Policy Matters Ohio

TESTIMONY

June 25, 2026
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City leaders should regulate, tax, and demand transparency from data centers

Testimony on Ordinance No. 556-2026 to the Cleveland City Council Utilities Committee

Policy Matters Ohio has been receiving requests for support from residents across the state who have expressed concerns about planned data center projects coming to their communities. Leading concerns for Ohio communities include data centers' impacts on water quality and availability, implications for energy affordability in the absence of adequate ratepayer protections, and air quality and public health impacts, among a litany of other concerns. Notably, one of the key reasons why communities are concerned about data centers and organizing their communities and municipalities against them is that their owners or developers try to maintain secrecy about negotiations with local electeds and policymakers until decisions about them are well under way. Often, this is done through nondisclosure agreements with elected officials or others. The council should consider adopting restrictions on such agreements. NDAs undercut local democracy by excluding residents from providing input on economic development decisions. Officials cannot be fully accountable when they operate in secret. While the Ohio House is considering a bill to restrict NDAs, it has not advanced past committee hearings (see our testimony on the bill here).

Council should also reject financial incentives to induce data center development. A leading Microsoft executive said, "I can't think of a site selection or placement decision that was decided on a set of tax incentives."[1] Lydia Mihalik, director of the Ohio Department of Development, told the General Assembly's Select Committee on Data Centers earlier this month that, "As Ohio has become firmly established as a place where this type of investment can succeed, future exemptions may not need to be as broad — or, in some cases, may not be necessary — to support continued industry growth."[2] Most data centers in Ohio do not have a sales-tax exemption. "What it is today is not what it was when we started doing this 12 years ago," she told

[1] Weise, Karen, "Data centers are fueling a new gold rush," The New York Times, Dec. 29, 2024.
[2] Mihalik, Director Lydia L., Ohio Department of Development, Ohio Select Committee on Data Centers, June 11, 2026, at https://ohiohouse.gov/committees/select-committee-on-data-centers/meetings/cmte_h_data_centers_1_2026-06-11-1000_1440

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the committee. "... I don't think it's as much of a deciding factor in Ohio moving forward."

As you probably know, the state offers a sales-tax exemption for data centers that cost the state, counties, and transit agencies $2 billion last year. After the news came out on how much the Ohio exemption cost, Governor DeWine initiated a pause in new data-center exemptions. While this is of limited utility because it does not affect the giant existing exemptions of Amazon, Google and Meta, it is still good policy and we recommend that council pass a resolution urging the governor to maintain that pause until the General Assembly acts. Other states are moving to reexamine or rein in their sales-tax exemptions: The governor of Texas recently called for their repeal; Illinois and Arizona have adopted two- and three-year halts to their exemptions, respectively. And Virginia, the state with the largest number of data centers, is adopting a new tax on electricity use to offset some of the cost of the exemption there.

Ohio House Bill 646, an omnibus bill which would regulate various aspects of data centers, would limit local property tax abatements for them to 50%. But as Director Mihalik told legislators, given the giant sums they are pouring into data centers, tens of millions of dollars to them is "just a drop in the bucket." Data center operators should pay their fair share of local taxes — the city should not risk public revenue by offering incentives.

Lawmakers must establish a distinct classification for hyperscale data center facilities in Cleveland's code to regulate the industry. Without specific permitting requirements, the data center proposal slated for Slavic Village, bordered by residential homes – which was rejected on a technicality – could move forward if the developer were to refile a permit application with the appropriate documents. City officials have a responsibility to create proactive, robust guardrails around data center development to protect Cleveland communities. Yet firming up local regulations and zoning restrictions to establish these protections takes time – and given the pace of this expansion, a moratorium would be useful until they are established, enabling lawmakers to craft deliberate, measured policy and regulatory guardrails.

Ohio's electricity grid is not equipped to keep pace with unprecedented growth in electricity demand driven by data center development, which risks driving up costs for other ratepayers. Cleveland residents – both Cleveland Public Power (CPP) and First Energy ratepayers – are already experiencing undue reliability and affordability concerns due to aging infrastructure and decades of deferred investment. CPP, the city's public utility, is already grappling with a deep need for infrastructure modernization and investment ranging between $70 to $100 million.

Given data centers' unique energy needs, deep consideration of a proposed facility's grid impacts – and appropriate allocation of associated infrastructure costs – is needed before approving a project, particularly in CPP's service area. The city should lower residential energy costs by negotiating development agreements that leverage the tech industry's significant financial capacity to invest in needed upgrades for its municipal utility infrastructure, rather than subsidizing it at

ratepayers' and taxpayers' expense. Approval of any data center project should hinge on the developer's commitment to investing in reliability and resilience for all CPP ratepayers – Cleveland officials must prioritize responsible stewardship of public dollars by advancing a publicly-owned utility that works for the public good.

Additionally, city officials must understand that approving a data center project in or near residential areas or major community hubs could forfeit your authority to regulate any accompanying behind the meter generation, or onsite generation to supply the facility's electricity needs. Despite the wide-ranging implications of proposed behind the meter facilities – which are overwhelmingly powered by natural gas – these projects enjoy accelerated review timelines and are automatically approved if the Ohio Power Siting Board (OPSB) doesn't reject the project within 60 days of the permit application's filing. The OPSB has sole authority over major utility facilities, local officials would have no power to block the project or to require the implementation of less emissive technologies or pollution control equipment.

Moreover, data centers often rely on backup diesel generators during energy disruptions, curtailment events and monthly maintenance periods. Diesel generators produce harmful air pollutants linked to increased risk for chronic health conditions like respiratory or cardiovascular disease, neurological conditions, or cancer, along with long-term consequences for the environment. A recent study suggests communities living at least 0.6 miles away – sometimes farther – from a data center can experience negative health outcomes. Yet a considerable number of Ohio's planned hyperscale facilities directly abut residential areas, public parks, or schools, and Cleveland's existing zoning code doesn't protect residents from potential harms of irresponsible development.

Large-scale data centers can also impose significant burdens on local water distribution systems and wastewater treatment systems, while those covered by discharge permits can dispel wastewater directly into surface waters, contaminating local water sources with PFAS, or forever chemicals used in cooling systems. The U.S. Environmental Protection Agency (EPA) has announced rules establishing legally enforceable levels, or Maximum Contaminant Levels (MCLs), for certain types of PFAS, requiring public water systems to monitor these chemicals' presence in drinking water beginning in 2027 and comply with MCLs by 2029.[3] Since Ohio does not regulate these PFAS at the state level, the burden of reducing contamination levels to acceptable levels could fall to the city. Moreover, while Cleveland enjoys abundant water availability due to its proximity to Lake Erie, data centers' substantial water use risks the long-term water security and ecological health of the Great Lakes region.[4]

Recommendations

[3] The U.S. EPA has since proposed rules that would exempt certain PFAS from MCL standards established by the 2024 National Primary Drinking Water Regulations and allow drinking water systems to request an additional two years to comply with the rules. These rules are still open for public comment and are anticipating a public hearing in early July 2026. See the EPA's explainer, Per- and Polyfluoroalkyl Substances (PFAS): Final PFAS National Primary Drinking Water Regulation.

[4] Volzer, H., & Iturbide-Chang, M. (2026). A regional playbook for managing data center impacts in the Great Lakes: Education, tools, policies, and community actions. Alliance for the Great Lakes. Chicago, IL.

City officials should integrate stronger transparency and reporting requirements into the application process. Thanks to the dearth of regulation at the state level, data center companies are not subject to rigorous reporting requirements necessary for understanding the full scope of their impacts on the electricity grid, water use and availability, or public health. Policymakers and administrators should have a holistic understanding of data centers' impacts by requiring pre-approval transparency mechanisms for projected electricity demand and efficiency measures, water use and conservation plans, noise pollution, onsite emissions, and comprehensive environmental impact studies. Projects that don't satisfy these transparency requirements should be rejected.

City officials should require conditional use permits for the construction or expansion of all data center facilities. The use of by-right zoning could enable data center developers to bypass important community oversight and public participation mechanisms, limiting local officials' authority to regulate the industry. Cleveland's code should be updated to restrict where data centers can be built to minimize public harm, while creating comprehensive standards to mitigate environmental harms and support meaningful opportunities for community engagement.[5] Importantly, zoning and performance standards should be used to ensure that data center development doesn't stall progress towards meeting important climate goals outlined by Cleveland's Climate Action Plan, including net zero emissions targets for the industrial sector by 2050.

City officials should prioritize and require meaningful public engagement in local data center development decisions and leverage the industry's financial capacity to create community benefits. Irresponsible data center development has long-term, wide-ranging consequences for host communities. To secure stronger commitments from companies to invest in public infrastructure and generate meaningful, widely distributed benefits for residents, Cleveland lawmakers should support the use of community benefits agreements on data center projects.

Cleveland lawmakers must increase regulatory oversight and transparency requirements for data center construction and operations, improve community accountability measures, and expand opportunities for residents' participation in local economic development decision-making. Responsible, informed decision-making around data center development hinges on meaningful public engagement, especially when lack of regulation and nondisclosure agreements between local governments and data center companies have enabled these projects to materialize without the necessary transparency and accountability to the surrounding community. Thank you again for the opportunity to provide testimony today. I am happy to answer any questions you may have.

[5] See Fair Shake Environmental Legal Services toolkit, Data Centers: What Municipalities Can Do to Prepare, for an overview of local considerations for data center development.