Kentucky and Data Centers — The Next Frontier? (Part 1)

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Over the next several weeks, we will be posting a series of articles relating to data centers in Kentucky from an economic development and state and local tax (SALT) perspective. Kentucky is in the midst of a data center boom, with recent reports by the state's major electrical utility providers indicating that there are over 30 discrete large, some hyperscale, data center projects in process and in various stages throughout the Commonwealth.

So, with the stage set, let's get into it.

What is a data center? A recent report by the Energy Planning and Inventory Commission concerning policy issues involving data centers in Kentucky, prepared for the Kentucky General Assembly, defines data centers as follows:

A data center is a facility housing computing equipment, including servers, networking hardware, and storage, along with the infrastructure needed to keep it running continuously, including power distribution, cooling, and physical security. Most data centers fall into one of three categories: enterprise facilities operated by a company for its own computing needs; co-location facilities that rent space and power to multiple tenants; and hyperscale campuses, typically exceeding 100MW of capacity, operated by a single company at a large-scale. Amazon Web services, Microsoft, Google, and Meta account for most new hyperscale construction and a disproportionate share of new electricity demand.[1]

Additional definitional authority is consistent with the above. In August 2025, Kentucky's attorney general issued a formal opinion concerning the ability to utilize industrial revenue bond (IRB) financing to support the development of a hyperscale data center. Therein, the attorney general analyzed the activity of a data center, specifically referencing the IRB statutes that authorize certain business endeavors to qualify for IRB financing, KRS 103.200(1)(a). This statute provides that "any activity, business, or industry for the manufacturing, processing or assembling on any commercial product (including agricultural, mining, or manufactured products, and solar-generated electricity), including storage, warehousing, and distribution" facilities in respect thereof are suitable for IRB financing.

The attorney general opined as follows as to his understanding of a data center:

> . . . Data centers are commonly known and understood to process data. For example, the Federal government, in a subchapter on energy savings in buildings and industry, defines 'data center' to mean 'any facility that primarily contains electronic equipment used to *process*, store, and transmit digital information.' 42 U.S.C. § 17112(a)(1) (emphasis added). And Kentucky law defines data center equipment, in a section for qualified data center project incentives, KRS 154.20-220 through 154.20-229, as 'computer equipment and software for the *processing*, storage, retrieval, or communication of data, used directly and exclusively in a qualified data center project . . . .' KRS 154.20-220(6)(a) (emphasis added). Clearly, it is well understood that a data center is a facility suitable for the activity of processing data.

Opinion of the Kentucky Attorney General 25-10 (Aug. 20, 2025)

In 2026 terms, a hyperscale data center is the industrial backbone of modern artificial intelligence (AI). Think of it as the power turbines at an electrical generation plant. It is simply what allows the massive amounts of data to be optimized and deployed as new data, no different from a traditional manufacturing facility. It produces digital data, services and computational output, data analytics, and AI-generated insights.

Thus, we now know what a data center is and what it does. Next up in our multipart series, why Kentucky for data centers?

Please contact the author if you have questions or comments on this series. You can also visit FBT Gibbons' Tax Law Defined® Blog for more insight into the latest developments in federal, state, and local tax planning and tax administration.

Bluegrass, Big Data Series

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[1] EPIC Report No. 2026-001, *Data Centers in Kentucky: Policy Analysis for the General Assembly (Kentucky Energy Planning and Inventory Commission*, June 2026.