Arizona Retirees Have $556 Million Tied to Data Centers — and the Risk Is Getting Harder to Ignore

AI demand may keep growing. That does not mean every data-center investment will protect investor capital—especially when debt, delayed power and construction costs collide.

Analysis by Ames Investment Systems | Ogdn Ames, Founder & CEO | Phoenix, Arizona

PHOENIX — The Arizona State Retirement System reported $556,176,506 invested with Menlo Equities in a strategy classified as “Data Center” as of Dec. 31, 2025. That matters because the retirement system serves public workers and retirees whose savings depend on long-term investment discipline, not on whether a popular technology story stays popular. Arizona is simultaneously becoming one of the country’s major data-center markets, with more than 2 gigawatts of operating capacity and another 10.6 gigawatts planned, according to the Arizona Corporation Commission. Yet the economics of new projects are becoming more difficult as developers compete for electricity, financing and tenants. No public disclosure shows that ASRS has suffered a loss, and the available records do not reveal the leverage or property-level risk inside the Menlo investments. But the combination of large exposure, borrowed money and a tightening power market is enough to justify much closer scrutiny.

Why the Risk Is Growing

Artificial-intelligence demand is real, but the companies creating that demand do not carry the same risk as the developers building for them. A hyperscaler can delay a campus, renegotiate a lease or move future spending. A developer that already bought land, borrowed money and hired contractors cannot simply undo those costs.

Arizona’s power market is the clearest warning. Arizona Public Service has disclosed roughly 19 gigawatts of uncommitted large-load requests against a 2025 system peak of about 8.7 gigawatts. Put plainly, companies have asked for more than twice the amount of power APS used at its busiest point—but the grid cannot treat every request as a guaranteed project. APS has also proposed higher rates and stronger financial requirements for very large users, while Salt River Project requires some new large customers to pay based on at least 80% of forecast demand even if they use less.

That changes project math quickly. A data center can look attractive when power arrives on schedule, construction stays on budget, borrowing costs remain manageable and a tenant pays the expected rent. Delay the electricity, raise financing costs, add a power deposit or give the tenant better economics, and the owner’s margin for error can shrink fast.

Why This Matters to Arizona Retirees

When property is financed with debt, lenders generally get paid before equity investors. That means a moderate decline in the asset can create a much larger decline in the investor’s equity.

Consider a simple illustration: a $100 property financed with $60 of debt has $40 of equity. If the property value falls 20% to $80, the debt is still $60, leaving only $20 of equity. The property lost 20%; the equity lost 50%. This example does not describe the Menlo portfolio’s actual leverage. ASRS public disclosures do not provide that information.

Applied only as a stress test, a 40% equity drawdown on the reported $556.2 million position would equal about $222.5 million. A 50% drawdown would equal about $278.1 million. Those figures are not predictions of an ASRS loss, and no such loss has been established. They simply show how quickly equity can be impaired when leverage meets weaker valuations or development delays.

“You can be bullish on artificial intelligence and still believe some AI infrastructure will destroy capital,” Ames said. “The key question is not only whether demand grows. It is who owns the land, carries the debt and absorbs the loss when a project no longer works as planned.”

What Should Happen Now

This is a solvable problem. Arizona does not need to retreat from AI infrastructure; it needs better visibility and stronger discipline around the capital supporting it.

1. **Disclose the real risk.** ASRS should provide enough information for beneficiaries and oversight bodies to understand the data-center portfolio’s leverage, development-stage exposure, geographic concentration, tenant commitments and power status without disclosing competitively sensitive details.
2. **Stress-test realistic failures.** The portfolio should be tested against delayed energization, higher interest expense, weaker rents, construction overruns and lower property values. The results should show how those changes affect investor equity, not merely whether senior debt continues to be paid.
3. **Require stronger protections before adding exposure.** New commitments should receive extra scrutiny when projects lack secured power, strong tenant commitments or conservative leverage. The objective is not to avoid the sector; it is to avoid paying full price for development risk that has not yet been solved.

Arizona retirees do not need to fear artificial intelligence. They need the people managing their money to make sure the retirement system is being paid enough for the financing, construction and power risks it accepts—and to prove that the downside has been measured before more capital is committed.

About the Author

Ogdn Ames is a quantitative investor, AI engineer, and founder and CEO of Ames Investment Systems. His work focuses on quantitative investing, financial modeling, artificial intelligence and the infrastructure supporting AI growth. He has developed and live-traded quantitative strategies and published analysis on AI infrastructure and investment.

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