

# Policies Addressing Data Centers in Shapiro's FY 2026–27 Proposed Budget

## *What's Included, What's Left Out, and the Current Legislative Movement*

*Laura Beltrán Figueroa, PhD, Policy, Research, and Legislative Strategy Director; with contributions by Felicity A. Williams, Esq., Executive Director*

As data center development accelerates across Pennsylvania, the cost of state tax breaks supporting the industry is projected to rise sharply in the years ahead. In his FY 2026-27 proposed budget, Governor Shapiro continues to support this growth through favorable tax treatment for major data center purchases, such as servers, cooling systems, and power equipment, which reduces the revenue available for public services. However, key questions about accountability, job quality, energy demand, water use, and community impact remain unresolved, with the proposal offering little clarity on what public standards, community benefits, or performance requirements should accompany this growing level of state support.

### Key Takeaways

- The budget documents show the Computer Data Center Equipment Exemption (sales and use tax expenditure) as a rapidly growing cost to Pennsylvanians in the tax code, reaching \$188.4 million in FY 2026–27 and projected to rise to \$260.3 million in FY 2027–28. The projected growth continues beyond FY 2027–28, rising to \$345.9 million in FY 2028–29 and \$517.2 million by FY 2030–31.
- The budget expands or maintains these tax breaks without clearly defining what Pennsylvanians receive in return, including job quality, local hiring, or community benefits.
- In addition to the sales tax exemption, the Commonwealth also maintains a Computer Data Center Equipment Incentive Program within its catalog of tax credit programs (authorized under Article XXIX-D of the Tax Reform Code).
- These provisions are not direct appropriations, but tax expenditures, meaning they reduce revenue that would otherwise be available to fund core services like schools, healthcare, transit, and other essential services. The proposed budget also signals additional state support for data centers that meet “responsible” development standards related to the local energy grid, environment, and community, suggesting that the Commonwealth is positioning itself to encourage further growth in the sector rather than scaling support back.

### How the Proposed Budget Supports Data Centers

The proposed budget lists two different kinds of data center support. First, the General Fund tax expenditure tables include a sales and use tax exemption for Computer Data Center Equipment. This exemption allows qualifying data center equipment purchases, such as servers, cooling equipment, backup generators, and other large-scale infrastructure, to avoid sales and use tax, reducing state revenues that would otherwise be available

for other public priorities. Effectively, it lowers the cost of building and outfitting data centers by allowing companies to purchase major equipment without paying the full amount of state sales tax that would otherwise apply. The budget shows this exemption growing rapidly over time, reaching an estimated \$188.4 million in FY 2026–27. Between FY 2025–26 and FY 2026–27 alone, the estimated annual cost rises by \$73.6 million, from \$114.8 million to \$188.4 million. Over the full period, the exemption grows by \$476.1 million, from \$41.1 million in FY 2024–25 to \$517.2 million in FY 2030–31. By FY 2030–31, the cost of this single tax expenditure is projected to exceed \$500 million annually, placing it on par with or larger than many individual program investments in the state budget.

Second, the tax credit program section lists a Computer Data Center Equipment Incentive Program, which signals that the Commonwealth is using an additional tax-based tool to encourage data center investment beyond the sales and use tax exemption itself. While the budget identifies the program as part of the Commonwealth’s incentive framework, it provides little detail in this section about its fiscal cost, performance standards, or the extent to which it is tied to job creation, community benefits, or other accountability measures.

In practice, this means the Commonwealth is subsidizing the cost of building and equipping data centers at a time when it faces a growing revenue shortfall.

**Table 1: Computer Data Center Equipment Exemption (sales and use tax expenditure) Amounts are in millions (as shown in the tax expenditure tables).**

Tax expenditure	2024–25	2025–26	2026–27	2027–28	2028–29	2029–30	2030–31
Computer Data Center Equipment Exemption	41.1	114.8	188.4	260.3	345.9	431.6	517.2

Source: Governor’s Executive Budget 2026–2027, General Fund Tax Expenditures, “Other” table.

**Table 2: Data center incentives referenced in the tax credit program list**

Program Name	Where it appears in the Executive Budget	Authorizing legislation (as listed)
Computer Data Center Equipment Incentive Program	Tax Credit Programs, Authorizing Legislation list	Article XXIX-D of the Tax Reform Code

Source: Governor’s Executive Budget 2026–2027, Tax Credit Programs, Authorizing Legislation list.

## What the Budget Does Not Show

Despite the scale and growth of these tax preferences, the proposed budget provides little clarity on what the Commonwealth expects in return. While the proposed budget makes clear that Pennsylvania continues to support data center development through the tax code, it leaves several important questions unanswered. The budget does not explain how the fiscal cost of these tax preferences will be evaluated over time, whether the incentives are tied to clear job creation or job quality standards, or whether companies receiving support must meet enforceable standards for job creation, local hiring, wages, or community benefits. The budget also provides little detail about how state leaders plan to manage the broader infrastructure and environmental pressures associated with data center growth. Although the budget signals that future support may be linked to “responsible” development standards related to the local energy

grid, environment, and community, it does not spell out what those standards would require in practice, how they would be enforced, or how communities would be protected from potential strain on energy systems, water resources, and land use.

That lack of detail matters because data center growth can carry significant public costs beyond the tax code itself. Large facilities can place new demands on the electric grid, increase pressure on water supplies used for cooling, contribute to local air and noise pollution through backup generation and construction, and intensify land use and infrastructure pressures for nearby communities. Without clear standards and enforcement mechanisms, the budget leaves unanswered important questions about who bears these costs and how affected communities will be protected.

### **Current Legislative Movement**

Pennsylvania lawmakers are actively considering several data center-related bills, with some proposals focused on accelerating siting and expansion, and others imposing reporting requirements, consumer protections, or rolling back tax breaks.

Among those aimed at accelerating siting and expansion is Senate Bill 991, sponsored by Sen. Camera Bartolotta (R), which would create an accelerated permitting process for data center siting under the Department of Environmental Protection.

On the other hand, proposals that would add guardrails and accountability measures include: House Bill 2150 (Rep. Kyle Mullins, D), which would require annual reporting on data center energy and water consumption, House Bill 2246 (Rep. Joe Webster, D) which would require water usage reporting, House Bill 2198 (Rep. Greg Vitali, D) which would repeal the Computer Data Center Equipment Incentive Program, and Senate Bill 1114 (Sen. Katie Muth, D) which would establish ratepayer protections related to large-load customers. Of these proposals, HB 2150 has advanced through House committee consideration and passed the full House, while HB 2246 has advanced through committee and House floor consideration and now sits in House Appropriations.

### **Why This Matters**

As Pennsylvania faces a growing revenue crisis and increasing pressure on the state budget, the rapid expansion of data center tax breaks raises fundamental questions about revenue, public priorities, and accountability. Every dollar the Commonwealth forgoes through tax leniency is a dollar that is not available to support the public goods and services that Pennsylvanians rely on, including schools, health care, transit, child care, and other core investments.

Beyond this fiscal impact, data centers have also been associated with significant energy use, water demand, and pressure on local infrastructure, making it especially important to ask whether these subsidies are aligned with the public interest.

Without clear standards, accountability, and a strategy for sustainable revenue, the Commonwealth risks deepening its structural challenges while subsidizing growth that may not fully benefit Pennsylvanians. That is why Pennsylvania Policy Center's For Our Common Wealth campaign calls for a stronger commitment to sustainable revenue, transparent policymaking, and public investment that puts communities first.