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Fool's Gold: The Hidden Costs of AI Data Centers for New Jersey

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Robust, responsible economic development must ensure businesses bear the costs they create, protect the environment, and uphold sound fiscal policy so that state tax dollars do not subsidize private profits. Data centers and the technological products they support may seem exciting and new, but they also impose costs on local communities and the state as a whole. As with prior economic development booms, from warehouses to shopping malls, an accurate accounting of the hidden costs of these buildings can empower policymakers to make better decisions and protect residents.

Behind the promises of jobs and economic growth, the dramatic expansion of data centers has harmed states and communities: these facilities use large amounts of energy, do not deliver meaningful long-term benefits, and cause the state to lose money from subsidies and credits. The growth in artificial intelligence (AI) products has driven rapid growth in data centers, but that growth strains local communities and infrastructure.¹

New Jersey residents and small businesses are already paying more for electricity because of data center energy consumption. Data centers were the main driver of the 20 percent jump in electric bills that New Jerseyans experienced in June 2025.² And with more data center demand pushing construction across the country, New Jersey will see increased exposure to the risks associated with data centers.

To address these hidden risks to the state's communities and residents, utility costs, and fiscal stability, NJPP recommends the following:

1. Create a standard definition of a data center for the purposes of state regulation.
2. Build strong guardrails for data center companies around cost sharing, transparency, and energy resource requirements.
3. Standardize energy load forecasting.
4. Remove or restrict data center subsidies.

The Basics of Data Centers

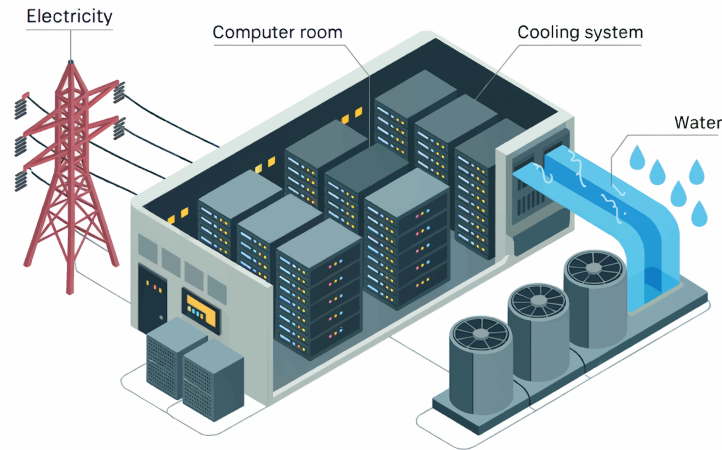
When a user types a prompt into an AI tool, a data center’s computers use an enormous amount of computing power to generate the tool’s response. What may appear to the user to be magic has very real costs in electricity, water, and infrastructure. At its core, a data center is just a different kind of industrial or commercial facility, designed to maximize profits for its owners and operators. Understanding the costs data centers impose on communities and the reality of their operations can help policymakers develop laws and regulations that protect residents and the places they live.

What is a data center?

Simply put, a data center is a big room filled with computers. As more computing power is needed to conduct operations for artificial intelligence programs, more of these rooms are needed to keep up with demand, with more resource-intensive computers and all the infrastructure needed to run them, including electricity to power the computers and water for their cooling needs.³ As a result, a medium-sized data center can consume more than 100 million gallons of water per year, roughly as much as a small town.⁴

Because definitions of a data center can include everything from a small server room to a huge warehouse, information on data centers can be difficult to obtain. Different states use different definitions of data centers for regulatory purposes. Some simply identify “large load customers,” defining a facility that needs a certain amount of energy (say, 100 megawatts) as a “large load customer,” without specifying that it must be a data center.⁵ For certain tax exemptions, states may have different definitions, which might include specific industry codes, capital investment minimums, or jobs created.⁶

For the purposes of this report, NJPP uses a broad definition of “data centers” that includes a wide range of facilities designed to contain computing infrastructure. The rapid growth in data centers is driven by the computing demands of AI products, sometimes leading to the shorthand of “AI data centers” to describe newer, larger buildings.



Where are data centers in New Jersey and where are they planned?

New Jersey currently has 48 data centers, with another 12 announced or under construction, according to Aterio, a research firm that tracks the industry.⁷ Different publications and firms use different definitions for what constitutes a data center, and no universal database exists. Aterio’s count includes small, midsize, and “hyperscale” facilities categorized by power consumption and public-facing descriptions such as utility filings, public investor statements, and press releases.

Companies decide where to locate or “site” their facility based on a number of factors. Because data centers often require substantial space commitments, they tend to be located outside of denser urban or suburban areas, with new proposed sites in New Jersey in communities such as Vineland, Moorestown, and Clinton.⁸ Companies also consider zoning, access to a high-quality network, and the ability of the utility to meet their energy needs; but one of the biggest factors is choosing a place where there are previously developed facilities.⁹ This means data centers tend to be concentrated in one area, further straining local grids and communities. Loudoun County, Virginia has the highest concentration of data centers in the world, where new data centers are being constructed near schools, residential neighborhoods, and retirement communities, consuming enormous amounts of resources in the process.¹⁰

How much energy and water does a data center use?

Data centers use a significant amount of energy, but because of a lack of transparency in energy reporting, exact data is unavailable and the energy usage of data centers can vary widely. A typical large data center that focuses on AI uses as much energy as 100,000 households.¹¹ However, some larger ones that are currently under construction across the country could use 20 times that much energy.¹² In New Jersey, estimates project nearly 10 percent of New

Jersey's entire electrical usage will go to data centers by 2030, or the equivalent of the energy usage of the entire state of Rhode Island.¹³

In fact, in the next several years, data center energy consumption will grow four times faster than total consumption from all other sectors, and the United States is projected to be the global leader in that explosive growth.¹⁴ According to New Jersey's regional grid operator PJM, AI data centers accounted for nearly 70 percent of the increase in demand during the 2025/26 capacity auction — the same auction that resulted in a 20 percent increase in electric bills for New Jersey residents.¹⁵

Approximately 60 percent of the energy a data center uses goes to powering the servers, while the rest goes toward cooling systems.¹⁶ These cooling systems demand large amounts of both electricity and water. In 2024, large AI data centers across the United States consumed about 14 billion gallons of water¹⁷ — a number that could double by 2028.¹⁸

Precise water usage figures are difficult to verify because data center companies are not required to report them publicly. This lack of transparency is a problem for a state that has experienced several droughts in recent years, including the 2024-25 drought that resulted in crop losses and increased wildfire risk.¹⁹ Any further strain on the state's water resources could threaten its economic and environmental well-being.

What other costs do data centers impose on ratepayers?

Electricity rates are set by the utility providers in New Jersey and approved by the Board of Public Utilities.²⁰ Yet there are currently no mechanisms in place to protect everyday ratepayers, such as families and small businesses, from higher costs due to data center buildout. Experts find that despite utility companies saying they keep data center costs separate, these ratepayers are essentially subsidizing big tech companies' data center projects through higher electricity bills.²¹ Aside from the increase in electricity demand, data centers also often require upgrades to transmission infrastructure, and those costs are already being passed on to households and local businesses through increases in their electric bills.²² If a data center company closes its facility, ratepayers can be left on the hook to pay for those upgrades without strong guardrails in place.

What kinds of jobs do data centers produce?

Data center construction, like any large building project, creates a short-term increase in construction jobs. But once the building is complete, relatively few jobs remain, as the data center is largely space for computers and their cooling and power infrastructure. The limited empirical research has shown no clear evidence of an association between data center development and local tech job creation.²³ Industry estimates place about 50 jobs in a 250,000

square-foot facility — roughly 5,000 square feet per job.²⁴ By comparison, warehouses generate one job for every 600 square feet, while offices provide one job for every 190.²⁵ A Brookings Institution report summarizes the existing research: data center development has produced mostly short-term construction jobs in recent years and relatively little long-term, high-value tech activity or large-scale employment.²⁶

How Policymakers are Responding to Data Centers

As data center growth has rapidly accelerated, policymakers face a shifting landscape and have been slow to advance policies that address its rising costs. From electrical and water usage to economic development credits, the industry has outpaced policy constraints and regulation.

What makes data centers challenging for state and local policymakers?

Data centers are challenging for state and local policymakers in part because of a lack of transparency in the development process. One major issue is with predicting load growth, or how much electricity a region will need in the future. While it may seem that planning for higher energy use than is needed is a good thing, over-budgeting by too large a margin can artificially drive up costs and continue to increase ratepayer bills. Currently, load growth in New Jersey and surrounding states is predicted by each utility reporting to PJM how much energy it expects it will need in the future. However, this process is not standardized and utility companies often report projects at different stages of development.²⁷ The demand forecasts that PJM receives may be double- or even triple-counting data center projects because companies will often put in multiple bids for a single project and pull out of all but one once they have chosen their site.²⁸

Forecasts through 2030 show demand six times higher than just a few years ago.²⁹ While there are several factors that contribute to this jump, including manufacturing and electrification, the main driver of this increase in expected demand is data centers.³⁰ Without a standard system that ensures large load projects like data centers are only counted once, forecasts will remain inflated, driving up costs further. And if policymakers continue to use new and existing oil, coal, and gas plants to meet demand that may never materialize, New Jersey could be locked into using these less reliable, more expensive, and more polluting power plants for decades to come.³¹

How do existing state, regional, and federal policies address AI data centers?

Recent advances in hardware have led to an explosion in the expected development of AI data centers.³² AI requires dramatically more processing power than traditional computing, driving the skyrocketing demand. U.S. Department of Energy research projects up to 12 percent of

total nationwide electricity going to data centers by 2028, or roughly five and a half times what New Jersey uses in a year.³³

Lawmakers have been unable to keep pace with the rapid growth of data centers, and the regional grid operator PJM has failed to act to protect ratepayers.³⁴ During the December 2025 capacity auction, existing and planned resources fell short of the reserve needed for grid reliability.³⁵ This means that if nothing else changes, the region could soon face rolling blackouts on the hottest and coldest days of the year.

PJM recently attempted to adopt policies to address data centers through an expedited decision-making process, but could not secure enough votes on any single proposal.³⁶ Instead, the board issued a letter outlining six actions it plans to take; but the response falls short of what is needed to hold data centers accountable, protect ratepayers from future increases, and prevent further air pollution across the region.³⁷

How do data centers affect environmental justice communities?

On top of higher utility costs, the increase in demand from data centers is delaying the transition to renewable energy, risking local resident health and climate goals. Decision makers, including PJM and the White House, are delaying closures of fossil fuel plants and considering reviving retired ones to meet growing demand.³⁸ More than half of all coal and gas plants in the PJM region are within a mile of an environmental justice community, which means residents there are not only facing higher bills, but continuing to breathe more polluted air than in other areas.³⁹

Using a large generative AI model can produce as much air pollution as more than 10,000 round trips by car between Los Angeles and New York City — and a single model can draw power from multiple data centers.⁴⁰ Experts also found that in 2023, air pollution attributed to data centers in the United States caused about \$6 billion in public health damages, and that number could increase up to \$20 billion per year if lawmakers continue business as usual.⁴¹ For comparison, vehicle emissions in 2016 alone caused \$12 billion in health damages for New Jersey.⁴² Any increase could be devastating to the health of every state resident.

Data centers have worsened health outcomes for surrounding communities. One facility outside the PJM region in Tennessee runs without pollution controls due to a federal loophole; local residents report that the increase in emissions has made their existing conditions, like asthma, even worse.⁴³ In New Jersey, a proposed data center in Vineland plans to use diesel backup generators, which would increase local air pollution in a community already suffering from worse health outcomes.⁴⁴ A 2022 report found that residents there experience asthma, heart disease, and lung cancer at rates higher than the state average — all conditions worsened

by diesel exhaust.⁴⁵ Vineland residents have also reported ongoing noise from construction, which can cause permanent hearing damage.⁴⁶

How are states subsidizing and supporting data center growth?

Seeking economic development, many states have rolled out corporate subsidy and tax benefit programs for data centers.

Most states have focused on reductions in sales taxes, particularly those with limited or no taxes on corporate profits. Other states have exemptions on electricity taxes, while others offer property tax reductions.⁴⁷ New Jersey’s economic development tax credit program provides tax benefits for data center construction.

The Next New Jersey program allows artificial intelligence or “AI-related” businesses to apply for tax credits of up to \$250 million to cover construction, building, or employment-related costs, with a total cap of \$500 million in credits.⁴⁸

To define what qualifies as an “AI data center,” the law requires that a facility must handle AI tasks and lists the types of services the facility offers and the systems it houses — namely computing systems and the computers’ support infrastructure.⁴⁹ This definition captures a broad range of potential facilities, while not clarifying their size, electrical and water usage, and environmental impact.

Eligibility criteria include:

- At least 50 percent of the business’s employees are engaged in “artificial intelligence-related activities” or 50 percent of the business’s revenues come from “artificial intelligence-related activities”;
- At least \$100 million in capital investment at the facility; and
- At least 100 new full-time jobs in New Jersey (construction, building services, etc. may count, but only up to 50 percent of employment).⁵⁰

In addition to Next New Jersey, data centers can qualify for subsidies that apply to all industries, such as the Emerge and Aspire economic development tax credit programs, which create incentives for businesses to locate in New Jersey.⁵¹

How much do data center subsidies cost states?

As the data center industry has grown, so have the costs of these subsidies for states. Incentives that seem small-scale can quickly balloon as the boom in construction clusters in certain areas, leading to substantial budget instability.⁵² At least 10 states have lost more than \$100 million in data center subsidies.⁵³ Virginia is a dramatic example, with its sales tax

exemption costing the state \$1.6 billion⁵⁴ — more than 20 percent of its total sales tax revenue of \$7.6 billion.⁵⁵ Illinois has seen similar losses, with nearly \$1 billion drained from its state budget.⁵⁶

Because of these rapidly rising costs, some states have begun pulling back their subsidies for data centers, including Minnesota, which removed its electricity sales tax exemption.⁵⁷

Currently, New Jersey’s data center tax credit does not anticipate revenue costs in Fiscal Year 2027, though the program is relatively new and has not yet issued any credits.⁵⁸

Solutions for Policymakers to Protect New Jerseyans

The problems data centers create are not going away, and there are many lessons that both New Jersey and PJM can learn from other states and regions. While experts predict future demand could continue to explode and drive up costs, good policy could be the difference between modest increases with no additional pollution and higher costs with higher pollution.

The following are proposals to mitigate the hidden costs of data centers:

1. Create a standard definition of a data center for the purposes of regulation.

New Jersey’s current definition of an “AI data center” for the purposes of administering the Next New Jersey tax credit program does not effectively capture the broad range of facilities, nor does it assist in regulation of their electrical, water, or environmental costs to communities.⁵⁹ NJPP recommends creating a standard statutory definition of a data center for specific regulatory purposes (such as electrical and water usage) to ensure that regulations are consistently applied to this class of buildings and the costs associated with them.

2. Build strong guardrails for data center companies around cost sharing, transparency, and energy resource requirements.

Data centers are driving up electricity prices for families and small businesses, and lawmakers can require them to pay more to offset those increases — but as it stands right now, there are no safeguards in place. At the end of his term, Gov. Murphy refused to sign a bill that would have created a new rate for data centers, charging them more for their energy usage to help offset the increases on household and small business energy bills.⁶⁰ New Jersey would not be the first state to do this – at least 33 other states have either proposed or implemented different rate structures for large load customers including data centers.⁶¹ In fact, Minnesota enacted a fee on data centers with funds going towards energy efficiency for low-income residents.⁶² A rate structure such as this ensures that families and small businesses are not

paying more for their electricity and instead puts the cost on the companies that are causing rates to increase. It also incentivizes energy efficiency and other innovative ways to reduce energy use, benefiting both the data center company and the state's residents.

Second, New Jersey can join other states in requiring data centers to report their energy and water usage to the state's Board of Public Utilities. By requiring more transparency, both lawmakers and community members can make informed decisions about future policy.

Finally, lawmakers can require data center companies to bring their own generation, specifically clean energy, if they want to build data centers in the state. Other states have learned hard lessons about what happens when a data center company is left unregulated and can run polluting energy sources unchecked, as in Tennessee, where gas turbine pollution has been a problem. New Jersey can set the standard now to protect energy affordability and cleaner air in the future.

3. Standardize load forecasting.

Because AI data centers are an emerging technology, and the idea of large load projects “shopping around” in multiple jurisdictions is a new problem, policies have not yet standardized how utilities and states report their future energy needs to entities such as PJM. Standardizing load forecasting can be done at the state level; it is even more powerful at the regional level, so each utility uses the same protocols to report its energy needs. While PJM has failed to address this issue, the BPU can work with PJM and utilities to reduce duplication of projects and ensure load forecasting is as accurate as possible in New Jersey. This will also reduce the need to keep older coal, oil, and gas plants online, protecting New Jerseyans and the entire PJM region from more air pollution. Additionally, the state and PJM can consider policies that will ensure any necessary blackouts during peak energy days prioritize families and small businesses over data centers.

4. Remove or restrict data center subsidies.

As the state approaches a substantial budget gap, programs that provide subsidies to private corporations need reevaluation.⁶³ Many states are already reevaluating these subsidies, and New Jersey's relatively new program has yet to issue an approved credit, providing time to reduce its cost before substantial revenue losses occur.⁶⁴ Given the substantial hidden costs of these centers, reducing these incentives or increasing restrictions on their use may help alleviate the burden on communities and the state budget. National experts also have proposed guardrails in the absence of full repeal that can limit the negative impact of these subsidies on communities and their budgets, including lowering the duration and amount of subsidies, prohibiting non-disclosure agreements, requiring public listing of all recipients and applicants, and requiring community benefits agreements in line with other tax incentive programs.⁶⁵

Conclusion

Because of AI data centers, communities are facing higher costs, a more unreliable grid, more pollution, and a lack of transparency that makes holding these companies accountable nearly impossible. New Jersey's families and small businesses are already paying to subsidize them through higher electric bills. But these problems can be solved. The future of New Jersey's affordable clean energy, along with its economic and environmental well-being, hinges on lawmakers prioritizing everyday New Jerseyans over for-profit technology companies. The path forward is clear: stronger rules, cleaner energy, and a commitment to putting people before corporate profits.

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