

# Madrid Spain

*Tunnels for part of ring road were constructed in Madrid from 2005 to 2008*

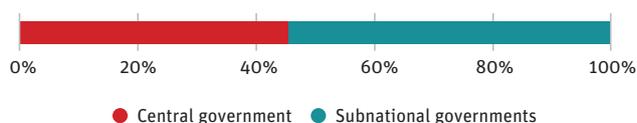
● **CITY:**  
3.1 mil. inhabitants

● **METROPOLITAN AREA**  
6.6 mil.  
(+6.4% pop. change/5 years)

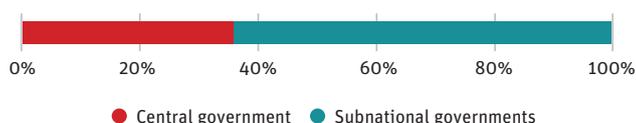
GDP: 124% of the average EU28 GDP  
(-1.0% average annual change in GDP/5 years)

## How local public finance systems work in Spain

### PUBLIC REVENUE



### CAPITAL EXPENDITURE



Spain has a **three-tier system of subnational governments** (SNG) characterized by an asymmetric organization. It consists of 17 autonomous communities (comunidades autónomas, CCAA), 50 provinces and 8,124 municipalities. Individual autonomous communities have **different powers**. Catalonia, and its capital city of Barcelona, have wide-ranging powers, including their own police. The level of fiscal autonomy does not necessarily correspond to the number of competencies of individual CCAA. The greatest (nearly complete) fiscal autonomy is given to the Basque and Navarra regions (privileged regime). Others fall under the normal regime.

**SNGs headed by CCAA are the primary investors into infrastructure, R&D and local development** (68% of public sector investment), though investments make up only 6.5% of their expenditures. Investment expenditures in general in all levels of Spanish SNGs has declined significantly in recent years due to the economic downturn (by an average of 8% per year from 2007–2017). Of the total SNG spending, **CCAA accounts for 63% and municipalities 37%**.

Some of the state transfers are designed to support less developed regions in Spain. These are increasingly focused on innovation and the fight against climate change and are trending away from investments in infrastructure projects.

In last ten years, **tax reforms have been implemented to increase the tax revenue of local governments**. In 2016, taxes made up 40% of the revenue of SNGs, which is still below the OECD average (45%) and even further below the average for federal countries (48%). **Compared to other OECD countries, Spanish SNGs are still extremely dependent on transfers and grants from the central government**. This applies even more to CCAA (tax revenues of 35% vs. transfers of 57%) than to municipalities (tax revenues of 52% vs. transfers of 37%).

All levels of SNG have the right to collect taxes. CCAA and municipalities have their own as well as shared taxes. There are only shared taxes on the provincial level.

Tax autonomy for CCAA is limited under the normal regime. The state and regional governments manage the Superior Council of Tax Coordination together. This council, in coordination with regional councils for tax coordination and administration, coordinates tax administration under the normal regime. For CCAA, the primary source of tax revenue is personal income tax (69%).

**The majority of state transfers to SNG are non-earmarked and serve to compensate for economic differences** between individual areas. Roughly 75% of all CCAA tax revenue goes to the Guarantee Fund for basic public services, to which the state also contributes. Money is then redistributed from this fund based on population criteria that are updated each year. Redistribution also takes place through other funds.

The majority of the **tax revenue** of Spanish municipalities is generated by their own taxes. Municipalities of over 75,000 inhabitants have broader competencies and therefore also receive shared taxes (PIT, VAT, excise tax). Municipal taxes include property tax, vehicle tax and local business tax. In addition, it is also possible to draw from two optional taxes. These are the tax on real estate transactions in urban areas and a tax on construction, equipment and infrastructure. Municipalities also have the right to collect taxes associated with environmental protection, but this is not common practice.

**For municipalities, property tax accounted for 37% of the tax revenue in 2016.**

Source: <http://www.oecd.org/cfe/regional-policy/Observatory-on-Subnational-Government-Finance-and-Investment.htm>

# Ring road tunnel construction

## Tunnel constructions on the southern and southwestern sections of the M30 highway in Madrid (length 10 km)

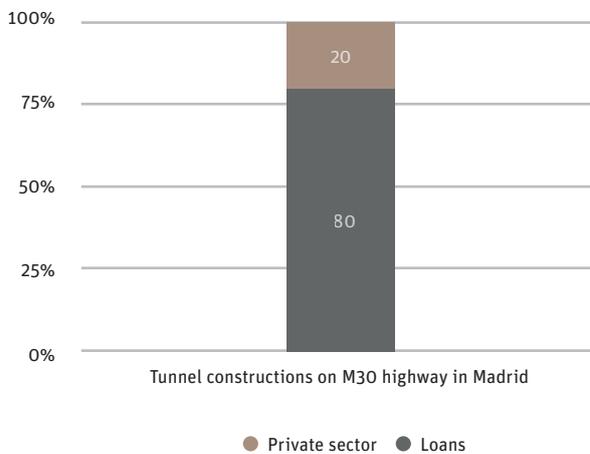
The M30 highway is Madrid's inner ring road, the closest of all ring roads to the city center.

In conjunction with transferring roads from state to municipal ownership, tunnels were constructed from 2005 to 2008 in the southern and southwestern sections of the ring road in length of roughly 10 km, while the southern section was rerouted entirely to improve the A4 junction heading south.

Total investment costs amounted to EUR 3.3 billion, while 80% was funded by Madrid City Hall with a loan and 20% was funded from private sources.



### Construction of tunnels for the M30 highway in Madrid



Source: Own questionnaire survey, Wikipedia