposition and make the state more welcoming to these potentially transformational innovations.

GLOSSARY OF KEY TERMS

Artificial intelligence (AI)—Computer systems that can complete complex tasks that typically require human intelligence such as reasoning, learning, problem-solving, perception, and decision-making

Brownfield—An abandoned or underutilized former industrial or commercial site whose redevelopment is complicated by perceived environmental contamination.

Brownfield Tax Increment Financing (TIF)—A program that allows those redeveloping brownfield sites to capture the incremental increase in property taxes resulting from the redevelopment

Closed loop cooling system—A system where a coolant, such as water, is continuously recirculated within sealed pipes. By keeping the coolant inside, water usage is dramatically reduced.

Co-located data center—A data center run by a third party that rents space to companies to house their infrastructure.

Community benefits agreement—A legally binding agreement between a developer and a community or community organizations that outlines specific benefits, mitigations, and amenities the developer will provide in exchange for community support.

Data center—The physical facility that a company uses to house its data and computing equipment

Edge data center—A data center designed to be built near businesses for whom proximity to the data center is important. They have significantly lower latency times, which is needed for certain applications such as autonomous vehicles, banking or robotic surgery.

Enterprise data center—A private data center run by a third party that rents space to companies to house their infrastructure. Michigan also provides an "enterprise data center" sales tax exemption. To qualify for this exemption, the data center must meet very specific conditions laid out in the state's sales tax act (PA 167 of 1933).

Gigawatt (GW)—A unit of electric power equal to one billion watts. One GW is enough electricity to power approximately 750,000 homes.

Green data center—A data center with a strong emphasis on energy efficiency, environmental impact, and sustainability. Green data centers are often powered by renewable energy, minimize water use, and promote environmentally friendly operations.

Green space—Undeveloped land.

Hyperscale data center—A massive data center providing cloud storage and computing power for applications like AI. These data centers are highly scalable and are noted for their massive computing power and high-power consumption.

Jobs multiplier—An indicator that measures the number of indirect jobs for every direct job created. A jobs multiplier of three means that two indirect jobs are created for each direct job, so that one direct job created results in a total of three jobs for the economy.

Latency time—The delay between a user request from a computer system and the response time. It represents the round-trip time it takes for data to travel from its source to its destination and back. Latency time is typically measured in milliseconds.

Megawatt (MW)—A unit of electric power equal to one million watts. A MW of power can supply electricity to around 600 to 800 homes.

Michigan Public Service Commission (MPSC)—A three-member state regulatory body that regulates investor-owned utilities. It is charged with ensuring safe, reliable, and reasonably priced electricity, natural gas, and telecommunications services.

Michigan renewable energy standards—Public Act 235 of 2023 requires Michigan electric providers to achieve a 50 percent renewable energy portfolio by 2060 and 60 percent by 2035. The legislation also requires a 100 percent clean energy standard, including nuclear and carbon captured fossil fuels, by 2040.

Michigan State Tax Commission—A three-member body that oversees the administration of property tax laws in Michigan

Nondisclosure agreement (NDA)—A legally binding contract between parties to protect sensitive information, trade secrets, or proprietary information from being disclosed to unauthorized individuals.

PA 198 tax abatement—A Michigan tax incentive, also referred to as the industrial facilities exemption, that reduces property taxes by approximately 50 percent for up to 12 years to encourage manufacturers to build, expand, or rehabilitate facilities, and buy new equipment.

Spinoff job—An additional job created for an economic development project in addition to the direct jobs at the site. Spinoff jobs can be created through the purchases of the firm and its employees. They can also be created if other companies want to locate their business in proximity to the project.

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