City of Denton

City Hall
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Denton, Texas
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AGENDA INFORMATION SHEET

DEPARTMENT: **Development Services**

CM/DCM/ACM: **Kenneth Hedges**

DATE: **August 4, 2026**

SUBJECT

Receive a report, hold a discussion, and give staff direction regarding a policy on data center developments, including a temporary moratorium.

BACKGROUND

On May 14, 2026, Mayor Pro Tem Stevens submitted a two-minute pitch proposing a work session to evaluate the City's policy framework for AI data center developments, which the City Council approved on June 2, 2026. Following the issuance of Informal Staff Report (ISR) 2026-039 on June 26, 2026, the Agenda Committee directed staff to present this as a work session. The primary objective is to discuss options for future data center applications, including a potential temporary moratorium to evaluate whether operational infrastructure demands, environmental impacts, and financial returns align with initial projections.

In the data center field, data centers are generally categorized into Enterprise, Colocation, Hyperscale, and Edge facilities. Specialized facilities like High-Performance Computing (HPC)/AI and Crypto Mining are informally categorized as "Tier 0" because these facilities do not always fit into the general categorization noted above. Denton currently has two approved large-scale Tier 0 data center projects on city-owned property. Core Scientific, Inc., a warehouse data center for HPC/AI, leases approximately 78 acres with a Power Purchase Agreement (PPA) for up to 391 MW peak electrical load and utilizes a closed-loop cooling system. WAHA / Qumulus AI, a modular data center for crypto mining, leases 4 acres with a PPA for up to 20 MW peak load capacity and utilizes an air-cooling system. Both projects pay 100% of power and transmission costs, acquire Renewable Energy Credits (RECs) for their full annual power consumption, and have complied with existing Denton Development Code (DDC) standards.

Historically, DME had the capacity to handle larger data center loads, but based on recent studies, regional transmission overloads have caused DME to analyze each additional large-scale connections. DME has proposed $300 million in transmission projects to ERCOT to resolve these issues by 2031 at the earliest and are awaiting ERCOT's response to those projects. Regarding water usage, staff recommends requiring closed-loop systems for future HPC/AI data centers to protect resources, as these systems use significantly less water than evaporative cooling, and do not pose a significant threat to the City's long term water supply as these types of systems use amounts at levels similar to other commercial uses in the City.

Financially, the two existing data centers have generated substantial revenue, including over $3.1 million in combined property taxes, $475,000 in sales tax, and $8.8 million in electric return on investment (ROI) and franchise fees.

Data center land uses were formally incorporated into the DDC on September 20, 2022. The DDC categorizes them into two types: Modular Data Centers, which require a Specific Use Permit (SUP) in Light Industrial (LI), Heavy Industrial (HI), and Public Facilities (PF) districts, and Warehouse Data Centers, which are permitted by-right in General Office (GO), LI, HI, and PF districts, and by SUP in Mixed-Use Regional (MR), Suburban Corridor (SC), and Highway Corridor (HC) districts. Both types must adhere to development standards, including screening from rights-of-way and residential districts, a minimum 100-foot setback from residential property lines, sound limits capped at either 60 dBA or 3dBA above the ambient noise level at property lines, and lighting restrictions.

Under Texas Local Government Code (TLGC) Chapter 212, which was amended by House Bill 2559 effective September 1, 2025, imposing a temporary development moratorium comes with a number of legal and procedural requirements. Due to vested rights regulations in TLGC Chapter 245, a municipality cannot halt applications filed prior to the adoption of a moratorium. Additionally, a development may request a waiver from the moratorium if they have a claim under an existing development agreement or are able to provide the public facilities that are identified as lacking at the landowners cost.To proceed, the City must adopt written findings proving a severe shortage of essential public facilities limited to water, sewer, drainage, or roadways, a need for other public facilities which could include electricity, or specific risks to public health, safety, and welfare. The procedural timeline requires a 30-day public notice, two separate public hearings spaced at least 30 days apart, and two ordinance readings spaced no less than 28 days apart. Adoption requires a supermajority vote of at least three-fourths of all Council members. If adopted, a moratorium is restricted to 180 days (90 days initially with opportunity for one 90-day extension) and cannot be re-imposed on the same geographic area for two years.

If City Council directed staff to initiate a moratorium, the City's strongest basis for the moratorium would be on the need for other public facilities for electric capacity (TLGC 212.1351) and a need to updated zoning ordinances (TLGC 212.1352). Staff would further refine the evidence and justification following public hearings and include those written findings in the adopting ordinance for a moratorium. There may be additional expenses incurred by the City in establishing the evidence needed to support the moratorium.

Alternatively, the DDC standards currently in place for data centers (summarized above) could be modified to further restrict the districts where the use is permitted, impose additional use-specific standards, and/or require a SUP in more or all instances. These options are further detailed below. As a type of zoning change, amendments to the DDC require two public hearings (one at the Planning and Zoning Commission and one at City Council), but once those changes are made, they would remain in effect until such time as the Council chooses to amend the regulations.

OPTIONS

1. **Initiate Moratorium Proceedings:** Direct staff to prepare written findings, issue statutory 30-day public notices, and schedule two public hearings to pursue a temporary moratorium under TLGC Chapter 212. The fastest available timeline to implement a moratorium would have initial public hearing on September 22, 2026, and the moratorium would go into effect on December 2, 2026. See Estimated Schedule below for more details.
2. **Pursue Specific Denton Development Code (DDC) Text Amendments:** Direct staff to initiate DDC amendments through the Development Code Review Committee (DCRC) and/or provide amendments directly to Planning & Zoning Commission if a faster timeline is desired. Potential amendments include:
    a. **Require an SUP for All Data Center Uses:** Eliminate by-right status across all zoning districts to guarantee public hearings and discretionary Planning and Zoning Commission and City Council review for every project.

   b. **Restrict Allowed Zoning Districts:** Eliminate Warehouse Data Centers as an allowed use (by-right or SUP) in General Office (GO), Mixed-Use Regional (MR), Suburban Corridor (SC), and Highway Corridor (HC) districts, confining them strictly to Industrial (LI, HI) and Public Facilities (PF) zoning districts, the same as Modular Data Centers.
   c. **Enhance Use-Specific Standards, possible additions could include:**
      i. Mandate closed-loop or free-air cooling systems to eliminate high-volume evaporative water consumption.
      ii. Require mandatory water/wastewater capacity and utility loading impact studies during development review.
      iii. Increased setbacks from existing residential uses, stricter lighting requirements, or other potential nuisance abatement measures.

   As noted in the Estimated Schedule below, the amendments noted herein could be prepared in a reasonably expeditious time frame. If DCRC review is desired, then Staff could target the August 24, 2026 meeting date for this discussion in order to keep to the public hearing schedule below.
3. **Combination / Hybrid Approach:** Direct staff to begin drafting immediate DDC text amendments while beginning the process for initiating a moratorium. It should be noted that if the schedule below is achieved for the code amendment hearings, then the changes would be in place prior to the Moratorium taking effect, which would potentially impact the written justification/findings.
4. **Take No Action / Maintain Current Regulations:** Maintain current DDC standards and evaluate future data center applications under existing zoning, building, and electrical interconnection processes.

RECOMMENDATION

Staff seeks direction from the City Council regarding preferred options for regulatory updates, DDC amendments, or moratorium initiation.

ESTIMATED SCHEDULE OF PROJECT

Possible Moratorium Schedule

- August 18, 2026: City Council considers a resolution or ordinance setting a date for moratorium public hearings.
- September 22, 2026: Initial Public Hearing
- October 27, 2026: Second Public Hearing and 1st Reading of Moratorium Ordinance.
- December 2, 2026: Second Reading and Consideration of the Moratorium. Requires a supermajority for adoption.
- March 2, 2027: Moratorium ends unless extended for another 90 days. The moratorium can be extended for an additional 90-day period by holding another public hearing and adopting additional findings.

Possible DDC Amendment Schedule

- September 23, 2026: P&Z Public Hearing
- October 13, 2026: City Council Public Hearing
- October 27, 2026: Effective Date

PRIOR ACTION/REVIEW (Council, Boards, Commissions)

May 14, 2026: Mayor Pro Tem Stevens submitted a 2-minute pitch regarding AI Data Center policy and moratorium discussion.
June 2, 2026: City Council approved pitch to schedule a future work session.
June 26, 2026: ISR 2026-039 issued.

FISCAL INFORMATION

Data center developments carry substantial financial implications including having a large impact on tax revenue, and also the franchise fees paid to the General Fund by DME. Approved facilities have generated over $780k in property taxes, $475k in sales taxes, $8.8M in electric ROI/franchise fees, and over $2M in city ground lease revenues. Major business personal property taxes on equipment/servers are anticipated to begin in FY 2026–27.

EXHIBITS

1. Agenda Information Sheet
2. Presentation
3. ISR 2026-039

Respectfully submitted:
Charlie Rosendahl
Director of Development Services