

Wisconsin's Lavish Lure for Foxconn: An Instructional Case in Governmental Accounting

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ABSTRACT: In 2017, Wisconsin signed one of the largest U.S. business incentive contracts with Foxconn Technology Group, a Taiwanese electronics corporation best known as the main assembler of Apple's iPhone. In exchange for Foxconn's pledge to build a \$10 billion manufacturing complex and hire 13,000 workers, Wisconsin's state and local governments offered more than \$4 billion in subsidies. However, Foxconn's promises were unfulfilled. This case uses Wisconsin's lavish deal with Foxconn to examine the causes and complexities of targeted business incentives deployed by state and local governments. The case further analyzes Annual Comprehensive Financial Reports to assess the impact of the Foxconn project on governments' financial condition. This case is intended for courses with a governmental accounting component. It is scalable, and instructors can choose from multiple parts of the case questions according to their needs.

Keywords: governmental accounting; business incentives; state and local governments; Annual Comprehensive Financial Report.

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I. CASE MATERIALS

Introduction

Two days after President Donald Trump's inauguration in January 2017, Foxconn Technology Group, a Taiwanese electronics manufacturer, announced it was considering building a multibillion-dollar production facility in the United States. Foxconn is best known as the primary assembler of Apple's iPhones, employing over one million low-cost workers in its sprawling factory compounds across China. A number of states—including Wisconsin, Ohio, Michigan, North Carolina, and Pennsylvania—submitted business incentive packages, which consisted of tax reductions and other programs, to attract the Foxconn investment. Even within the state of Wisconsin, Racine County and Kenosha County bid for Foxconn and proposed competing local incentives.

In July 2017, with the support of the White House, Foxconn and Wisconsin's then-Governor Scott Walker struck a megadeal that promised to turn southeastern Wisconsin into a high-tech manufacturing powerhouse. In exchange for Foxconn's pledge to build a \$10 billion manufacturing campus and hire 13,000 workers by 2032 in Racine County, Wisconsin, state and local governments agreed to offer more than \$4 billion in subsidies to the company.¹

Background on Business Incentives

State and local governments in the United States offer a wide range of business incentives, which include tax abatements, regulatory exemptions, and other subsidies, to attract investments. Broadly speaking, there are two approaches to providing business incentives: a general approach and a targeted approach (Mitchell, Farren, Horpedahl, and Gonzalez 2020). Under the general approach, state and local governments implement tax policies and regulatory rules generally applicable to all firms. Under the targeted approach, state and local governments create incentive programs (e.g., tax credits, tax exemptions, and other subsidies) to attract particular firms. It is estimated that business incentives have totaled at least \$30 billion annually in recent years, an amount that has tripled since the 1990s (Bartik 2019; Slattery and Zidar 2020).

By offering business incentives, state and local governments intend to create economic spillover effects: when a firm builds a new production facility, other local jobs are created in the supply chain and service industries, thus fostering regional economic development and generating income, sales, and property tax revenues. Meanwhile, governments should carefully weigh potential economic benefits against the direct and indirect costs borne by taxpayers (e.g., the value of subsidies, opportunity costs from the alternative use of those subsidies, administrative costs; Mitchell et al. 2020). To prevent the misuse of public funds, state and local governments should also enhance the transparency of targeted incentive programs and effectively monitor their implementation (Slattery and Zidar 2020).² When properly designed, business incentives can create jobs and spur economic growth, resulting in a net benefit. For example, the Wisconsin

¹ The terms "incentive" and "subsidy" are used interchangeably. They both refer to economic development subsidies offered by state and local governments to incentivize businesses to make investments and create jobs.

² Slattery and Zidar (2020) provide an excellent background on business incentives; for a summary, see <https://economics.princeton.edu/2020/01/06/new-data-on-state-and-local-business-tax-incentives-across-the-u-s/>. In their article, "targeted business incentives" are referred to as "firm-specific business tax incentives."

Economic Development Corporation (WEDC) cites their success in offering business incentives by noting that they have awarded \$218 million to assist 64 partner organizations, leveraging 11 dollars for every dollar invested (WEDC 2022a). One success story is Exact Sciences. WEDC offered up to \$9 million in state tax credits that could be earned through a combination of hiring more than 750 employees and investing \$26 million in capital expenditures through 2020. The tax credits helped Exact Sciences expand into new offices, build a new research and development lab, and double the size of its staff (WEDC 2022b).

While business incentives can be a positive economic development tool, they may have drawbacks. For example, subsidy bidding wars can occur among state and local jurisdictions to lure corporate investments, pushing up the size of business incentives and resulting in a zero-sum game for governments on a national level (LeRoy, Mattera, and Tarczynska 2019).³ In addition, economists point out that many subsidized companies would have chosen their investment locations even without governments providing large subsidies (Bartik 2018a, 2018b).⁴

Business Incentives Offered to Foxconn

In 2017, in exchange for Foxconn's pledge of \$10 billion in investments and the creation of 13,000 jobs, the state of Wisconsin and Racine County offered Foxconn over \$4 billion in subsidies, including:

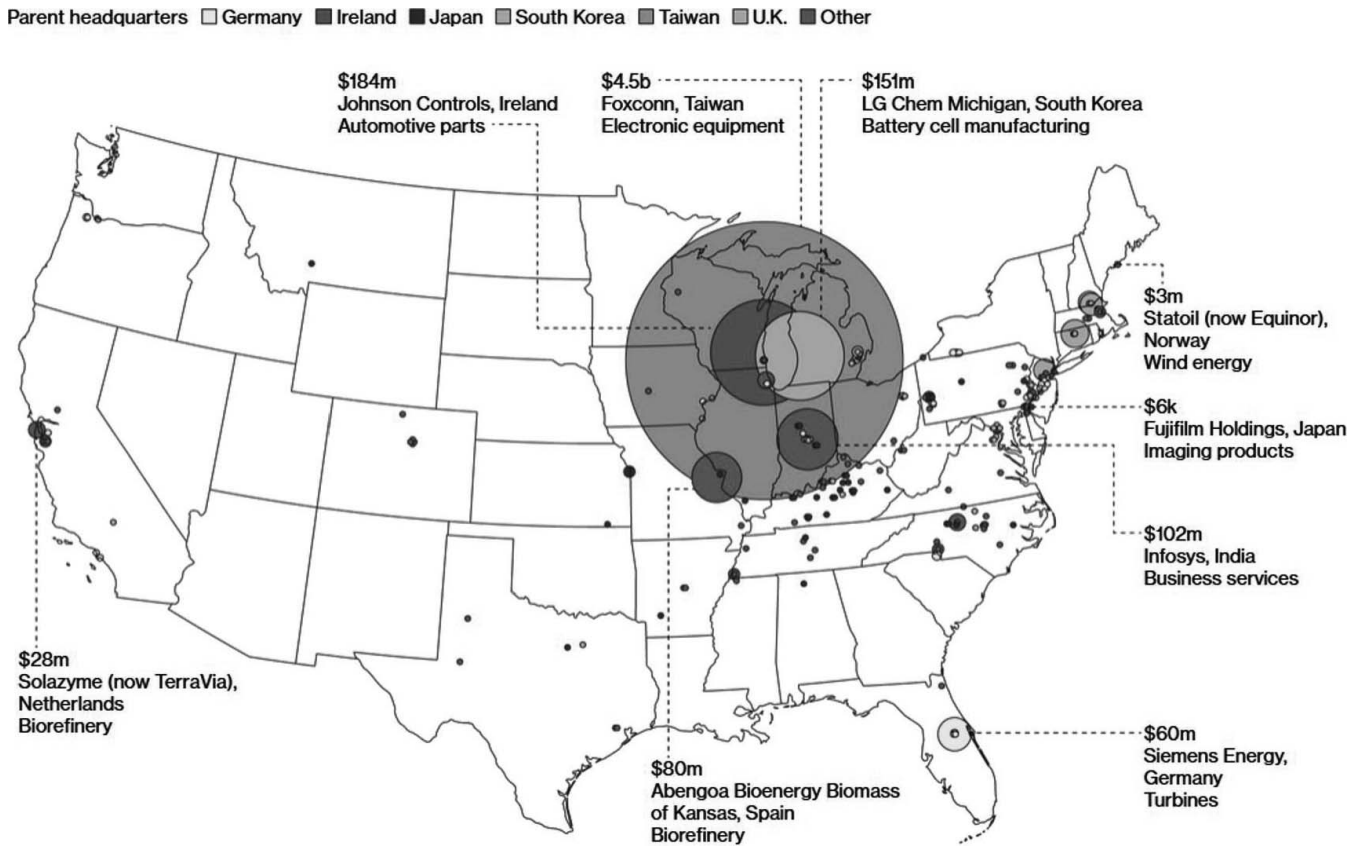
- \$2.85 billion in refundable tax credits for capital expenditures and employment from 2018 to 2032, tied to the number of full-time jobs created in Wisconsin, measured at the end of each year
- \$150 million in state and local sales tax exemptions
- \$911 million in local subsidies related to acquiring and improving land for the Foxconn site
- \$134 million in state and local highway and road improvements for the Foxconn site
- \$20 million in worker training programs
- Exemption from state environmental protection regulations

The amount of incentives makes the Foxconn deal the largest subsidy package ever offered to a foreign firm by state and local governments (Good Jobs First 2020). As Figure 1 illustrates, the size of the Foxconn deal dwarfs other business incentives offered to foreign companies in 2017 and 2018 (Carr 2019). It is also the third largest subsidy package in U.S. history (Good Jobs First

³ This zero-sum game can be illustrated by the Kansas-Missouri economic development "border war." In less than a decade, Kansas and Missouri spent about \$335 million to lure corporations across the state line that divides the metropolitan area of Kansas City. Eventually, in 2019, the two states' governors signed an agreement that ended subsidies for firms relocating across the state line in Kansas City.

⁴ When choosing investment locations, companies consider a multitude of factors, including not only business incentives but also local workforce and public infrastructure, among others. For example, in 2017, Amazon announced a plan for a second headquarters and invited bids from state and local governments. More than 200 cities submitted incentive packages. Amazon rejected higher offers from Dallas—Fort Worth, Texas (\$22.7 billion); Pittsburgh, Pennsylvania (\$9.7 billion); Montgomery County, Maryland (\$8.5 billion); St. Louis, Missouri (\$7.2 billion); and Newark, New Jersey (\$7 billion), among many others—and initially chose New York City (\$3 billion) and Arlington County, Virginia (\$1 billion). (It later pulled out of New York City due to fierce opposition from residents and politicians.)

FIGURE 1
Business Incentives Offered to Foreign Companies in 2017–2018



Source: Carr (2019).

This figure shows the business incentive deals offered to foreign companies in 2017 and 2018 by state and local governments in the United States.

2020)—after the \$8.7 billion deal with Boeing in the state of Washington in 2013⁵ and the \$5.6 billion deal with Alcoa in the state of New York in 2007.⁶

Although a majority of Racine County residents supported the Foxconn project in 2017 (Asiyanbi 2017), the deal drew intense criticism both in Wisconsin and nationally. Opponents criticized that the subsidies were too costly compared to other business incentive deals. According to an independent policy research group (Wisconsin Budget Project 2017), in a best-case

⁵ In 2013, to encourage Boeing to grow jobs and locate a new aircraft factory in Washington, and also to win a subsidy war against South Carolina, Washington’s then-Governor Jay Inslee pushed the state’s legislature to pass a tax break for Boeing valued at \$8.7 billion over 16 years. However, from 2013 to 2018, Boeing employment in Washington fell by 12,100 (Shukovsky 2019). In 2020, the state’s legislature repealed the tax break to comply with World Trade Organization rules on aircraft subsidies (Shalal and Johnson 2020).

⁶ In 2007, New York’s then-Governor Eliot Spitzer negotiated a deal with Alcoa, where the state agreed to provide the company with electricity at one-quarter of the standard rate for 30 years, valued at \$5.6 billion. In exchange, Alcoa agreed to invest in its facility in upstate New York and keep jobs there (Williams and Heaney 2007).

scenario, the state of Wisconsin would not break even until 2043 or later. Depending on Foxconn's investment and hiring plans, each job could cost taxpayers between \$200,000 and \$300,000, which is 7 to 12 times greater than the average subsidies offered by U.S. states (Bartik 2019). Ohio's then-Governor John Kasich condemned the deal, saying "I'll tell you one thing: it's not going to take us 40 years to make back the investment we make. We don't buy deals" (Hill 2017).

Additionally, concerns were raised that Foxconn might not fulfill its promises, given the company's track record of announcing multibillion-dollar manufacturing projects around the world that never materialized: Vietnam in 2007; Brazil in 2011; Pennsylvania, United States, in 2013; Indonesia in 2014; India in 2020 (Dzieza 2020a).

Groundbreaking Ceremony at Racine County, Wisconsin

In June 2018, President Trump, Wisconsin's Governor Walker, Speaker of the House Paul Ryan, and Foxconn founder and CEO Terry Gou celebrated the groundbreaking of the planned Foxconn campus in Racine County. In front of national media and an audience of hundreds, Trump pushed a golden shovel into a field on a planned Foxconn site that he called "the eighth wonder of the world." "This is one of the great deals, ever," Trump said at the ceremony. "Think of it: more than 20 million square feet, and that's probably going to be a minimal number . . . We're restoring America's industrial might . . . Made in the USA. It's all happening" (Trump 2018).

From a political perspective, the deal with Wisconsin was a victory for Foxconn (Dzieza 2020a). CEO Gou said at an annual shareholders' meeting, "The biggest challenge facing Foxconn is a US-China trade war" (Wu 2018). Although Foxconn is headquartered in Taiwan, its factory operations are predominantly in mainland China, and Foxconn remains a powerful symbol of China's reputation as the "world's factory."⁷ Generating goodwill with President Trump, who narrowly won Wisconsin in 2016 and promised to reinvigorate U.S. manufacturing, and with House Speaker Ryan, whose congressional district included Racine County, seemed like a hedge that could insulate Foxconn from tariffs amid the looming U.S.-China trade war (Carr 2019). Wisconsin's then-Governor Walker, who had pursued Foxconn aggressively and was campaigning for reelection on manufacturing job creation, quickly featured the company in his campaign ads, touting that all of Wisconsin would feel the effect of the "Foxconn bonus."⁸

Racine County was once among the wealthiest counties in the state, credited with inventing products such as malted milk and garbage disposals. With factories closing and manufacturing jobs shrinking over the past several decades, the county now has one of the state's highest poverty rates and higher-than-average unemployment rates. The local government was eager to take advantage of economic development opportunities and revitalize the depressed economy (Bauerlein 2019).

The groundbreaking ceremony appeared to be a high point of the Foxconn deal. According to Shih, a Harvard business school professor, this ceremony resembled high-profile "state visit projects" that Foxconn has had in China, where officials get a ribbon-cutting photo opportunity, the company gets political goodwill, and project details are worked out later and often substantially revised after reality checks (Shih 2019). Tangen, an economist, makes a similar point, stating that

⁷ Foxconn has been criticized for subpar working conditions in its Chinese factories, where the company has to install suicide-prevention nets along worker dormitories.

⁸ Targeted business incentives are frequently used as a strategy for politicians to win voters (Jensen and Malesky 2018; Slattery and Zidar 2020). Nonetheless, Walker lost the Wisconsin governor reelection in November 2018.

Foxconn's leaders "are very, very Eastern in the way that they approach things. And that means that you've signed the paper and then you start to figure out how it can be done" (Tangen 2019).

From an economic perspective, many industry experts were skeptical about the viability of the Foxconn project in Wisconsin. They argued that the high labor costs in the U.S. could obliterate Foxconn's profit margins, even with billions of dollars in state and local subsidies (Cushman 2019). Foxconn is known for its reliance on Chinese cheap labor. It employs over one million workers in mainland China, whose average wage is approximately \$4,680 a year (Liao 2018). About half of Foxconn's revenues come from Apple, Inc. To retain Apple's contracts, Foxconn has razor-thin margins on iPhone assembly (Müller 2016). Foxconn also manufactures its own component products, some of which are more profitable. However, as a whole, the company's gross profit margins ranged from 5 percent to 10 percent, and operating profit margins ranged from 1.5 percent to 6 percent in the past decade (Foxconn Technology Group 2020), significantly lower than those of an average U.S. electronics manufacturer (Tangen 2019). Additionally, the Wisconsin deal is Foxconn's first and only project that has broken ground in a developed Western country, which differs from mainland China politically and culturally.⁹

Foxconn's Unfulfilled Promises

Despite its dramatic groundbreaking, the Foxconn project has been marred with problems. From the outset, the Foxconn factory's scale and purpose kept changing. In 2017, the company agreed to construct a so-called "Generation 10.5" plant that would manufacture large glass panels for TV screens. In 2018, Foxconn said it would instead build a "Generation 6" factory, a significantly reduced operation that would make smaller displays. Then, in 2019, the company announced it would make robotic coffee kiosks for Texas-based Briggo, Inc. After the COVID-19 pandemic erupted in 2020, Foxconn announced a plan to produce ventilators (Carr 2020). In 2020, Foxconn acknowledged that it had only invested three percent of the \$10 billion it pledged. It had constructed a building one-twentieth the size of the promised 20-million-square-foot manufacturing space, and the building remained empty (Dzieza 2020b).

Another problem is Foxconn's failure to employ the minimum number of people needed to receive refundable tax credits.¹⁰ Under the terms of the 2017 contract, \$2.85 billion in refundable tax credits offered by the state is to be paid incrementally, contingent on Foxconn creating jobs in Wisconsin each year. Specifically, Foxconn would only receive the cash subsidy when it meets the full-time job creation thresholds, which are counted at the end of each year; the average annualized salary must be at least \$53,875 per worker. Because job creation is only measured at the year-end and workers' pay is annualized when calculating the minimum average salary, Foxconn could hire people in the final weeks of a year to meet the job creation quota, and then lay them off once the tax credit submission deadline passes.

⁹ Western countries such as the U.S. have a stronger rule of law and greater public accountability than mainland China. China has a one-party political system and government-controlled media, contributing to a lack of oversight in government activities. Chinese politicians and business leaders often use conspicuous investment announcements to achieve their respective private interests (Shih 2019).

¹⁰ Under a refundable tax credit, if a company qualifies for a refundable credit and the amount of the tax credit is larger than the tax it owes, the company will receive a cash payment from the government for the difference. Compared to a traditional (nonrefundable) tax credit, a refundable tax credit is more advantageous to a company because the company can receive cash payments even when it has no income or owes no taxes. In the case of Foxconn, given that Wisconsin's tax rate on manufacturers is a negligible 0.4 percent, the refundable tax credits would be paid in cash to Foxconn as long as the eligibility criteria are met.

Toward the end of 2018, Foxconn was racing to hire the 260 people needed to receive the first tranche of tax credit payments. Recruited individuals were promised work but given few details concerning job descriptions. Foxconn's office began to fill with people who had nothing to do; many sat in their cubicles watching Netflix and playing games on their phones (Dzieza 2020a). In January 2019, Foxconn announced that it fell short of the minimum hiring threshold for the 2018 tax credit but reiterated its pledge to create 13,000 Wisconsin jobs (Foxconn Technology Group 2019).

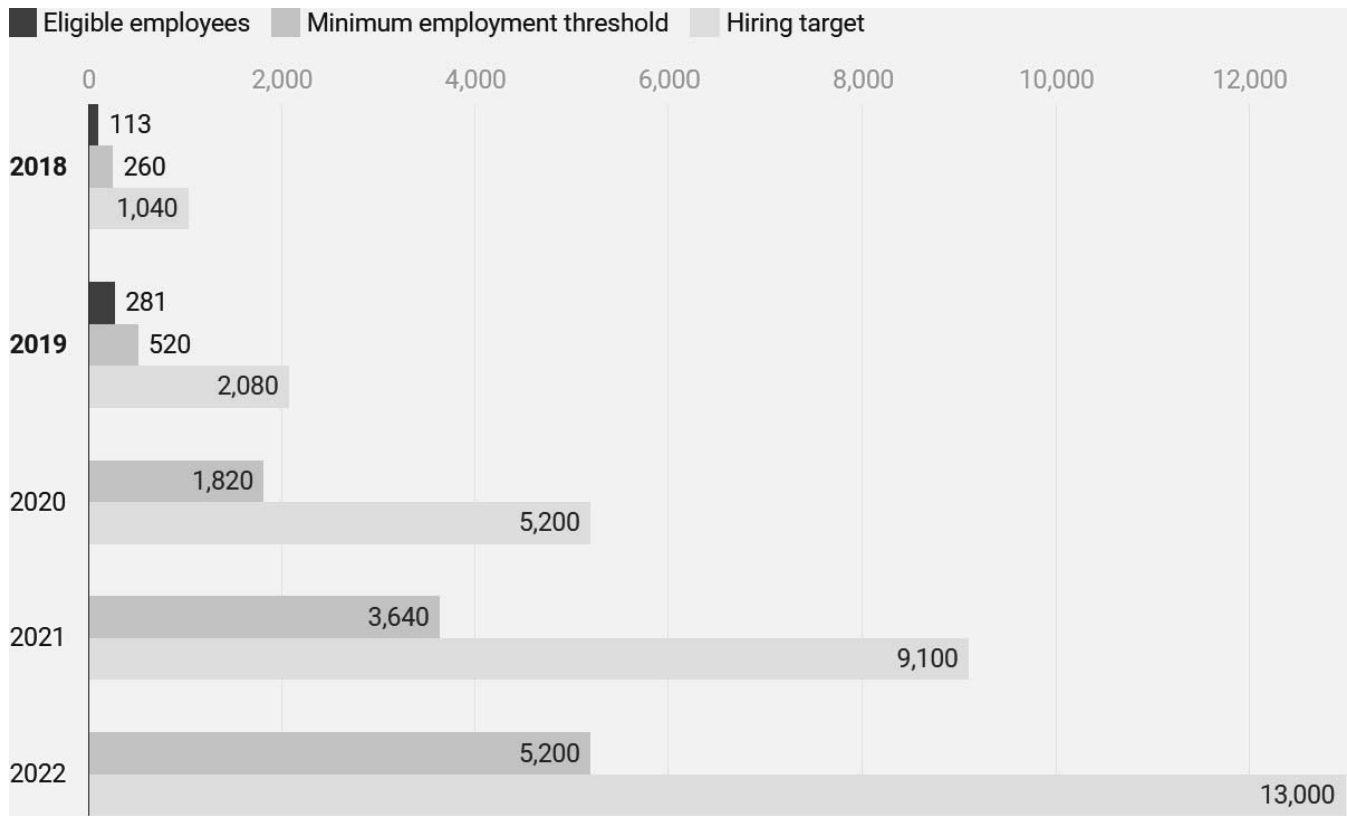
In October 2019, Foxconn devised two programs to meet the job creation quota of 520 (cumulative) full-time jobs. The first, "Earn and Learn," was to hire students from nearby colleges. According to interviews conducted by Dzieza, an investigative journalist, there was no work for the students to do, but they were provided Foxconn badges (Dzieza 2020a). The other initiative, "Foxconn Future Leaders," targeted foreign students in the U.S. on visas. An employee at Foxconn familiar with the program said that foreign students were preferred because they would be willing to relocate to Wisconsin and work for less money, due to their need for an employer to sponsor their work visas to stay in the United States. Despite Foxconn's attempts, Wisconsin officials rejected the company's tax credit application for 2019. The officials determined that Foxconn had only created 281 eligible jobs for the tax credits (less than the 520 jobs required) because many workers the company tried to claim were paid too little or hired too late (see Figure 2). Many of the employees have since been dismissed (Dzieza 2020a).

Although Foxconn's business plans were in flux and fell short of investment and employment promises, state and local governments continued to work on the infrastructure Foxconn said it would need. Governments had spent at least \$400 million, largely to acquire and improve land, build interstate highways and local roads, and upgrade utilities for the Foxconn site (Dzieza 2020a). According to a government spokesman, the public work met or exceeded target dates (Bauerlein 2019).

To pay for the Foxconn development, Racine County issued over a hundred million dollars in general obligation bonds in 2018. The bond principal and interest were expected to be paid by tax revenues generated by Foxconn's manufacturing complex. The bond issuance includes a "moral obligation" pledge from the state of Wisconsin that covers 40 percent of the debt in the event of insufficient tax revenues from Foxconn. Citing concerns about the significantly increased debt burden and the uncertainties associated with the Foxconn project, Moody's Investors Service (2018) downgraded the county credit rating from Aa3 to Aa2 and assigned an Aa2 to Racine County's general obligation bonds (Romell 2019).

Despite their resistance, some Racine County property owners were pushed away from their homes under threat of eminent domain to accommodate the Foxconn development plan. Houses and agricultural fields were bulldozed for the vast Foxconn site, which is half as big as Central Park in New York. However, the site remained largely vacant, with only a few buildings and scant activity (Bauerlein 2019). To connect Foxconn and local suppliers, government agencies held a series of events, but local vendors who attended the events and filled out information never heard back from Foxconn (Dzieza 2020a). In Racine County, growing disagreements about the Foxconn deal created rifts among the community. The lack of progress by Foxconn disillusioned residents and fueled distrust in governments and large corporations (Bauerlein 2019). Marquette Law School polls found that Wisconsinites' views of the Foxconn deal gradually turned more negative over time compared to a more evenly divided opinion in 2017; in early 2020, the public opinion fell to its lowest level, with the gap between the percentage of people who thought the state is paying more

FIGURE 2
Foxconn’s Job Creations Falling Short of Thresholds to Receive Tax Credits



Source: Dzieza (2020a).

This figure depicts Foxconn’s actual numbers of jobs created, the minimum employment thresholds to qualify for any tax credits, and the hiring targets to receive the full amounts of tax credits under the 2017 contract for years 2018 and 2019. “Eligible employees” represents the actual number of full-time employees hired by Foxconn. “Minimum employment threshold” is the number of full-time jobs required to receive any job creation tax credits under the 2017 contract. “Hiring target” is the number of full-time jobs required to receive the full job creation and capital investment tax credits under the 2017 contract.

than what the Foxconn factory is worth and those who expected to see sufficient benefit from Foxconn reaching double digits.¹¹

For three years, the large discrepancy between what Foxconn was doing and what it had pledged brought Wisconsin and the company to an impasse. In October 2020, Wisconsin informed Foxconn that without revisions to the original contract, it would not qualify for billions of dollars in tax credits. After months of contract renegotiation, Wisconsin officials and Foxconn executives announced an amended, scaled-down contract in April 2021.¹²

¹¹ See <https://law.marquette.edu/poll/>

¹² Under the amended 2021 contract, Foxconn will be eligible to receive \$80 million in refundable tax credits if the company invests \$672 million and employs 1,454 people by 2026.

Case Requirements

Part I: Wisconsin's Business Incentive Deal with Foxconn

- (1) Is Wisconsin's Foxconn deal an example of a general business incentive or a targeted business incentive? Briefly explain.
- (2) What were some possible reasons that Wisconsin's state and local governments offered over \$4 billion in business incentives to Foxconn? What are some potential costs and risks government officials should be mindful of when offering business incentives to large corporations such as Foxconn?
- (3) How solid was Foxconn's business plan upon entering the business incentive contract with Wisconsin in 2017?
- (4) What were some possible reasons that Foxconn agreed to the terms of the contract in 2017?
- (5) Defenders of the Foxconn deal stated that "[n]ot a dollar would be paid out until jobs in the Foxconn development area were created. The incentive package is based on fulfilling the contract" ([Wisconsin State Assembly 2019](#)). To what extent do you agree with the assessment that the state's taxpayers would not pay out a dollar until jobs were created?
- (6) With respect to the Foxconn deal, to what extent has interperiod equity (that is, whether a government's current-year revenues are sufficient to cover current-year services and whether future taxpayers will have to assume burdens for past services) been achieved?

Part II: State of Wisconsin's CAFR

Download the state of Wisconsin's Comprehensive Annual Financial Report (CAFR)¹³ for fiscal year ended June 30, 2019 (<https://doa.wi.gov/budget/CAFR2019.pdf>) and answer the following questions ([State of Wisconsin, 2019](#)):

- (7) Which note to the financial statements discloses the business incentive deal with Foxconn? Which Governmental Accounting Standards Board (GASB) Statement requires this note disclosure?
- (8) How is the required note disclosure above related to the objectives of financial reporting by state and local governments?
- (9) The state of Wisconsin has a "moral obligation" pledge for up to 40 percent of debt obligations issued to finance the development costs of the Foxconn project. What is a moral obligation? Which note to the financial statements discloses this moral obligation pledge? Under what conditions should the state's moral obligation be recognized on the financial statements?
- (10) How is the disclosure of a government's moral obligation pledge related to the objectives of financial reporting by state and local governments?

Part III: Wisconsin Racine County's CAFRs

Download Wisconsin Racine County's CAFRs for fiscal years that ended December 31, 2016 (<https://www.racinecounty.com/home/showdocument?id=16632>) and December 31, 2018 (<https://www.racinecounty.com/home/showpublisheddocument?id=27768>).

¹³ In October 2021, the GASB renamed the Comprehensive Annual Financial Report (CAFR) to the Annual Comprehensive Financial Report (ACFR).

- (11) Compare Racine County's financial statements for fiscal years 2016 and 2018—before and after the Foxconn project started. In each of the following financial statements (a)–(d), what account(s) reflected the Foxconn deal, and what were the related dollar amounts?
- Governmentwide statement of net position
 - Governmentwide statement of activities
 - Governmental funds balance sheet
 - Governmental funds statement of revenues, expenditures, and changes in fund balances
- (12) Review the budget and actual comparison schedule for the capital projects fund presented in the Required Supplementary Information Section in Racine County's 2018 CAFR. Based on the budget and actual comparisons, which account on this schedule mostly explains the large variance of \$48.8 million between the final budgeted "net change in fund balances" and actual "net change in fund balances"? According to the financial statement notes in Racine County's 2018 CAFR, what was the primary reason for the large variance in the account that you identify?
- (13) Using the ratios from GASB's economic condition assessment document ([GASB 2015](#)), compute the following ratios for Racine County for 2016 and 2018.

<u>Ratio Type</u>	<u>Ratio Name</u>	<u>Formula</u>
Liquidity	Current ratio	Current (unrestricted) assets/Current liabilities
	Quick ratio	(Cash + Current investments + Receivables)/ Current liabilities
Solvency	Debt-to-asset ratio	Total liabilities/Total assets
	Debt-to-net-position ratio	Total liabilities/Net position
	Debt-to-revenue ratio	Total liabilities/Total revenues
Fiscal capacity	Debt per capita	Total liabilities/Population
Risk and exposure	Risk exposure ratio	(Investment revenues + Intergovernmental grants)/ Property tax revenues
	Tax leverage ratio	Expenses/Property tax revenues

Source: County of Racine, Wisconsin, 2016 and County of Racine, Wisconsin 2018.

- (14) Based on your ratio calculations above, what are your observations on how the financial condition (i.e., liquidity, solvency, fiscal capacity, and risk and exposure) of Racine County changed before and after the Foxconn project started?
- (15) Nearby Kenosha County initially competed with Racine County to win the Foxconn project but ultimately decided to drop out of the bidding contest. Compare the ratios you have calculated for Racine County with those of Kenosha County (see the table below). How did the financial condition of Racine County compare to Kenosha County during this same period?

<u>Ratio Type</u>	<u>Ratio Name</u>	<u>Kenosha County 2016</u>	<u>Kenosha County 2018</u>
Liquidity	Current ratio	4.806	4.679
	Quick ratio	4.239	3.973
Solvency	Debt-to-asset ratio	0.592	0.570
	Debt-to-net-position ratio	2.169	2.403
	Debt-to-revenue ratio	1.029	0.993

Fiscal capacity	Debt per capita	1875.109	1983.675
Risk and exposure	Risk exposure ratio	1.095	1.161
	Tax leverage ratio	2.874	2.715

Source: County of Kenosha, Wisconsin, 2016 and County of Kenosha, Wisconsin 2018.

- (16) What lessons did you learn from Wisconsin's Foxconn deal? When answering this question, consider the contract design, economic, and sociopolitical perspectives.
- (17) Wisconsin's Foxconn deal appears to have incurred more costs than benefits. However, other programs or deals may provide benefits that exceed costs. Wisconsin Economic Development Corporation provides success stories in this regard. Search for one success story (aside from Exact Sciences) from <https://wedc.org/business-development/> and use the story as supporting evidence to demonstrate how other deals or programs can potentially benefit the state.

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II. CASE LEARNING OBJECTIVES AND IMPLEMENTATION GUIDANCE

Case Overview

This case examines Wisconsin's \$4 billion business incentive deal with Foxconn and assesses its impact on state and local governments' financial conditions. By analyzing state and local government Annual Comprehensive Financial Reports in relation to the Foxconn development, the case deepens students' understanding of governmental financial reporting. Furthermore, by requiring students to critically evaluate the causes, benefits, and risks of targeted business incentives offered by governments, this case can help cultivate an educated and engaged citizenry.

This case is primarily intended for courses with a governmental accounting component at either the undergraduate or graduate level. The case is scalable, and instructors can choose from multiple parts of the case questions to meet their specific needs.

Motivation

State and local governments are an important part of the socioeconomic fabric of U.S. society. They play an indispensable role in providing basic services to the public and in promoting economic development in local communities. There are over 90,000 state and local governmental entities, whose operating expenditures account for approximately 15 percent of gross domestic product ([U.S. Government Accountability Office 2019](#)). The magnitude of the state and local governmental sector demands engaged citizens, as well as educated accountants and auditors, to ensure public accountability ([Lowensohn, McAllister, and Waymire 2020](#)). Currently, approximately nine percent of accountants in the United States work in a state and local governmental entity ([U.S. Bureau of Labor Statistics 2019](#)). Coverage of governmental accounting accounts for 5 to 15 percent of the Uniform CPA Exam.

Despite its importance, state and local governmental accounting remains an under-represented content area in the accounting education literature. A review of literature reveals only four instructional cases. [Healy \(2000\)](#) analyzes the City of New York's financial position and bond ratings. [Earley, Feng, and Kelly \(2015\)](#) use the CAFR of Providence, Rhode Island, to assess the city's financial condition. [Ariail, Durden, Leathart, and Chapman-Vasill \(2012\)](#) compare the 1928 and 2009 financial reports of Avondale Estates, Georgia, to provide a historical perspective of governmental accounting. [Elder and Yebba \(2017\)](#) use a New York school district's embezzlement to examine fraud risk, internal control, and audit quality.¹⁴ Given the scarcity of cases and the specialized nature of governmental accounting, it is beneficial to develop additional instructional cases.

Furthermore, this case provokes critical thinking about the design and implementation of government economic development programs. Each year, states and localities spend at least \$30 billion on business incentives to attract corporate investment and boost job creation, and this

¹⁴ Additionally, three papers provide insights on governmental accounting teaching and research. [Wilson \(2013\)](#) discusses how governmental accounting education has changed over the past 35 years and explores future trends. [Martin and Waymire \(2017\)](#) suggest that taking a governmental and not-for-profit accounting course increases students' interest in career paths in these sectors. [Flasher \(2019\)](#) highlights open data sources for state governments that may be used in teaching data analytics and/or conducting academic research.

amount has more than tripled since 1990 (Bartik 2019; Slattery and Zidar 2020). High-profile events, such as Foxconn's unfulfilled promises in Wisconsin and Amazon's controversial search for its second headquarters, illuminate the importance of citizens better understanding the cost-benefit effectiveness of targeted business subsidies and holding both governments and corporations accountable for delivering outcomes. This case uses Wisconsin's Foxconn deal to expose students to the complexities and risks of targeted business incentives.

Learning Objectives

The case intends to achieve the following learning objectives (LOs):

- LO 1:** Evaluate the causes and complexities of business incentive deals offered by state and local governments (Questions 1–6, 16–17)
- LO 2:** Identify and interpret key information in the Comprehensive Annual Financial Reports (CAFRs) of state and local governments (Questions 7–13)
- LO 3:** Calculate financial ratios and use them to assess financial conditions of state and local governments (Questions 13–15)

The American Institute of Certified Public Accountants (AICPA) Pre-Certification Core Competency Framework identifies a set of competencies for accountants (AICPA 2018). This case addresses the three core competencies as follows. First, the case improves students' accounting competency by requiring them to analyze the CAFRs of the state of Wisconsin and Racine County. Second, regarding business competency, this case broadens students' strategic perspectives by exposing them to the complexities of business incentive deals between governments and firms. Third, with respect to professional competency, this case enhances students' critical thinking abilities and cultivates their engagement in public interest.

Case Pilots

The case has been piloted by two instructors, who are case authors, at two different universities in the United States. In Spring 2021, one instructor tested the case in an undergraduate governmental and nonprofit accounting course at a private university in the East Coast, where students consisted of mostly seniors and some juniors. In Fall 2021, the other instructor taught the case in a senior-level nonprofit and governmental accounting course at a public university in the Midwest.¹⁵

The two instructors implemented the case in a similar manner in Spring 2021 and Fall 2021, although the percentages of the case in the total course grade were different (15 percent and 8 percent, respectively). Before class, students were required to provide individual written answers, which were graded based on content (e.g., substantiveness of analyses, accuracy in quantitative calculation) and writing (e.g., grammar, punctuation). During class, students volunteered or were called upon to answer case questions. The instructors then weaved in different perspectives and investigated additional avenues for analyses. Each instructor spent approximately 70–80 minutes on the case in class.

Post-case student surveys were administered immediately following case discussions. Table 1, Panel A, reports the mean values and standard deviations of post-case survey responses in Spring 2021. As shown in the upper section of the panel, students were asked to what extent the

¹⁵ Additionally, an earlier version of the case was used in Fall 2020 at the public university in the Midwest. Institutional Review Board approval was granted by the corresponding universities.

TABLE 1
Summary of Student Feedback on the Case

Panel A: Spring 2021 Survey

	Post-Case (n = 17)	
	Mean	(Std. Dev.)
Questions: Based on your experience working on the Foxconn case, to what extent do you agree with the following statements? 5 = strongly agree, 4 = agree, 3 = neutral, 2 = disagree, 1 = strongly disagree		
Question 1: The case helped me learn how to evaluate the causes and complexities of business incentive deals offered by state and local governments (LO 1).	4.53	(0.80)
Question 2: The case helped me learn how to identify and interpret key information in Comprehensive Annual Financial Reports of state and local governments (LO 2).	4.24	(0.75)
Question 3: The case helped me learn how to calculate financial ratios and to use the ratios to assess financial conditions of state and local governments (LO 3).	4.24	(0.83)
Question 4: The case increased my interest in the accounting issues of state and local governments.	4.18	(0.88)
Question 5: The case helped me learn how to apply the governmental accounting concepts to a real-world context.	4.47	(0.87)
Hours Spent:		
Approximately how many hours did you spend working on the case before class?	5.26	(2.73)
Difficulty Level:		
On a scale of 1 to 10 (1 = very easy, 10 = very difficult), overall, do you think the case is easy or difficult?	7.41	(1.18)

(continued on next page)

case achieved the learning objectives on a five-point Likert scale, with 5 being the highest (*strongly agree*) and 1 being the lowest (*strongly disagree*). The results from survey Questions 1 through 3 suggest that the majority of students agreed or strongly agreed that the learning objectives were met. The results from survey Questions 4 and 5 indicate students agreed or strongly agreed that the case increased their interest in governmental accounting issues and helped them learn how to apply the governmental accounting concepts to a real-world context.

In Fall 2021, the instructor conducted a pre-case survey on the class period that the case was distributed, and a post-case survey immediately after the case discussion. Table 1, Panel B, reports the mean values and standard deviations of pre- and post-case survey responses, as well as the t-statistics comparing the pre- and post-case mean values. For Questions 1, 2, and 3, the t-statistics comparing the mean values are significant at the 1 percent level, strongly indicating that the case increased students' ability to evaluate the causes and complexities of business incentive deals (LO 1), to identify and interpret key information in CAFRs (LO 2), and to analyze and interpret financial ratios (LO 3). The t-statistic for Question 4 is statistically significant at the 10 percent level, suggesting the case slightly increased students' interest in governmental

TABLE 1 (continued)

Panel B: Fall 2021 Survey

	Pre-Case (n = 35)		Post-Case (n = 32)		Differences Post versus Pre
	Mean	(Std. Dev.)	Mean	(Std. Dev.)	Two- Sample t-statistics
Questions: To what extent do you agree with the following statements? 5 = strongly agree, 4 = agree, 3 = neutral, 2 = disagree, 1 = strongly disagree					
Question 1: I am confident in my ability to evaluate the causes and complexities of business incentive deals offered by state and local governments (LO 1).	3.20	(1.11)	4.59	(0.61)	6.42***
Question 2: I am confident in my ability to identify and interpret key information in Comprehensive Annual Financial Reports of state and local governments (LO 2).	3.49	(0.89)	4.53	(0.62)	5.59***
Question 3: I am confident in my ability to calculate financial ratios and to use the ratios to assess financial conditions of state and local governments (LO 3).	3.29	(0.92)	4.31	(0.69)	5.16***
Question 4: I am interested in the accounting issues of state and local governments.	3.66	(0.77)	4.06	(0.95)	1.88*
Question 5: I am confident in my ability to apply governmental accounting to a real-world context.	3.43	(0.70)	4.63	(0.61)	7.50***
Hours Spent:					
Approximately how many hours did you spend working on the case before class?	NA	NA	4.66	(1.60)	NA
Difficulty Level:					
On a scale of 1 to 10 (1 = very easy, 10 = very difficult), overall, do you think the case is easy or difficult?	NA	NA	7.50	(0.95)	NA

In Panel B, *** indicates $p < 0.01$; and * indicates $p < 0.1$.

For the hours spent, the t-statistic comparing the mean values in Spring 2021 (Panel A) and Fall 2021 (Panel B) is 0.83. For the difficulty levels, the t-statistic comparing the mean values in Spring 2021 (Panel A) and Fall 2021 (Panel B) is 0.27.

accounting. For survey Question 5, the highly significant t-statistic at the 1 percent level suggests the case improved students' ability to apply governmental accounting to a real-world setting.

The lower sections in Panels A and B of Table 1 report how many hours students spent working on the case as well as students' perceived difficulty of the case. On average, students in Spring 2021 and Fall 2021 spent 5.26 and 4.66 hours (with standard deviations of 2.73 and 1.60), respectively, working on the case before class. The difference between the mean values is not statistically significant (t-statistic = 0.83). The average perceived difficulty levels on a scale of 1 to

TABLE 2

Selected Written Comments on the Case

- The organization of the case helped me understand the Foxconn deal more thoroughly. I liked thinking through the deal and all the implications at the beginning and then actually going through the financial statements. It was also helpful to learn how to calculate the financial ratios for a governmental entity.
- I liked learning about what impacts a project like the Foxconn deal can have on a state and county and seeing how drastically some items on the financial statements changed from 2016 to 2018.
- I liked that it was a real-world case because it made it more interesting. Additionally, applying this case to what we're learning about and using financial statement information was useful.
- I liked how relevant it was to our social and political environments. I had always heard about the Foxconn issue, but I never really understood what it was and how it affected governments' financial conditions.

10 (1 = very easy, 10 = very difficult) were 7.41 and 7.50, respectively, in Spring 2021 and Fall 2021. The difference in the mean values is not statistically significant (t-statistic = 0.27).

In an open-ended survey question, students were asked what aspects of the case they liked the most. As indicated in Table 2, some aspects that students liked include the relevance of the case to the real world, analyzing comparative financial reports of state and local governments, and evaluating the consequences of business incentive deals.

TEACHING NOTES AND STUDENT VERSION OF THE CASE

Teaching Notes and the Student Version of the Case are available only to non-student-member subscribers to *Journal of Governmental & Nonprofit Accounting* through the American Accounting Association's electronic publications system at <https://meridian.allenpress.com/aaa/>. Non-student-member subscribers should use their usernames and passwords for entry into the system where the Teaching Notes can be reviewed and printed. The "Student Version of the Case" is available as a supplemental file that is posted with the Teaching Notes. Please do not make the Teaching Notes available to students or post them on websites.

If you are a non-student-member of AAA with a subscription to *Journal of Governmental & Nonprofit Accounting* and have any trouble accessing this material, please contact the AAA headquarters office at info@aaahq.org or (941) 921-7747.

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