So Why Are Some Kentucky Cities and Counties Starting to Oppose Data Centers in Their Jurisdictions? (Part 7)

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Over the first six blog posts in this series, we have learned about all of the many positives that are presented concerning Kentucky's significant activity in the data center space, particularly hyperscale data centers working and supporting artificial intelligence (AI).

But in recent months, several Kentucky locales have taken formal legislative action in an effort to thwart the location of data centers in their jurisdiction. Some of these include the largest residential areas in Kentucky. Daviess County, Kentucky, in which the City of Owensboro (Kentucky's fourth largest city) resides, recently approved a 12-month moratorium on new data center construction. Kentucky's second-largest city and county, through Lexington-Fayette Urban County Government, likewise passed a moratorium on data centers in June 2026. It is noteworthy that this moratorium was unanimous among the elected representatives. Lexington has stated that it is in the process of developing administrative regulations to govern new data center projects.

Jefferson County, Kentucky, through Louisville Metro Government, Kentucky's largest urban area, is also considering restrictions on data center locations, including the possibility of a complete ban on any hyperscale data center being located in Jefferson County/Metro Louisville. Pronouncements of Metro Louisville's Office of Planning and recently released draft regulations suggest a ban on future hyperscale data centers by limiting all new data center facilities to 500,000 sq. ft. or less, while also restricting them to previously identified and zoned industrial areas.

As noted in a prior blog post, one of the primary beneficiaries of data centers in Kentucky, from a tax revenue perspective, is the applicable county or independent school district. There is a 3% excise tax imposed by schools on electricity, the number one input cost of a data center. It is very interesting to note that the two largest counties, Fayette and Jefferson, which include Lexington and Louisville, respectively, do not levy a utility gross receipts license tax for their public schools. Thus, unlike schools across other cities and counties in the state, the schools in Louisville and Lexington would not be a beneficiary from a data center locating in their jurisdiction. In that respect, they are outliers compared with the far majority of Kentucky school districts. These statutorily directed school-only tax revenues can be material to the local school district based on the scale of the involved data center and its electrical consumption.

The trend of slowing down data center development in some larger Kentucky cities is not alone when the national horizon is examined.

Over the last 18 months or so, many states have taken significant action adverse to the location or expansion of data center projects in their jurisdictions. Among these, Minnesota, Arizona, Illinois, Oklahoma, Washington, Ohio, and Virginia have implemented restrictions or taken strong action. Some of these changes involve capping incentives, pushing certain costs back onto the data center project, eliminating sales tax exemptions on energy consumed by a data center, as well as rolling back tax preferences related to replacement equipment used by data centers.

Notwithstanding all of the national talk, rhetoric or action — pick your term — overall Kentucky remains a preferred destination for data center projects, including hyperscale data centers supporting AI endeavors, with most local school districts being a huge beneficiary from this type of development. And the reasons for Kentucky's growing appeal are manifold — not least of which are the state's generous tax incentives for businesses engaged in manufacturing or industrial processing, as well as its qualified data center (QDC) legislation.

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