



Arizona's Changing Data Center Policy Landscape

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The Arizona Data Center Boom

Arizona is becoming a useful case study in the national data center policy debate because the state has both aggressively recruited the industry and, within the last few years, begun putting meaningful guardrails around it. -center

Top Global Market Positioning

Maricopa County and the broader Phoenix area have emerged as a **top global data center market** due to strategic geographic positioning, power grid reliability, and favorable business conditions.

The AI-Driven Power Surge

The explosion of artificial intelligence technologies has created an unprecedented need for high-density computing capacity, resulting in **booming resource demands** across the state.

Regulatory & Resource Challenges

This rapid growth has triggered the need to **re-examine policies and incentives** to ensure balance with community, environmental, and resource capacity concerns.



Arizona's Original Playbook: High Incentives & Prime Location

To build its dominant data center sector, Arizona leveraged a two-pronged strategy: massive upfront transaction tax exemptions and highly favorable regional geographic fundamentals.



The Tax Engine

The AZ Commerce Authority's 2013 Computer Data Center (CDC) Program provided relief for massive upfront infrastructure expenditures.

TPT & Use -Tax Relief: Certified facilities received state, county, and municipal tax exemptions on qualifying equipment.

Extended Benefits: Offers 10 years of relief standard, extending to 20 years for sustainable redevelopment projects.



Strategic Geography

Developers were aggressively recruited based on natural environmental and infrastructure advantages:

- Low natural-disaster risk
- Abundant solar potential
- Proximity to Phoenix metro
- Major regional fiber routes
- Inexpensive, scalable land



The Original Bargain

A highly coordinated ecosystem aligned state, local, utility, and private interests to fast-track growth.

The Stakeholders: ACA acted as a centralized site-selection facilitator, while local governments provided land-use and infrastructure.

The Current Shift: This original bargain is now actively being renegotiated across the state due to community, cost, and resource capacity concerns.

Why the Old Model Ran Into Trouble

Physical Characteristics & Intense Resource Needs Drive Local Conflict

Unlike conventional developments, data centers possess unique physical traits and significant resource demands that have made their presence politically and socially dominant in Arizona.

1. Water Demands

Cooling requirements vary, but evaporative systems consume substantial volumes of water.

In Arizona, even manageable demands become **politically explosive** due to long-term groundwater and Colorado River concerns.



2. Electricity & Grid Costs

AI-oriented facilities require extraordinary amounts of power.

The debate has shifted from service feasibility to a critical regulatory query: **Who pays for the massive infrastructure** needed to supply them?



3. Quality of Life & Land

Continuous mechanical noise, massive substations, and vast land use yield very few permanent local jobs.

Residents increasingly ask: **"What do we get in return"** for giving up precious community resource capacity?



Municipal Evolution: From Permissive to Purpose

- Built Rules

Predictable, Tailored Regulatory Frameworks Replace Outdated Warehousing Classifications

Most of the detailed policy shift is occurring at the local level. Arizona cities are transitioning from letting data centers slide into generic industrial categories to creating highly explicit, demanding **zoning standards**.

Chandler: The Early Pioneer

Its landmark **2022 Ordinance** pioneered a predictable regulatory model rather than outright prohibition.

- Specific zoning tier for data centers
- Strict pre-construction noise studies
- 5-year annual noise monitoring
- Backup generator testing rules

The Flipside: Having a framework does not guarantee approval; Chandler subsequently rejected a major 2025 AI project using discretionary authority. The decision followed intense public opposition focused on the disproportionate strain on local water, electricity grids, and low relative economic yield.

Mesa: Regulated Welcome

Mesa adopted strict zoning amendments in **July 2025** to balance active recruitment with severe impact mitigation.

- Defines "data center" as a distinct land use
- Requires Planned Area Development for primary use
- Controls buffer zones near sensitive areas

The Position: "We're open for business, but on our terms." Entitlements are far more predictable but significantly more demanding.

Phoenix: Performance First

Recognizing hyperscale sites behave like heavy industrial plants, Phoenix shifted in **2025** to a special-permit framework.

- Mandatory utility "will-serve" verification
- Minimum separation from high-capacity transit
- Enhanced buffers near residential zones

Key Innovation: Requiring utility confirmation directly connects land-use approvals to localized grid capacity and infrastructure availability.

Southern Arizona: Colliding Head - On with Water Politics

Marana & Tucson Deploy Contrasting Models of Water-Focused Data Center Control

Marana and Tucson have taken structurally different paths to regulate against heavy industrial growth.

data center water use, balancing municipal resources

Marana's Potable Water Prohibition

In December, the town of Marana adopted a strict, formal ordinance that prohibits its municipal water department from supplying data centers with potable water.

- **Alternative Sources:** Developers are legally required to find alternative, non-potable water sources.
- **Usage Estimates:** Must file a formal application estimating the facility's annual water consumption.

The Policy Signal: Legally forces developers to adapt cooling designs (like finding non-potable water) while still permitting local development.

Tucson's De Facto Siting Limits

Rather than a blanket connection restriction, Tucson uses water-use ordinances as a de facto tool to limit data center construction in areas with acute water scarcity.

- **Denial Power:** Relies on the city's power to deny water delivery and land acquisition to block resource-heavy projects.
- **"Project Blue" Precedent:** Tucson City Council voted unanimously to deny water/ power to Beale Infrastructure, forcing them out of city limits.

The Policy Signal: Uses water access as a direct policy lever to discourage these facilities from being built near the city in the first place.

In Short: While Marana's rules legally force developers to adapt their cooling designs, Tucson's approach uses water access to discourage these facilities from being built near the city entirely.

Examples of County -Level Approaches

County governance becomes particularly important when developers move outside municipal boundaries, prompting contrasting regulatory approaches across Arizona.

Cochise County: Preemptive Regulation

Adopted Ordinance 26 -09 in April 2026 to **proactively regulate** future data centers. The rules require developers to obtain Special Use Authorization and submit detailed plans covering water use, infrastructure impact, noise limits, and emergency fire safety before any commercial facility can be built.

Maricopa County: Zoning Modernization

Maricopa County updated its zoning code to formally define and control data centers rather than letting them fall under vague industrial categories.

Permitted Zones: Centers are strictly limited to General Industrial and Heavy Industrial zones.

Mandatory Rezoning: Any project proposed outside of these zones triggers a comprehensive case -by-case public review process evaluating nearby land compatibility, infrastructure capacity, and operational impact.

Pinal County: Case by Case

Currently does not have a formal data center ordinance in place; projects reviewed using general industrial zoning requirements. **Grassroots backlash and community concerns** recently prompted the developer of the County's first potential data center project to propose a significant downsizing of the project.



A Statewide Policy Experiment on Data Centers

Instead of Governor Hobbs' proposed outright repeal of tax exemptions and new water -use fees, the Legislature opted for a moderate three -year pause to gather empirical evidence.

-use fees, the Legislature opted

The Governor's Original Repeal Proposal:

1. End Tax Exemptions: Proposed ending the data-center tax exemption completely, arguing that while it succeeded in establishing Arizona as a major national hub, ongoing taxpayer subsidies were no longer justified.

2. Water -Use Fee: Proposed creating a dedicated data-center water fee to support water conservation, infrastructure upgrades, and shortage mitigation strategies related to the Colorado River.

The Legislature's Response:

Settled on a politically moderate three-year pause on exemptions to preserve stability. From **July 1, 2026 through June 30, 2029** :

- The Arizona Commerce Authority cannot accept applications for new data-center tax relief under A.R.S. § 41-1519.
- New data centers cannot qualify for the tax incentive program during this three-year period.

A Three-Year Window for Evidence

The pause acts as a policy experiment to gather concrete data on the industry's real footprint:

- **Jobs & Revenue:** What permanent jobs are created and what tax revenue remains after incentives?
- **Resource Demands:** How much water do they consume and who pays for major electrical grid upgrades?
- **Geography:** Are the economic impacts materially different between metro and rural projects?

AZ HB 2388 Mandated Study: Allocates **\$100,000** to the Arizona Commerce Authority to conduct an independent study of data center benefits, infrastructure, and secondary economic impacts.

Utilities: The Pivot to Cost -Causation

Balancing Data Center Expansion with Ratepayer Protection

The Cooperative Framework

- Electric cooperatives (Co -ops) are primary targets for the rural migration of data centers, as developers seek the vast acreage required for modern "megascampuses."
- On August 12, 2026, the AZ Corporation Commission took a step to protect these member -owned utilities by approving a new strategy called "Growth Pays for Growth."
- The goal is to prevent small rural communities from assuming the debt of industrial expansion.
- State assesses new projects to ensure public benefit, fair pricing, and no subsidies.

Large Utility Snapshot: Arizona Public Service Rate Case

The Challenge: APS is currently managing a pipeline of 16,000 MW in new power requests —**nearly double its existing peak service capacity** of 8,500 MW.

The Response: A June 2025 APS rate case introduced a robust defensive strategy centered on:

Higher Rates for Heavy Users: Rate increase specifically for the largest industrial customers who run at full power 24/7.

Annual Fairness Checks: Regular reviews to ensure that costs created by data centers stay with the data centers, rather than being shifted onto households or small businesses.

Long -Term Commitments: APS will require companies to commit to minimum payments and provide financial collateral upfront to prevent a situation where a company leaves and the community is stuck with costs for stranded assets.

Arizona: A Case Study of the National Data Center Policy Debate

Key Takeaways: Shifting From Aggressive Recruiting to Accountable Regional Development

Arizona is transitioning from an era of unchecked data center recruitment to a model of accountable, negotiated development. As the state reassesses its data center strategy, the following takeaways are critical:

For Developers:

Move beyond economic incentives to **proactive community engagement** and **rigorous resource planning**. Social license is now as important as tax relief, and projects must demonstrate a **clear plan for paying incremental infrastructure costs** (water and electricity) rather than relying on residential ratepayer subsidies.



TO WATCH: ACC DOCKETS

The Grid Cost Battleground

The Corporation Commission is actively investigating large -load infrastructure impacts:

Preventing Rate Subsidies

Expect ongoing dialog between utilities, consumer advocates, and developers to resolve a core tension: Arizona wants economic growth but rejects residential ratepayer subsidies for large -load grid buildouts.

Federal & Interconnection Policy

The ACC intervened in federal FERC proceedings to ensure preservation of state oversight and affordability.

TO WATCH: UTILITY RATE CASES

The Real Cost of Power

Ongoing utility rate cases will fundamentally alter project economics before 2027:

APS rate case deciding in 2026:

The Extra High Load Factor tariff will directly impact large power users. Project feasibility can no longer be judged by today's published rates.

The Critical Question:

"What will my project have to pay to make the grid capable of serving me?"

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For Policy Makers:

The current regulatory trend focuses on shifting infrastructure costs directly to data centers through "cost-causation" frameworks. Success lies in mandating holistic verification —**linking land -use approvals to localized grid capacity and water supply**—rather than relying on broad, outdated industrial zoning classifications. Expect AZ towns and counties to continue to evaluate and create local zoning and resource -related ordinances and requirements.



LEGISLATIVE SIGNALS

Where Future Law is Headed

Proposals that failed to pass in 2026 may provide insight into upcoming regulatory targets:

HB 2738: Cost Responsibility

Would require signed utility agreements for dedicated upgrades, plus strict annual reporting on energy/water footprints.

SB 1380: Large -Load Causation

Aimed to force large loads to pay 100% of incremental transmission/generation costs rather than shifting to residential ratepayers.

HB 2452: County Planning

Sought to mandate long -range county plans to designate data center zones based on local water/energy resources.

In General:

Anticipate that the legislature may delay significant statutory changes until after the ACA report is completed.

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