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**REPORT BACK ON THE POTENTIAL IMPACTS ASSOCIATED WITH LARGE
ARTIFICIAL INTELLIGENCE (AI) DATA CENTERS**

OVERVIEW

On January 14, 2026 (4), the San Diego County Board of Supervisors (Board) directed the Chief Administrative Officer (CAO) to evaluate the development potential of large artificial intelligence (AI) data centers in the unincorporated areas of San Diego County and report back on options for reducing impacts from large AI data centers. As part of this action, the Board directed the report back to include information in response to questions about the number of constructed and proposed AI data centers in unincorporated San Diego County; the current permitting process for AI data centers; actions the County could take to manage the growth of AI data centers; impacts of large AI data centers on electricity rates, water usage, local infrastructure, air quality, noise, fire risk, and emergency response; and the impacts of AI use on the local workforce. The Board also directed the report back to include policy options to reduce the impacts of AI data centers, including, but not limited to, ratepayer and water-protection measures, as well as siting and development standards. Data center technology and the regulatory landscape are rapidly evolving, and information in this report is current as of the preparation of this memorandum. The technical information presented in this report is based on consultant expertise from a Planning & Development Services (PDS) on-call consultant list, as well as additional research and stakeholder outreach conducted by County staff.

The San Diego region hosts about 20 data centers, most of which are in the City of San Diego. These data centers are smaller in scale, use about 50 to 500 kilowatts for less than 100 servers, and primarily serve institutional or small- to mid-sized businesses. The high cost of land and electricity, limited water availability, and comprehensive environmental regulations are limiting factors for large-scale data center development in the San Diego region, but do not necessarily preclude the potential development of such data centers.

There are currently no data centers of any size within the unincorporated areas. Existing land use regulations in the unincorporated areas would require a discretionary Major Use Permit for a potential large-scale data center application. This discretionary process would incorporate public input and environmental analysis under the California Environmental Quality Act (CEQA). The County Planning Commission votes to approve or deny Major Use Permits, and these decisions are appealable to the Board. The County has not received any complete data center Use Permit applications to date. However, since the Board's direction in January 2026, the County has received one request for an Initial Consultation meeting with staff. An Initial Consultation meeting is not a formal application but offers a preliminary review of a conceptual project to identify potential issues and general regulatory constraints associated with the property.

Based on research and stakeholder outreach, staff found that large-scale data centers could have potentially significant environmental and economic impacts. As directed by the Board, staff developed four options to address these impacts:

1. Memorialize current County land use practices for data centers by issuing a Letter of Determination to clarify that large-scale data center applications will be processed as Major Impact Services and Utilities and require a Major Use Permit and defining data centers in the Zoning Ordinance;
2. Clarify policy guidelines for legislative advocacy related to data centers at the federal and State level, such as recent State bills that seek to address the environmental and economic impacts of data centers;
3. Partner with local economic development organizations to develop an AI workforce development program that provides education on AI tools; and
4. Develop a new data center Zoning Ordinance, which could include definitions for data centers as well as siting and development standards.

Staff intends to move forward with Option 1 as a short-term solution that provides clearer expectations for the permitting of data center projects in the County's unincorporated areas. Additional action beyond this option would require Board direction and may require additional resources to complete the work.

BACKGROUND

Data centers are facilities that provide information technology (IT) services by using large computer systems that process, store, manage, and transmit data. These computer systems typically consist of servers, data storage devices, and network equipment – each composed of several subcomponents that are physically connected to a larger network of electrical and telecommunications infrastructure. This core technology is common across all data centers, regardless of their size.

Although smaller data centers have been sufficient to meet traditional IT needs, there is a growing demand for more data centers in response to the increasing use of cloud-based services and the number of internet-connected devices per household. The rise of AI-powered technologies and

services also contributes to the demand for larger data centers. This nationwide trend toward larger data centers has significant implications for local communities.

This report focuses on the impacts of large-scale data centers that house more than 1,000 servers within a single site and may have a footprint ranging from tens of thousands to over one million square feet. Such facilities have the greatest potential to impact land use, economic conditions, infrastructure, and the environmental landscape of the unincorporated areas of San Diego County. This report generalizes across large-scale data centers, including both AI and non-AI data centers, because both could result in potentially significant impacts at that scale, regardless of their specific use. This approach also aligns with the State's data center energy demand forecasts and existing data center regulation examples from other jurisdictions. It is noteworthy that AI data centers are generally more energy- and water-intensive than non-AI data centers of the same size.

Existing Large-Scale Data Center Landscape

Higher land values and electricity costs, limited water availability, and extensive environmental review requirements in California make data center development more favorable in lower-cost areas outside of the state. However, as market demand continues to grow, this may change. For example, Southern California has historically been less favorable for new large-scale data center development for these reasons, but a 950,000-square-foot, 300-megawatt data center was recently proposed in unincorporated Imperial County. The 75-acre project site is zoned Heavy Industrial, which allows large-scale industrial facilities, such as data centers, to be processed ministerially (by-right) with a building permit. The site was selected for its zoning, direct access to electric transmission lines, and availability of regional geothermal energy sources. On June 16, 2026, the Imperial County Board of Supervisors adopted a 45-day moratorium on data centers that would temporarily pause in-process and future application submittals while an advisory committee develops recommendations on zoning and building policies related to data centers.

The San Diego region hosts about 20 data centers with a combined total electricity demand of approximately 25 megawatts; most are in the City of San Diego. These data centers are small scale (typically under one megawatt and less than 1,000 servers) and primarily serve institutional or small- to mid-sized businesses such as healthcare providers or banks. In contrast, large-scale data centers may house over 5,000 servers, with an electricity demand of over 100 megawatts, and are often used for cloud-based services and AI. Smaller scale data centers (fewer than 1,000 servers) are outside the scope of this report. No large-scale data centers have been approved or constructed in the unincorporated areas of the county, and the County has not received any complete data center Use Permit applications to date. However, since the Board direction in January 2026, the County has received one request for an Initial Consultation meeting to discuss local requirements for a conceptual data center project.

Research, such as a November 2025 data center site suitability study by the National Laboratory of the Rockies, and past development trends suggest that incorporated cities have greater suitability for future large-scale data center development than unincorporated areas based on certain site selection factors. Data centers have historically been sited near population and technology hubs for technical, economic, and regulatory reasons. Availability and cost of land, power, water, and fiber (internet) continue to be the most important factors in data center site selection. Proximity to businesses and other end users also reduces the time it takes for information to travel from its

source to its destination, also known as latency. Data centers are typically sited in technology corridors, where these factors converge to reduce construction costs, maximize operational efficiency, and minimize potential incompatibilities with surrounding uses. However, these factors may change in response to rapidly evolving technology, and the location of future data centers may deviate from past research.

The unincorporated areas of the county lack many of these competitive advantages. Based on past development trends and stakeholder input, near-term development potential for large-scale data centers is generally expected to be challenging due to these factors, while there could be greater potential for smaller or medium-sized facilities in urban infill areas. This market assumption is based on broad development trends and outreach about existing conditions and information available at the time. Market feasibility or other financial analysis would be needed to further refine these assumptions, which may also change as technology evolves.

CURRENT COUNTY REGULATIONS

Under current County regulations, large-scale data centers, such as those serving AI, are classified as Major Impact Services and Utilities, which typically require a Major Use Permit and a discretionary review. This applies to all residential zones, all commercial zones except C42 (where Major Impact Services and Utilities are not permitted), all industrial zones, all agricultural zones, and some special purpose zones (S80, S82, S90, S92, and S94). Examples of other common Major Impact Services and Utilities include utility solar, schools, and cemeteries.

Given that Major Impact Services and Utilities are allowed in most zones, including residential zones, there is potential for large-scale data centers to be proposed near sensitive receptors, such as schools, day care and senior care centers, and hospitals. There are presently no specific requirements related to the proximity of sensitive receptors for Major Impact Services and Utilities uses. However, Section 7358 of the Zoning Ordinance requires staff to make findings regarding compatibility of the project's location, size, design, and operating characteristics such that the proposed use does not have a harmful effect on the community's character, is consistent with the County's General Plan, and meets all CEQA requirements before approving a Major Use Permit.

This current County land use practice differs from how the County is processing Battery Energy Storage Systems (BESS) projects, another relatively new land use that is not currently defined in the Zoning Ordinance. BESS have also been treated as a utility that is allowed in most zones. However, staff are currently developing new BESS-specific standards to direct BESS development to appropriate locations in unincorporated areas of the county, as previously directed by the Board on July 17, 2024 (8). Once new BESS standards are adopted, proposed data centers with onsite utility-scale BESS could also be subject to those requirements.

As part of processing a Major Use Permit, the permit required for data centers, public notice is provided at three stages: at project submittal, during the public review of the CEQA document, and prior to the Planning Commission hearing. Public notifications for Major Use Permits are provided within a 1,500-foot radius of the project site or to a minimum of 100 property owners. The project would also be presented to the local Community Planning or Sponsor Group, if applicable, for a recommendation. During the publicly noticed hearing, the Planning Commission

approves or denies the Major Use Permit based on fulfillment of certain findings and requirements. That determination is appealable to the Board.

IMPACTS ASSOCIATED WITH DATA CENTERS AND STAKEHOLDER INPUT

Planning & Development Services (PDS) staff conducted outreach in early spring 2026, and both qualitative and quantitative impacts of data center development were identified based on data available at the time this memorandum was prepared. Differences in trends across the county, electricity and water service areas, and unincorporated areas are noted to provide locally relevant findings where possible.

In addition to GovDelivery notifications and public comments received through the project website, outreach included a series of focus group meetings with electric and water utility providers, business and technology industry representatives, labor unions, and County working groups to fill in gaps and confirm research findings. Stakeholder feedback about anticipated impacts reflects a perception that data center development in the San Diego region would be fairly limited in the near term and most likely be at a smaller to medium scale. It is noted that such assumptions may be outdated or change due to the rapidly evolving industry. Suggestions generally aligned with a minimal intervention approach that balances economic development with protection against impacts on the community and environment. For example, industry representatives recommended objective regulations that establish clear expectations for data center projects, while recognizing opportunities for these projects to deliver community benefits, such as pathways to higher-paying technical jobs in the region. General feedback from environmental interest groups included concerns about the environmental impacts of data centers, while several community members were opposed to any kind of data centers being located in or near their communities.

Electricity Infrastructure and Rates

Data centers use a significant amount of electricity to power servers, storage devices, network hardware, and cooling systems. This electricity demand scales with the number of servers at the data center. The primary power source for most data centers is grid-supplied electricity, but data centers typically have additional power generators onsite used as backup or supplemental sources to ensure they can always remain online. This means that large-scale data center projects could involve both onsite and offsite energy infrastructure, depending on the capacity of the existing electricity infrastructure.

Data centers are the fastest-growing source of electricity demand and are expected to account for 17% of total electricity consumption in the United States by 2030. Although these trends are less pronounced in California, the California Energy Commission's Integrated Energy Policy Report accounts for significant growth in electricity demand from data centers over the next decade, predominantly in the Pacific Gas & Electric territory. In comparison, there is very minimal data center load growth forecasted in the San Diego Gas and Electric (SDG&E) territory.

During staff's outreach efforts, SDG&E, San Diego Community Power, and industry representatives discussed how data centers could potentially lower electricity rates through careful planning and proper load demand management. In theory, this means that data centers and other

large loads would be located only where there is excess capacity on the existing grid and therefore avoid the need to build new or upgrade existing infrastructure. As a result, rates could go down for all customers because there would be a larger customer base to share costs, as long as those costs remain the same. On the other hand, rates could increase if shared costs increase more than the customer base. While electric utility providers do not foresee rate increases due to local data center growth at this time, the practical implications of such growth on consumer electricity rates in the San Diego region are uncertain and would depend on regulatory and market conditions.

SDG&E has incorporated the impact of large, energy-intensive facilities, such as data centers, into its demand forecasting and planning to ensure infrastructure is used efficiently. SDG&E has an existing rule that requires certain customers requesting additional infrastructure to pay for installation and maintenance costs. It is noted that SDG&E's sets its own utility rates, which are regulated by the California Public Utility Commission (CPUC). Pending legislation may introduce new regulations that protect existing ratepayers from increases in electricity rates due to data centers.

Water Infrastructure and Rates

Data center water demand varies significantly depending on facility size and cooling technology. At the upper end, some large-scale data centers can consume up to 5 million gallons of water per day, equivalent to the water use of a town of 50,000 people, according to the Environmental and Energy Study Institute. This high level of water consumption is primarily due to the high energy intensity of current data center technologies and their need for cooling. Water consumed offsite (upstream) for electricity generation may account for approximately 95% of total water use, whereas onsite water demand for evaporative cooling and ancillary uses may make up the remaining 5%. From a permitting and water supply planning perspective, the onsite component is most directly relevant because it represents the incremental volume of water withdrawn from local water systems. Although substantial in magnitude, offsite water consumption is typically managed at the state or regional energy system level and is not typically attributed to individual development projects for approval decisions. Based on California's average data center water intensity and SDG&E's data center electricity demand projections, onsite water consumption attributable to new data center development in the San Diego region is approximately 10 acre-feet (AF) per year, equivalent to the water use of about 70 people. Actual water demand will vary based on project design.

Data center projects in the imported water areas of western unincorporated San Diego County would require a will-serve letter or equivalent from the applicable water district and would be evaluated for project-level service feasibility. San Diego County Water Authority (SDCWA) is the predominant local wholesale water supplier for imported water areas. Its service area covers most of San Diego County west of Ramona. SDCWA projects that total water demand in 2030 will be approximately 469,300 AF. Even under prolonged drought conditions, SDCWA forecasts a long-term surplus of available water supply. When compared to these regional demand forecasts, the expected 10 AF per year of onsite water use by a new data center is nominal. The expected cumulative demand, based on a reasonably foreseeable number of additional data center projects, would also remain well within the available supply margins identified by SDCWA. During staff's outreach efforts, SDCWA projected that data centers are unlikely to impact the region's water

supply due to their limited scale and surplus availability; however, each member agency would have to determine whether it could meet the demand required for a data center. Small districts or those that primarily serve agricultural customers may not have the capacity. Impacts on water rates may therefore vary because they would depend on the need for new infrastructure or upgrades within individual service boundaries. Water rates are set by the local water agency and regulated by the CPUC.

Surplus conditions do not extend to groundwater dependent areas in central and eastern unincorporated San Diego County. Groundwater availability in these areas is limited, highly variable, and may constrain the feasibility of water-intensive uses like data centers. Further, there are several layers of groundwater review that may apply to large-scale data centers under CEQA (i.e., the County Guidelines for Determining Significance – Groundwater Resources), the County's Groundwater Ordinance, and the Sustainable Groundwater Management Act, where applicable. Each of these evaluation points provides checks on potential data center water usage relative to available water supply.

Water-efficient cooling strategies include closed-loop systems, hybrid air-water cooling, and advanced monitoring technologies. These strategies are increasingly common in modern data center design and enable data centers to operate even in areas with limited water. However, this approach has limited impact on local water demand because direct cooling-related water use typically accounts for no more than five percent of total data center water consumption. Energy efficiency improvements can more meaningfully reduce water impacts, both onsite (for cooling) and offsite (for electricity generation).

Air Quality

Many data centers have onsite power generators to maintain uninterrupted service during grid outages and other circumstances when grid power is considered unreliable. Diesel-fueled generators are most commonly utilized for this purpose due to their reliability and low cost. This type of generators is a notable source of localized air pollution in California, despite operating primarily during emergencies and routine testing. When operated, these generators emit several types of air pollutants that are harmful to human health. Although limited in annual operating hours, diesel-fueled generators produce more emissions per unit of electricity than grid-supplied power. Even short-duration operations can result in measurable increases in local pollutant concentrations, especially in air basins that already struggle to meet federal and State air quality standards, raising concerns about cumulative impacts when multiple generators operate simultaneously during outages or heat events.

Diesel backup generators are regulated by federal and State requirements and would require permits from the local air quality management district. Such regulations limit allowable operating hours, impose particulate matter emission standards, and require the use of best available control technologies, particularly near sensitive receptors. Mitigation measures required by CEQA may also apply to large-scale data centers, as these are likely to be processed under discretionary review. Air quality impacts from data centers are therefore adequately addressed.

Noise

Data centers include various sources of both continuous and intermittent noise. Mechanical cooling equipment operates continuously to manage heat from servers and generates a consistent, low-frequency sound. Airflow-related noise, such as from large fans and ventilation systems, also contributes significantly to the steady, high noise level. Noise from electrical equipment such as transformers, onsite power generation facilities, and substations is often more noticeable and may cause greater disturbance than mechanical noise. Backup generators also emit intermittent high-frequency noise, though they are typically only used during outages or routine testing.

Noise generated by data centers can be managed through a combination of strategic design, equipment selection, and the use of noise control materials that help reduce noise levels. For example, acoustic barriers around loud equipment or setbacks from such noise sources are strategies commonly used in industrial facilities with similar noise impacts. Although such strategies help manage noise, each project is unique, and there is still potential for noise impacts.

Using immersion or liquid cooling to reduce airflow-related noise could be another design option that more specifically addresses noise in data centers. A regulatory approach may be to establish data-center-specific noise standards to more effectively address constant low-frequency noise and intermittent noise occurring over such short durations that they do not exceed noise standards averaged over longer periods, such as those provided in Section 36.404 of the San Diego County Code of Regulatory Ordinances. Jurisdictions that have established data center standards, such as Fairfax County and Loudon County in Northern Virginia, the leading global data center market, have also used post-construction noise studies to ensure compliance. Such considerations may supplement any required mitigation measures to address noise impacts identified through CEQA under a discretionary process. As such, noise impacts from data centers are somewhat addressed, but additional strategies may help further reduce potential impacts.

Fire Risk and Emergency Response

According to the Uptime Institute's database of publicly recorded incidents that received public or media attention, fire was the cause of 13 publicly reported outages at data centers worldwide between 2016 and 2020, but a majority of these were small and had minimal long-term disruption. Electrical failures due to overloaded circuits, malfunctioning equipment, defective wiring, or other faults are the most common source of potential fire in a data center. Other potential risks include electrical surges that can overload components and generate enough heat to ignite nearby materials, or arc flashes that produce high-intensity discharges capable of igniting surrounding equipment.

The location of proposed data centers may affect fire risk and emergency response. Data centers in groundwater-dependent areas may not have enough water to extinguish an event or supply the fire suppression system (sprinklers). Emergency response may also be delayed for data centers that are outside of a five-minute travel time from an existing fire station. In such cases, the existing fire services capabilities may be inadequate to extinguish a fire in a timely manner.

Data centers also commonly use lithium-ion batteries in rack-mounted uninterruptible power supply systems, which may introduce additional hazards. If damaged or overheated, these batteries may enter thermal runaway, which is a self-accelerating reaction that can spread to adjacent cells

or battery cabinets. This risk may also be present at data center facilities that have onsite BESS. However, the National Fire Protection Association improved safety standards related to BESS based on current technologies in 2025 were incorporated into the 2025 California Fire Code and the San Diego County Fire Protection District's (SDCFPD's) Fire Protection Guidelines for BESS Facilities. SDCFPD requires BESS facilities with an energy storage capacity of 600 kilowatt-hours or greater to submit a site-specific technical study, which includes a hazard mitigation analysis, plume modeling report, and other technical information listed in the guidelines for their review. The BESS Zoning Ordinance Amendment that is currently being developed by staff, as directed by the Board, may also apply to utility-scale BESS. Even without BESS, SDCFPD would still require an external fire protection engineering firm to review the entire project to ensure best practices for fire safety. These protection measures, in addition to typical discretionary and environmental review processes, are already in place to reduce fire risks at data centers and ensure thorough emergency response planning and training.

Local Economic Impacts

The impact of AI on the workforce is evolving along with technology, and long-term changes are uncertain. Trends so far suggest that AI-related technologies are driving significant structural changes in the global labor market, with potential for both negative and positive impacts. Goldman Sachs estimates that about six to eight percent of jobs in the United States face relatively imminent AI displacement risks. According to the Society for Human Resource Management, roles that generally face the highest risk are those with tasks or skills that overlap with AI capabilities. These include high-income, white-collar occupations in sectors such as business, finance, sales, architecture, and engineering. However, studies suggest that workers in these roles also tend to be more educated, which allows them to adapt AI tools to support their work rather than as direct competitors to their skills. On the other hand, roles that face slightly lower exposure to AI, such as administrative jobs, may have less adaptive capacity to reassign skills or tasks to AI.

The expansion of AI may also create new jobs, both directly (e.g., software engineers, AI tool designers) and indirectly (e.g., cybersecurity experts, other experts experiencing third-party demand). In addition, workers familiar with AI tools can realize substantial productivity gains, especially with less experienced workers. More experienced workers benefit, as they can complement their preexisting knowledge with AI to expand career opportunities. Data centers create a limited number of permanent jobs, with greater potential to create temporary construction jobs.

While additional financial market analysis and project-specific information are needed to evaluate local community impacts, large-scale data centers generally have greater impacts and more benefits at a regional rather than local level. For instance, large-scale data centers (both AI and non-AI) themselves do not typically drive local job displacement, and a single facility in the San Diego region would not likely move the needle substantially on broader AI-driven job displacement. However, these data centers may not necessarily provide permanent jobs or career pathways specifically for the communities that they are located in. During staff's outreach efforts, business and technology industry stakeholders advocated that data centers are more likely to play a broader role in regional economic development by providing pathways to higher-paying science, technology, engineering, and mathematics (STEM) jobs and by supporting an expanding range of

businesses that use data center services. The International Brotherhood of Electrical Workers, Local Union 569, San Diego (IBEW 569) noted that data centers may also require skilled labor for installing and maintaining electrical and mechanical systems.

PENDING REGULATIONS RELATED TO DATA CENTERS

Moratoria

Policies to address data centers are evolving rapidly. There has been an increasing trend of jurisdictions that have imposed a moratorium on data centers to allow time to develop regulations that address public health and safety concerns. As of June 2026, over 70 jurisdictions across the country, including several jurisdictions in California, have a data centers moratorium in place. Imperial County is the first county in California to adopt a moratorium that temporarily pauses data center applications in its unincorporated communities. Monterey Park is the first city in California to go beyond a moratorium with an effective citywide prohibition on data centers, approved by voters during the June 2, 2026 election. State and federal legislators have also introduced bills that would place a statewide or nationwide moratorium on AI data centers.

The Board has the option to adopt a resolution that outlines the types of data centers or locations where a new data center application would not be accepted under a moratorium. Upon adoption, the urgency ordinance is valid for only 45 days but can be extended for a total of two years. Additionally, the Board could provide direction to prepare a new data center Zoning Ordinance (Option 4 discussed in subsequent section of this memorandum) to ensure the County has regulations in place prior to expiration of a moratorium.

State Legislation

The State's regulatory framework for data centers is still developing. Pending legislation and other key decisions may change the regulatory landscape and clarify the roles of local jurisdictions and other agencies, like utilities and air districts, that may be involved in data center development. The following information provides context for the legislative landscape as of the preparation of this memorandum, but these bills may or may not still be active at the time of Board consideration.

State legislators have introduced bills during the 2025-2026 legislative session that seek to regulate the development of and impacts from data centers. Senate Bill (SB) 887 (Padilla) would prohibit CEQA categorical exemptions for data centers, requiring data center projects to go through discretionary land use review, even if they are ministerially allowed in a zone. SB 886 (Padilla), SB 1168 (McNerney), and SB 978 (Perez) would create ratepayer protections from data centers, such as by establishing tariffs, or special rate structures for electricity consumed by data centers and requiring data center developers to pay upfront for infrastructure upgrades. Assembly Bill (AB) 2619 (Papan) and AB 2469 (Papan) would require data center developers to report their water use, and AB 1577 (Bauer-Kahan) would require data center developers to report their energy use. During outreach, IBEW 569 and the San Diego County Building & Construction Trades Council expressed support for SB 886, SB 887, and SB 978.

The Little Hoover Commission, an independent State oversight agency, published the "Data Centers and California Electricity Policy" report in March 2026, which evaluated how data centers

could help catalyze investments to modernize the grid and strengthen reliability without increasing costs for ratepayers or undermining the State’s clean-energy commitments. The report recommends the State legislature consider highlighting the State’s role in establishing a clear regulatory framework focused on electricity rates and cost allocation rules, data reporting requirements, energy-efficiency standards, and statewide demand forecasting.

Federal Legislation

Recent federal policy changes by the Administration have generally supported data center development, especially as they are focused on supporting the growth of the domestic AI industry from a national security perspective. Presidential Executive Order 14318, signed in July 2025, prioritizes reducing regulations to facilitate the buildout of AI data centers and associated power infrastructure. The executive order seeks to streamline permitting on both federal and non-federal lands through the Clean Air Act, Clean Water Act, and other federal environmental laws. However, in March 2026 and in response to growing public concern over the exponential growth of data centers, the Trump Administration released a National Policy Framework for AI, which includes legislative recommendations for Congress. The recommendations include measures to protect ratepayers from rising utility costs, while also streamlining federal permitting for AI infrastructure, construction, and operation. In Congress, numerous pieces of legislation have been introduced over the last year to address growing concerns around local impacts and rising energy costs. SB 3682 from Senator Chris Van Hollen (D-MD) would mandate ratepayers are prioritized in energy delivery over data centers. SB 3852 from Senator Josh Hawley (R-MO) would require new data centers to derive power from non-grid sources. House of Representatives Bill 6983 from Representative Rob Menendez (D-NJ) would require data centers to generate their own energy from renewable sources. Senator Bernie Sanders (I-VT) introduced Senate Bill 4214 which would place a national moratorium on AI data centers. At this time, Congress has not coalesced support for one particular path forward to regulating the energy usage of data centers and their impacts on local resident ratepayers.

COUNTY EFFORTS THAT COULD ADDRESS DATA CENTER DEVELOPMENT

The County has existing procedures and practices other than zoning and development regulations that could address data center projects. However, the County does not have specific programs to prepare for or manage the accelerating growth in data center development.

Outside of the discretionary land use process, the County may screen potential data center projects for specific impacts. For example, the Office of Economic Development and Government Affairs (EDGA) receives “requests for information” (RFIs) through the State Governor’s Office of Business and Economic Development (GO-Biz) from companies looking to potentially locate in the San Diego region. EDGA reviews the preliminary information to determine if there are any suitable areas in the San Diego region, and whether the project meets the goals and objectives of the County’s Economic Development Strategy (CEDS), particularly in terms of job creation, relevant wages, and if the project fits into the regional economic ecosystem. Depending on the project and the amount of jobs being created, the County could also encourage project changes to better align with County priorities to receive potential incentives through Board Policy A-124:

Economic Incentives. To date, EDGA has received only one RFI, in May 2026, from GO-Biz regarding a potential data center project.

To date, EDGA has received only one RFI, in May 2026, from GO-Biz regarding a potential data center project. Based on previous Board direction, staff have developed Voluntary Community Benefits Agreements (CBA) Guidelines for large-scale projects to help address local impacts that are not addressed as part of environmental review. The Voluntary CBA Guidelines encourage the creation of voluntary CBAs between local communities and project applicants in the unincorporated areas of the county. The Guidelines lay out applicable project types, benefits, timing, key players, and the process of forming CBAs. The Voluntary CBA Guidelines list large-scale data centers as a project type to consider for a CBA.

To legally establish a mandatory CBA program, there must be a demonstrably strong connection between the project impacts and the project requirements or conditions. There must also be a demonstrably strong connection between the amount or scale of requirements or conditions relative to the project impacts, also known as proportionality. A mandatory CBA program should account for these two key principles.

Other jurisdictions have negotiated voluntary CBAs or similar formalized agreements to address public concerns about large, controversial data centers. Transparency, affordability, and sustainability are common themes among these agreements. For example, the City of Lancaster, Pennsylvania, entered a CBA for a data center project that included mitigation measures for air quality and noise, a limit on water use, requirements to hire residents, and financial contributions to a community foundation and clean energy fund.

OPTIONS TO ADDRESS IMPACTS FROM LARGE-SCALE DATA CENTERS

In response to the Board's direction from January 14, 2026 (4), County staff have identified four options that could address various potential impacts from large-scale data centers. Options 1 and 4 can specifically address permit requirements for large-scale data centers in the unincorporated areas of San Diego County, while options 2 and 3 can address potential impacts in the region. Staff intend to move forward with Option 1 as a short-term solution that provides clearer expectations for the permitting of data center projects in the County's unincorporated areas. Additional action beyond this option would require Board direction and may require additional resources to complete the work.

Option 1: Memorialize Current County Land Use Practices for Data Centers (Short Term)

Staff intends to move forward with this option to provide clearer expectations for the permitting of data center projects in the unincorporated areas of San Diego County. The PDS Director will issue a Letter of Determination to memorialize current County practices confirming that large-scale data center applications are processed as Major Impact Services and Utilities, which requires a Major Use Permit. These letters are internal documents that remove ambiguity and establish a standard interpretation of the Zoning Ordinance. PDS occasionally uses this tool to adapt to evolving information that does not require amending the Zoning Ordinance.

In addition, PDS staff will define data centers in the Zoning Ordinance using best practice research and examples from other jurisdictions based on currently available information. Creating a new

definition is a nominal effort that could be incorporated into a current Zoning Ordinance amendment effort, such as for BESS or a future Zoning Ordinance cleanup, without additional cost or internal PDS workplan impacts. The option for a Letter of Determination could be implemented immediately to clarify that future large-scale data center proposals would be subject to full land use and environmental review, in addition to public noticing requirements.

Option 2: Clarify Legislative Policy Guidelines related to Data Centers (Short Term)

EDGA tracks legislation at the state and federal levels and considers what legislation to support or oppose based on the policy framework outlined in the Board's annually adopted Legislative Program. County Staff are tracking several pending State bills related to data centers and their associated environmental impacts, especially electricity and water use. Passage of those bills could result in legislative mandates that could address certain impacts of large-scale data centers in the San Diego region.

Following Board action on September 9, 2025 (22), the County supported the 2025 Utility Affordability and Accountability Legislative Package to lower utility costs, ensure fair electricity pricing, and advance equitable and affordable energy for residents across the state. The 2026 Legislative Program's priority issue to combat climate change and protect the environment, and associated policy guidelines regarding affordability and availability of energy and water, could broadly apply to data center regulations; however, the County Legislative Program does not incorporate specific policy statements related to data centers. Board direction to advocate for specific data center regulations could help clarify the County's legislative authority on balancing AI innovation with community and environmental protection. This option would also prompt continued monitoring of key federal and State efforts on this issue, including the recommendations from the Little Hoover Commission's "Data Centers and California Electricity Policy" report.

If directed by the Board, this short-term option would set the foundation for other potential actions, such as Option 4 to ensure alignment with the evolving legislative environment related to data centers. In the interim, current County practices (regardless of Option 1) already ensure that any data center Use Permit applications would require full discretionary review and could be appealed to the Board. Legislative advocacy is an ongoing County effort that does not require additional resources and would not result in workplan impacts.

Option 3: Partner on an AI Workforce Development Program (Medium Term)

Trade-offs between the potential benefits and the negative impacts of data centers were a central theme during the County's outreach and could apply to the San Diego region. This option responds to feedback as well as Board direction requesting staff to address community benefits.

Option 3 would involve working with existing partners, including the San Diego Regional Chamber of Commerce, San Diego Regional Economic Development Corporation, San Diego Workforce Partnership (SDWP), labor unions, and local educational institutions, to encourage the development of an AI workforce development program, likely under SDWP. Activities could focus on educational efforts to strengthen understanding of how to use AI tools, especially for those in roles currently vulnerable to AI-related job displacement. Preparing the current and future generations to lead an AI-ready workforce may help attract and retain local talent in STEM fields

by providing high-quality career pathways for students and entry-level workers. This approach would align with statewide efforts and be consistent with several objectives of the CEDS.

This option would require Board direction, which could explicitly focus a portion of existing County funding and staff resources to assist SDWP in developing a workforce training program on AI-related topics. Depending on the level of County involvement, there may be an additional cost for this effort to develop a new workforce plan. Although this action could be rolled out within the near term, workforce development impacts may not be evident until the longer term.

Option 4: Develop a New Data Center Zoning Ordinance (Long Term)

This option involves amending the County Zoning Ordinance to include new data-center-specific standards that holistically address the unique impacts of data center development and operation in the unincorporated areas. These standards could include, but are not limited to, guiding locations toward appropriate commercial or industrial zones and away from residential areas or sensitive receptors, noise studies, onsite energy generation and water recycling requirements or incentives, and development agreements. These standards could also vary based on the scale of data centers or other factors to ensure that requirements correspond to associated project impacts.

During staff's outreach efforts, business and technology industry representatives expressed a preference for regulations that clearly define the County's objectives (e.g., protection from noise and air pollution) while allowing industry flexibility in how to meet them. This approach would focus on desired outcomes that benefit communities, rather than prescriptive regulations that may become obsolete as technology changes. IBEW 569 advocated for requiring workforce safety standards, onsite renewable energy generation, energy storage, and community benefits agreements to help balance economic opportunities with community protections.

Board direction would be required to develop a new Zoning Ordinance amendment. This option would require approximately \$500,000 of consultant costs (one-time-only funding) for CEQA documentation, stakeholder engagement, and ordinance development. This effort could be accomplished with existing staff and would take 18-24 months to complete, during which one full-time equivalent staff will be unavailable to work on other PDS workplan projects. The effort could begin after completion of the Battery Energy Storage Systems project, which is estimated to be completed in spring/summer 2027. Combining this option with Option 2 may improve efficiency through a clearer regulatory framework and better coordination among the State, local jurisdictions, and utilities.

Considerations for Implementing Options

In addition to Option 1, the Board could provide direction to mix and match the other options for short-, medium-, and long-term solutions to further address the impacts of large-scale data centers. For example, the Board could clarify guidelines for legislative advocacy related to data centers and monitor State guidance (Option 2), while staff memorializes current County practices (Option 1). Once State guidance is clear, the Board could consider directing development of a new data center, Zoning Ordinance (Option 4). An AI workforce development program (Option 3) could be considered at any time, either proactively along with Option 1 or more comprehensively with Option 4.

San Diego County Board of Supervisors

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For questions or additional information, please contact Vince Nicoletti, Director of Planning & Development Services at vince.nicoletti@sdcounty.ca.gov.

Respectfully submitted,

A handwritten signature in blue ink, appearing to read "Dahvia Lynch", with a long horizontal flourish extending to the right.

DAHVIA LYNCH

Deputy Chief Administrative Officer

cc: Ebony N. Shelton, Chief Administrative Officer
Joan Bracci, Assistant Chief Administrative Officer/Chief Financial Officer
Vince Nicoletti, Director, Planning & Development Services
Andrew Potter, Clerk of the Board