

How does the net job creation from AI data centers reshape local economic governance and labor power structures in regions undergoing rapid digital infrastructure expansion?

October 5, 2026 | SnugLab Research

Executive Summary

Net job creation from AI data centers reshapes local economic governance by empowering municipalities to secure substantial community benefits through proactive policy and negotiation, while simultaneously weakening traditional labor power structures by prioritizing imported technical specialists and temporary construction roles over stable local employment. The capital-intensive nature of these facilities, coupled with state-level tax abatements and rising utility costs, shifts bargaining leverage towards corporate developers, but optimized local governance, particularly through Community Benefits Agreements (CBAs), can capture significant net revenue for municipal investment and mitigate adverse impacts [4, 5, 10, 11].

Key Findings

Net Job Creation Concentrates Benefits and Fractures Labor Power

The prevailing industry definition of "net job creation" accurately reflects the transient nature of employment from AI data centers but obscures a structural shift that consolidates bargaining power away from local labor and municipal governments. Data centers are among the least labor-intensive structures in the economy, creating more temporary than permanent positions [9]. For example, an 800,000-square-foot facility may support over 5,000 statewide jobs during construction but only about 500 permanent operational roles, with many being contract workers or imported specialists rather than local hires [2, 6, 8, 9]. Rural and economically disadvantaged communities, in particular, see fewer measurable gains as specialized services and workers are imported [8].

This model concentrates economic benefits among imported technical specialists while displacing broader local economic activity through intense commercial land competition [2, 8, 9]. The massive physical footprint of hyperscale facilities often converts productive

farmland to industrial use, eliminating agricultural jobs and reducing diversified employment opportunities [2, 4, 9, 13]. Over 15,000 farms were lost across the U.S. in 2025 as developers offered prices far above traditional agricultural values [13]. While initial construction phases generate temporary roles, these are frequently filled by traveling specialized crews [1, 7, 9]. Once operational, a typical hyperscale campus employs only about 50 full-time workers in security or janitorial positions, drastically reducing the labor footprint compared to the construction boom [14].

Instead of generating broad-based solidarity through widespread wage increases, data center expansion reshapes labor power structures around fragmented, project-specific concessions. Mechanisms like Project Labor Agreements (PLAs) and Community Benefits Agreements (CBAs) create isolated labor terms for specific developments rather than establishing industry-wide standards [15, 16]. For instance, Michigan's MI SB 1048 and MI HB 5777 tie special electricity rates and economic development incentives to prevailing wages and PLAs for specific projects [16]. However, CBAs often use flexible language like "percentage goals" and "good faith efforts" rather than binding numeric local hiring targets, allowing developers to circumvent meaningful workforce commitments [4].

Local Economic Governance Navigates Fiscal Strain and Opportunity

State-level tax abatements and utility burdens frequently outpace local property tax inflows, forcing communities to absorb short-term costs while developers reap incentives. Virginia's data center sales-tax exemption, for example, cost an estimated \$1.6 billion in fiscal year 2025 [2]. States provide an average of \$1.4 million to \$2.1 million in subsidies for every permanent job created by a data center [11]. Local residents also bear disproportionate utility costs, with electricity prices in some data center-heavy regions surging over 250% in five years [11] and grid supply costs jumping from \$2.2 billion to \$14.7 billion in a single year across the PJM region [2]. State laws can further limit local authority, making private agreements necessary in places like Tennessee and Texas [10].

However, optimized local policy structures, particularly CBAs, can successfully capture sufficient net revenue to empower municipal investment. When local governments negotiate early and enforce specific financial obligations, they can redirect data center wealth into community funds [5, 10, 11]. Memphis, for example, passed an ordinance capturing 25% of AI data center property taxes to fund public projects within a five-mile radius [10]. Similarly, the City of Lancaster secured \$20.25 million in contributions to local foundations and sustainable development funds through its CBA [4, 10, 11]. These

mechanisms demonstrate that proactive local governance can secure substantial long-term economic resilience despite fiscal headwinds.

Categorizing hyperscale data centers as by-right infrastructure fundamentally alters the leverage balance in favor of digital capital, locking in development trajectories before local communities can negotiate firm labor or environmental terms [5]. Jurisdictions treating data centers as by-right uses often surrender their strongest opportunities to shape outcomes, as municipalities lose the window to demand substantive concessions during discretionary review [5, 11]. This limits the ability to secure firm local hiring commitments and mandate strict operational limits, such as specific water usage caps or noise restrictions, before construction begins [4, 10, 11].

Household Costs Shift Focus to Municipal Governance, Not Labor Bargaining

Rising utility and environmental costs from AI data centers are largely absorbed by households without significantly altering traditional local labor bargaining dynamics or wage negotiations. Residential electricity rates have increased substantially—rising about 32% nationally between July 2020 and July 2025, with some data center-heavy regions experiencing surges over 250% in five years [2, 11]. Single facilities can consume up to 5 million gallons of water daily [11]. However, these burdens have not triggered a structural shift in labor power toward collective demands for utility rate caps, as data centers generate relatively few permanent local positions and research shows wages in host areas remain largely unaffected or only modestly impacted [2, 3, 8].

Instead, these cost burdens have catalyzed a transformation in local economic governance. The rapid expansion has overwhelmed traditional policy approaches, prompting intense community pushback, with over 100 localities enacting development moratoriums and more than 300 state data center bills filed in the first six weeks of 2026 [2]. Local governments are increasingly acting as gatekeepers, utilizing zoning changes and temporary pauses to renegotiate terms before projects lock in [5, 10]. The primary mechanism for addressing these localized burdens has become the Community Benefits Agreement (CBA), through which municipalities and community coalitions secure developer commitments for environmental protections, fiscal contributions, and workforce development investments [4, 10, 11].

Enforceable Accountability of Community Benefits Agreements

Strong, quantifiable metrics and independent verification mechanisms within Community Benefits Agreements can ensure accountability for hyperscale AI facilities, even when non-disclosure agreements (NDAs) and initial vague language are present [10, 17, 18, 19, 20]. While NDAs and vague initial language pose challenges, the presence of well-defined, measurable performance targets and robust monitoring provisions within CBAs can effectively enable local oversight and enforce developer commitments for hyperscale AI projects. Effective enforceability requires specific numeric targets, secured financial obligations, independent monitoring, and clear enforcement mechanisms [11, 12]. Flexible or ambiguous language reduces effectiveness [4], and smaller host communities may lack the financial and personnel resources necessary to enforce CBA provisions [4, 10, 11].

Implications

The expansion of AI data centers presents a dual challenge and opportunity for local communities. While the capital-intensive nature of these facilities and state-level incentives can erode local fiscal capacity and limit broad-based labor benefits, proactive local governance can leverage the development process to secure significant community investments. Municipalities that negotiate early and strategically, particularly through robust Community Benefits Agreements, can transform potential burdens into long-term fiscal resilience and targeted community development. However, the shift away from traditional labor bargaining towards project-specific concessions means that the benefits of digital infrastructure expansion are not automatically distributed broadly across the local workforce. Instead, they are concentrated among a specialized, often imported, workforce, while local residents bear the externalities of increased utility costs and land-use competition. This necessitates a reorientation of local economic governance to prioritize community-wide benefits and environmental protections over a narrow focus on job counts.

Limitations and Caveats

The available research provides a strong qualitative understanding of how AI data centers reshape local economic governance and labor power structures. However, specific quantitative data remains limited in several areas. The research does not provide exact fiscal metrics (e.g., ROI, percentage of tax abatements offset) for "targeted infrastructure trusts" compared to standard by-right zoning models. Similarly, specific

quantitative thresholds for Community Benefits Agreements in major AI hub regions (e.g., wage floors for local hires, percentage of permanent operational roles reserved for residents) are not detailed, nor are comparative enforcement failure rates between agreements with and without independent verification. A specific breakdown of 'imported technical specialists' versus 'local mid-tier service displacement' by job title and salary band, along with projected timelines for skills gap closure through local workforce development programs, is also absent. These gaps limit the ability to provide precise, granular economic impact assessments and comparative performance metrics across different governance models.

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