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**Testimony of  
Lawrence F. Clark  
Chief Executive Officer, Sonalysts, Inc.  
before the  
Connecticut State Tax Study Panel**

**Introduction.** This testimony is provided on behalf of the 350 employee-owners of Sonalysts, Inc., a Connecticut corporation since inception in 1973.

We appreciate the opportunity to be heard and to have our thoughts considered by the Panel.

Following some important background and investment information, our comments address three points:

- The adverse effect of the continuing moratorium (the “Moratorium”) on the feature film portion of the Digital Media and Motion Picture Tax Credit (the “DMMP Tax Credit”)
- The adverse effect of unfairness and inconsistency of tax policy regarding tax credits and other incentives to business investment in Connecticut
- The business climate in Connecticut

We make one recommendation, which is that Connecticut lift the Moratorium on the DMMP Tax Credit by reinstating it for feature films with low budgets (less than \$10 million).

**Background on Our Company.** The name “Sonalysts” is derived from the term **Sonar Analysts**. As that name and our headquarters location in Waterford near the Submarine Base suggest, the company is primarily a defense contractor with deep roots in the Submarine Force. About half of our workforce is in Connecticut, with the other half in smaller contingents in ten other states. Our annual sales are approximately \$60 million. Most of our work involves professional services provided to the Navy, the Air Force, and other Federal agencies, by our highly educated and experienced workforce. The vast majority of our partners (as employee-owners, we refer to one another as “partners”) are college graduates, with a great many advanced degrees. About half of us are military veterans.

We are a provider of well above average jobs. The median salary of our partners is more than \$80,000. That is before accounting for the annual contributions to the Employee Stock Ownership Plan, which have averaged more than 10% of compensation for many years. So the partners at Sonalysts pay a lot of tax in Connecticut, both during their working lives and afterwards in retirement.

**Our Investment in Connecticut.** We have also invested many millions of dollars in building an entertainment capability in the state. This may seem counter-intuitive for a defense contractor to have done, so some explanation is in order.

A major competency of the company has always been high technology-based military training support, including, for example, interactive training using computer simulations. As a result of that growing area of military work, and the dual use potential in the entertainment industry for certain capabilities required for

our military training business, we have built over the last generation what we believe to be the most sophisticated media capability in New England.

Here in Waterford we have, in overview:

- Three sound stages (15,000 square feet, 7,000 square feet, and 5,000 square feet) with the appropriate appurtenances such as
  - Dressing rooms
  - Hair and make-up rooms
  - Screening room
  - Conference space
  - Set construction shop
  - “Insert Stages” for parallel work
  - Storage warehouse
  - Loading docks and parking areas
  - And so on
- PowerStation New England, a replica of the well-known Tony Bon Jovi music recording facility in Manhattan
- First class computer animation studios
- Top notch mixing rooms
- Multiple editing suites for video and audio



Campus of Sonalysts, Inc. in Waterford, Connecticut with Interstate 95 at lower left.

We are unable to discuss our military work for security reasons. However, some of the commercial work that has been done in our facilities over the years includes:

- The Supreme Court scenes in the Steven Spielberg film *Amistad*
- A 34-video health series for Time Life Medical entitled *At Time of Diagnosis*
- The ESPN television series *The Bronx Is Burning*
- A year's worth of episodes of *Deal or No Deal* for Universal Studios
- Tour rehearsals and/or recordings for such artists as
  - Aerosmith
  - Mary J. Blige
  - Kelly Clarkson
  - Joe Cocker
  - Alicia Keys
  - Barry Manilow
  - Dave Matthews Band
  - Rascal Flats
  - The Rockettes from Radio City
  - Kenny Rogers
  - Trans Siberian Orchestra
  - And many others
- Numerous commercials and other video work for corporations
- Award winning computer games, such as the submarine game *688(I) Hunter Killer* which was for two years in *The Guinness Book of Records* as “The World’s Most Intellectually Challenging Game,” and was the *PC Gamer* magazine “Combat Simulation of the Year” when it was introduced.

The photo above vividly illustrates the scope of our investment in Connecticut. The buildings alone have cost well over ten million dollars since 1993 when the first studio was opened. And the associated computer and equipment has been updated and replaced repeatedly over the years at a comparable cost. It is also worth noting that the investment we have made produces lots of property tax in Waterford, where we are one of the largest taxpayers — in the top ten on a Grand List that includes a major mall and the Millstone nuclear power complex.

It is very important to note that ***absolutely none*** of our multi-million dollar investment in facilities and equipment was the result of any tax or other financial incentive from the State of Connecticut. (We and our customers have benefitted from the DMMP Tax Credit for certain work performed here, but not from any credit associated with the buildings or equipment in which we have invested.)

**The Difficulty with Our Investment Revolves Around Taxes.** In retrospect, our investment has been quite a reasonable one for our military training work. But in the entertainment arena, it has not been nearly as good as it would have been if we had made the same investment in any of a number of other states rather than in Connecticut. That is sad, but it is true.

This was initially the unforeseeable result of the fact that the playing field began to become tilted against us just as we were making this major investment. First, in 1997, just as we were completing the our initial major investment, Canada adopted powerful entertainment industry tax incentives that drew production from the United States to Toronto and Vancouver. Certain other countries followed suit. In Hollywood, the term “Runaway Production” was coined to refer to the loss of entertainment industry work in California. An organization called The Monitor Group reported that in 1998 more than \$10 billion of work had left the United States.

Then, beginning in 2001, various states began to adopt incentives similar to those of Canada. Louisiana was the first, but there were a number of others. The result of this process was that very little film and television production would come to Connecticut — and therefore the industry here had little growth potential — because of the tax advantages of other locations. This in turn meant that a substantial, permanent crew base was difficult to attract, and that the jobs and further economic activity from film production were of limited potential in the state. It also meant that the multi-million dollar investment we had made was, with respect to the entertainment industry element of our plans, essentially a very constrained, if not actually stranded, one.

We, among others, worked with the Legislature and the Governor to develop an analogous incentive in Connecticut. Under the primary leadership of Speaker Jim Amann, the DMMP Tax Credit was enacted in 2006. It had an immediate positive effect on our work. ESPN brought *The Bronx Is Burning* to us, several corporate clients did qualifying work, Universal Studios brought *Deal or No Deal* here, and various other opportunities arose. Because we are farther from New York City, the DMMP Tax Credit was not as valuable in Eastern Connecticut as it was in Fairfield County. But it was, nonetheless, quite important to Sonalysts.

Finally, after a decade, we had obtained a reasonably level playing field.

**The Moratorium — in 2013 the Playing Field Was Tilted Back Against Us.** In early 2013, we encountered a very interesting entertainment investment opportunity. It involved establishing a relationship with a small independent distribution company to produce a steady flow of low budget films at our facility in Connecticut. “Low budget” is a term that can cover quite a range, depending upon who is using it. In this case it meant a maximum production budget of \$10 million, with then intent of generally being far below that maximum — perhaps an average budget of \$2-3 million per project.

We were very encouraged at the prospect of a steady flow of such work. It would have increased our capacity utilization, expanded our own workforce, and established a foundation for a larger crew base in the state as a whole, improving the prospects for a long-term production industry here.

Our discussions of this concept, which were well underway with a prospective partner, immediately collapsed at the end of the Legislative Session. The Governor, the Speaker of the House, and the President of the Senate had, literally overnight, agreed to a budget deal imposing the two-year Moratorium on the DMMP Tax Credit for film production. Our distribution partner was completely nonplussed by the facts that (i) the state had reversed course entirely with an important, well-known tax policy, and (ii) it had done so without even talking to Sonalysts, which, to his knowledge, operated the largest and most sophisticated media facility in New England.

Not only had we been unaware that any such step was being contemplated, but also our local Representative and Senator (Betsy Ritter and Andrea Stillman) had not been informed about the proposal until it was already a done deal for which they were expected to vote. Furthermore, the Moratorium had a special exemption designed to help one potential builder of one particular potential studio by continuing the DMMP Tax Credit without a Moratorium just for that one possible situation. Thus, a company that had already made its own investment was specifically disadvantaged in the tax law.

The two-year Moratorium now seems to have become permanent, with the extension adopted in the state budget this Spring. Moreover, even the parts of the DMMP Tax Credit that remain in place (television production, for example) have been reduced in effectiveness by general limitations imposed on the use of

any tax credits at all. The state had established various incentives for particular forms of investment, but then has undercut them with such limitations.

**Three Issue Presented.** The state of Connecticut clearly has budget issues it must solve. But the state also has a deep set of policy problems with which it must contend. Three of those are illustrated by this situation.

*The Adverse Effect of the Moratorium.* Investors (who in this case are also employers, creating jobs) need a level playing field. Otherwise, they will not come; or having come, they will not stay. Back in 1993 when Sonalysts began to invest significantly in its facilities, no one could have foreseen the tilted playing field that was about to emerge. But once it did emerge, and once the state had taken action to level the field so as to encourage the entertainment industry here, the situation was different. Now everyone involved with the industry and with incentive legislation had full knowledge of the situation.

Very predictably, therefore, institution of the Moratorium has led to much less work, and much less ability to develop the industry in the state. Feature film work is largely gone from Connecticut now. This situation will not change in a meaningful way as long as the Moratorium continues.

*The Adverse Effect of Unfairness and Inconsistency of Tax Policy in Connecticut.* Employers such as Sonalysts need to be able to rely on a stable approach to taxation. Important tax policy, such as the Moratorium imposed on a carefully crafted incentive statute, should not change overnight in a back room somewhere. Especially not when the People themselves, and their representatives, have no clue about what is happening. Tax policy also should not favor one particular, potential investor over others who have already made a commitment to be in the state.

In our own case, we would think very hard before embarking upon further investment in Connecticut given the state's demonstrated inability to set a steady course, with fairness and consistency at its foundation.

*The Business Climate in Connecticut.* The overall business climate in the state has been the subject of considerable discussion — indeed, heated debate — for some years. Our view at Sonalysts is that Connecticut is a nice place to live. But it is also a very difficult place in which to be an employer and, in our case, to be employee-owners. Except for the fact that Southeast Connecticut is the Home of the Submarine Force, our very important customers, it is unlikely that Sonalysts would be here.

The foregoing discussion of a particular tax policy illustrates a major attribute of the difficulty. But there are other problems with other taxes. And with employment law. And with the overall approach of the state to businesses in general. It often seems that the state Government sees corporations simply as sources of money to do an open-ended variety of “good things” rather than as fragile entrepreneurs, precious creators of jobs, and risk-taking developers of economic activity that benefits everyone.

**Our Proposal.** We recommend that the Moratorium on feature film production be lifted for all such productions with budgets of \$10 million or below. It would be better to remove the Moratorium entirely, but this first step would enable us to reestablish some of the business that has disappeared. Perhaps it would also enable us to re-engage with an independent film distribution company to create a steady flow of low budget productions that would help to build a larger crew base in the state.

**Conclusion.** Thank you for the opportunity to provide our thoughts. If we can be of further assistance to the Panel, please call me at (860)-442-4355.