

Data Center Community Reinvestment

Requiring Data Centers That Receive State or Local Tax Exemptions to Reinvest in Host Communities and Public Schools

The Issue

Data centers receive substantial public benefits in Texas, but host communities, including their public schools, have no guaranteed return. Texas now has 582 operating and planned data centers, and 138 participate in the state sales tax exemption program.¹ The Senate Finance Committee projects that exemption will cost about \$3.3 billion in the 2028–29 biennium, up from an estimated \$14.6 million in 2014–15.² That figure excludes local abatements and the public cost of new power and water infrastructure. Only 20 of the 138 qualified facilities have been audited, and six of those 20 were out of compliance with job requirements.³

Community Impacts

Host communities absorb the noise, water, and air impacts of data centers while the fiscal benefits flow elsewhere.

- **Noise.** Brazoria County residents near one facility report a constant hum and vibration they link to lost sleep, headaches, and stress.⁴ In Hood County, unresolved complaints led the Mitchell Bend neighborhood to pursue incorporation just to gain authority to adopt a noise ordinance, which Texas counties lack.⁵
- **Water.** About 65% of Texas was in drought in May 2026, and UT Austin researchers estimate data centers could reach 9% of statewide water use by 2040.⁶ Only 17% of Texas data centers responded to the Texas Water Development Board's legally required 2025 water use survey.⁷
- **Air.** Since 2024, at least 38 data centers have received minor permits for on-site power, approving more than 2,100 backup diesel generators statewide.⁸
- **Public pushback.** An August 2026 House State Affairs hearing drew hundreds of residents, forcing two overflow rooms.⁹ Fort Worth is drafting zoning limits,¹⁰ and Westlake and Keller residents opposed the Circle T campus over noise, water, and property values.¹¹

The School Finance Problem

The state, not the host school district, captures most of the school tax benefit of a data center. A data center's taxable value raises the host district's property wealth. In a Chapter 49 district, the added M&O revenue above the district's entitlement is recaptured by the state. In other districts, the added local revenue reduces state aid nearly dollar for dollar. Either way, the result is state savings: recapture and reduced state aid lower what the state must spend to fund the school finance system. Students in the host district absorb the community impacts above while seeing little new M&O funding.

Policy Recommendation

Texas School Coalition recommends the Legislature require data centers that receive the state sales tax exemption to reinvest in their host communities, including public schools.

¹[Lawmakers Question Skyrocketing Costs of Texas Data Center Tax Breaks](#), Red River Radio (July 29, 2026).

²[Texas lawmakers question billions in tax breaks for data centers](#), Texas Public Radio (July 28, 2026).

³[Texas data centers sales tax break audits](#), The Texas Tribune (July 27, 2026).

⁴[Brazoria Revolts As Data Center Hum Gets Too Loud](#), Hoodline (June 11, 2026).

⁵[Community near Fort Worth may incorporate as a city to curb data center noise](#), Data Center Dynamics.

⁶[Texas water plan ignores data center surge](#), E&E News (May 20, 2026).

⁷[Texas asked data centers to report their water use. Most of them didn't respond](#), KUT (June 26, 2026).

⁸[Texas needs greater transparency on data centers' water and air impacts](#), Environmental Defense Fund (Sept. 10, 2026).

⁹[Hundreds Pack Overflow Rooms as Texans Sound Alarm Over Data Center Growth](#), The Daily Signal (Aug. 21, 2026).

¹⁰[Fort Worth Zoning Commission hears public comment on data centers](#), NBC 5 DFW.

¹¹[Data Center Plans Advance In Westlake Despite Resident Outcry](#), Dallas Express (Aug. 5, 2026).

- **Reinvestment obligation:** Each qualifying data center reinvests at least 1% of its qualified capital investment in its host community.
- **Flexible reinvestment options:** A data center may meet its obligation through direct payments to host school districts and local governments, a community benefit agreement with the host community, payments into a host community reinvestment fund, investment in local infrastructure and community facilities, or any combination.
- **Reinvestment plan up front:** Each initial application includes a community reinvestment plan showing the options chosen, estimated contributions, the school districts and other local entities that will benefit, and the intended uses.
- **Schools first:** Whatever options are chosen, host school districts have the first claim on the reinvestment, and what they receive is held harmless from recapture and state aid reduction.
- **School finance impact analysis:** Each application identifies the school district where the data center will be located and includes an analysis of the recapture and state aid effects on that district and the resulting savings to the state. The analysis is shared with the district and made public.
- **Existing facilities:** Facilities certified before the law takes effect file a school finance impact analysis and community reinvestment plan by a set deadline.
- **Annual investment reporting:** Each facility reports its qualified capital investment each year, so the Comptroller can measure its reinvestment obligation.
- **Public safeguards:** Reinvestment stays with public entities and may not go to education foundations or other private nonprofits. It remains subject to open records, open meetings, public investment, audit, and conflict-of-interest laws, and must be spent on schools and community needs rather than held in an endowment.
- **Public accountability:** The Comptroller publishes an annual reinvestment report and rating for each facility.
- **Consequences:** A facility rated noncompliant for two consecutive years loses its exemption.

Impact on Recapture Districts

Because recapture is based on property wealth per student, the addition of a data center in a property-poor community can force that school district to become a property-wealthy district subject to recapture under Chapter 49. Small rural districts with few students are the most exposed, since a single facility can add billions in taxable value.

Under this recommendation, reinvestment received by host school districts would be held harmless from recapture and state aid reduction, so a district that is already subject to recapture, or is pushed into it by a data center, would keep the benefit of that reinvestment. The required school finance impact analysis would also show each host district, before a facility is certified, how the data center's value is likely to affect its recapture and state aid, and how much the state would save as a result.

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About Texas School Coalition

The Texas School Coalition is a membership organization that was founded in 1997 to represent property-wealthy independent school districts whose local tax collections are subject to recapture. The mission of the Texas School Coalition is to advocate for the resources to provide all Texas public school students an excellent education and for a school finance system that balances sustainable state and local investments in the best interests of students and taxpayers.