

Spain
Special Report

Spanish Autonomous Communities' New Funding System

Greater Solidarity Makes Regional Revenue More Exposed to National Economy

Analysts

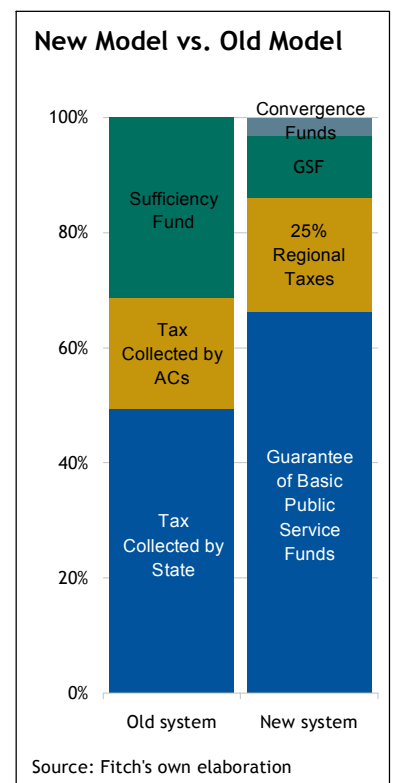
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Summary

Fitch Ratings expects the new funding system for Spain's autonomous communities under the common regime to have the following effects after its introduction is completed in 2011.

- The autonomous communities will have a greater share of the main taxes; that of personal income tax will rise from 33% to 50%, that of VAT from 35% to 50% and that of special taxes from 40% to 58%. This means that autonomous communities would receive an extra EUR24.7bn in tax revenue compared with the previous model. However, for 2009 and 2010, part of this gain will be cancelled out by reduced non-earmarked transfers from the state.
- The net gain for autonomous communities is the EUR11.1bn (in 2009 values) that the state will gradually inject. This is equivalent to 8.3% of the gross current expenditure budgeted in 2010 for autonomous communities under the common regime – less than the increase of their current expenditure from 2007 to 2008.
- Solidarity will be reinforced compared with previous systems, as 75% of the tax proceeds are subject to redistribution, chiefly determined by demographic patterns.
- This greater solidarity implies that more variables need to be estimated by the state. Accurately forecasting revenue for each autonomous community is therefore more complicated, and could lead to larger settlements. Fitch is therefore concerned that the new model further undermines autonomous communities' budgetary planning capacity.
- Demographic trends, a key element affecting the expenditure of autonomous communities, will now be updated annually.
- Despite the creation of the Territorial Councils of Tax Coordination and Management, autonomous communities are still only marginally involved in tax collection, which is disappointing from a rating perspective. Further involvement might be gained through bilateral agreements. As under the previous model, some of the main taxes (VAT and special taxes, mainly) are distributed among autonomous communities according to indexes computed by the National Statistics Office.



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Table 1: Autonomous Communities' Fiscal Power on PIT

New	Concept
Yes	Autonomous communities can now increase or reduce tax exemptions on the regional share
No	The devolved scale must be progressive
Yes	The devolved scale is not necessarily the same as the national
No	Deductions are derived from personal and family circumstances; investments are not related to business
No	Autonomous communities can increase or decrease deductions in first home purchases/renovation

Source: Art 46, Law 22/2009, 18 December

In July 2009, after several years of intense negotiations, the Council of Fiscal and Financial Policy (CFFP) agreed a new financing system for autonomous communities under the common regime. The previous one (approved in 2001) was intended to be permanent, but one of its most criticised features and one of the reasons its modification was sought was that each autonomous community's population was fixed at that registered in 1999 – several autonomous communities have experienced steep growth since then. The new model stipulates that the main elements of the model could be amended every five years.

The model was approved by Spain's parliament in December 2009 and then was bilaterally accepted by each autonomous community. As the new model also entails extra funds (around EUR11.1bn paid by the state) the autonomous communities had strong reasons to accept. They have all bilaterally agreed it.

New Revenue Structure

Although the new funding system will slightly increase resources, the main changes are to the formulae by which funds will be distributed among the autonomous communities. The new revenue structure will be made up of tax revenue and two transfers, positive or negative. The first transfer is from/to the Guarantee of Basic Public Services Fund (GBPSF) and the second from/to the Global Sufficiency Fund (GSF).

Tax Revenue

Similar Basket of Taxes; Greater Share

One of the main changes introduced by the new model is that autonomous communities will now receive a larger share of substantially the same taxes. Article 25 of the law specifies taxes "devolved" to autonomous communities (see Table 2). However, this does not fully coincide with autonomous communities' fiscal capacity described in article 7 of the same law (see *The Wealth Tax Discrepancy* below). The new share of taxes means that whereas the autonomous communities received about EUR43.7bn of the main two taxes (PIT and VAT) in 2007, under the new model this figure would have been EUR64.6bn.

Fiscal Power Only Slightly Increased

Autonomous communities will now have slightly greater fiscal powers; these will largely be concentrated on PIT (see Table 1). From 2011, autonomous communities will be able to increase or decrease tax exemptions on the regional share (to a maximum of 10% up or down from the state's level) and can apply a different number of tranches from that applied by the state. In the past, autonomous communities had to maintain the same number of tranches as the state, but under the new system they simply have to have a progressive rate – no further requirements are detailed. Autonomous communities already had scope to change the rate, but only a few of them decided to do so; they have tended to reduce rather than increase it (see Table 2). In Fitch's view, the slightly greater fiscal power over PIT is unlikely to translate into significant changes in fiscal pressure.

Table 2: Devolved Scale for 2009 Madrid vs. General

Net tax base (up to; EUR)	Gross tax payable (EUR)	Remaining net tax base (up to EUR)	Rate (autonomous ^a ; %)	Rate (Madrid; %)
0	0	17,707.2	8.34	7.94
17,707.2	1,476.78	15,300	9.73	9.43
33,007.2	2,965.47	20,400	12.86	12.66
53,407.2	5,588.91	Above	15.87	15.77

^a Set by the state if the autonomous community has not established its own rate

Source: Annual fiscal measures disclosed by the Autonomous Community of Madrid and the state for 2009

Table 3: Tax Share

(% of total collected)	Previous system	New system	Tax setting power?	Collected by?	Shared as
WTT&LD ^a	100	100	Yes, unchanged	ACs	Actual collection
Inheritance and gift tax	100	100	Yes, unchanged	ACs	Actual collection
Wealth tax	100	Compensated ^b	n/a		
Tax on retail trade of certain hydrocarbons	100	100	Yes, slightly increased	State	Actual collection
Tax on vehicle registration	100	100	Yes	State	Actual collection
PIT	33	50	Yes, increased	State	Real figures
VAT	35	50	No	State	Index
Excise duty on beer	40	58	No	State	Index
Duty on wine and fermented beverages	40	58	No	State	Index
Special tax on spirits and alcoholic beverages	40	58	No	State	Index
Excise duties on hydrocarbons	40	58	No	State	Index
Excise duty on manufactures tobacco	40	58	No	State	Index
Tax on electricity	100	100	No	State	Index

^a Wealth transfer tax and legal documents

^b The state will compensate the regions for the elimination. The tax is not included in the autonomous communities' fiscal capacity

ACs - Autonomous communities; n/a - Not applicable

Source: Art.8 Law 22/2009, 18th December, new funding system

The Wealth Tax Discrepancy

Fitch finds it very surprising that the wealth tax remains among the “devolved taxes”, as the state eliminated the obligation to declare the wealth tax in 2008¹. Even more unexpected is that Article 47 of the new funding system law (22/2009, 18 December) specifies the fiscal power that autonomous communities retain over it.

As taxpayers are exempt from paying (and declaring) this tax from 2009, the CFFP Agreement of 15 July (Agreement on the New Funding System) specified the compensation that autonomous communities will receive for the elimination of the tax. The state estimated EUR1.8bn compensation, which will be included within the “global funding needs” scale (used to establish the GSF). Compensation for the elimination of the tax will therefore be received via the GSF. In Fitch’s view, the maintenance of this tax among the “devolved taxes” creates doubts about autonomous communities’ real fiscal power.

Autonomous Communities’ Involvement in Tax Collection Still Low and in Need of Further Development

The new system retains certain weaknesses of the predecessor. Chief among these is that autonomous communities have limited participation in tax collection, which undermines their ability to fight tax evasion and the possibility of raising revenue through this source. In order to autonomous communities get more involved in tax collection and to harmonise tax management, the law establishes two types of body.

- The Superior Council of Tax Coordination is established by the state tax authority and regional governments. Its goals include coordinating tax management across the “common territory”, establishing the general roles of the territorial councils (see below), proposing general criteria to harmonise tax legislation and assessing tax management. Fitch feels that the role of this new body is to coordinate and inform rather than to have a decisive or coercive power.
- Territorial Councils for Tax Coordination and Management are bodies at autonomous community level aimed at coordinating tax management within each autonomous community’s territory. These councils might also cooperate with the state’s tax authority in the tax management (collection and inspection) of the devolved taxes. However, the law does not create a specific framework for this cooperation, and only creates the possibility of eventual

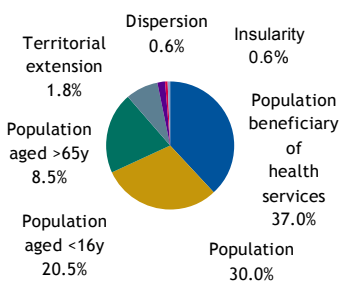
¹ Law 4/2008, 23 December, see Fitch’s Special Report “Wealth Tax Gap Still Unfilled For Spanish Autonomous Communities”, published 29 September 2008 and available at www.fitchratings.com.

Table 4: Population Registered at Local Councils vs. Adjusted Population 2007

Total (%)	Population registered	Adjusted population
Andalusia	19.04	18.76
Aragon	3.07	3.23
Asturias	2.54	2.63
Balearic Islands	2.44	2.46
Canary Islands	4.79	4.93
Cantabria	1.36	1.35
Castilla y León	5.98	6.41
Castile-La Mancha	4.68	4.99
Catalonia	17.04	16.82
Valencia	11.54	11.31
Extremadura	2.58	2.74
Galicia	6.56	6.93
Madrid	14.36	13.48
Murcia	3.29	3.23
Rioja	0.73	0.74
Total	100.00	100.00

Source: Fitch's own elaboration based on data from the appendix "New Funding System Agreement" published 15 July 2009 by the Ministry of Economy and Finance and population data disclosed by the National Statistics Office

Terms Defining "Adjusted Population"



Source: Agreement of the council of fiscal and financial policy

bilateral agreements with the state tax authority. Nevertheless, the creation of these bodies is a step forward in collaboration across the different administrations, even if it needs further development.

Equalisation Mechanism: The Guarantee of Basic Public Services Fund *More Solidarity in Sharing Taxes Than Previously*

The equalisation mechanism under the new system is larger than that of its predecessors due to the creation of the GBPSF. This fund is made up of: 75% of the tax revenue (excluding the wealth tax) assigned to autonomous communities, excluding any eventual regional tax discount or additional burden implemented (see Appendix B); and an extra EUR7.4bn added by the state (which will increase at the same rate as the state's ITE, see the text box *State's Tax Revenue Index* below). This fund will be split among the autonomous communities according to adjusted population criteria (see text box *Adjusted Population* below) and is intended to ensure equal funding for basic public services, although revenue assigned to autonomous communities is still not earmarked to any particular service (see formulae below).

Formulae for Calculating the GBPSF and the Balance for an Autonomous Community

$$\begin{aligned}
 \text{GBPSF} &= 75\% \text{ Autonomous Communities' Fiscal Capacity (in normative values)} + \text{EUR7.4bn from the State} \\
 \text{Balance GBPSF of an AACC (x)} &= \text{AACCn's share on GBPSF according to its adjusted population} - 75\% \text{ Fiscal Capacity (in normative values)}
 \end{aligned}$$

Adjusted Population

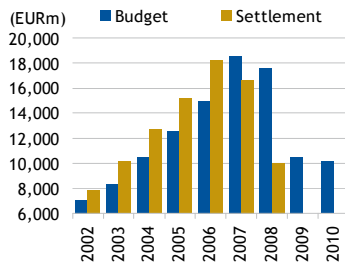
Unlike in the previous model (in which population was set at that registered in 1999), population data for the present model is to be annually calculated and adjusted by some factors that affect the cost of the services provided. Calculations are based on population registered at the local councils at 1 January of the relevant year (annually disclosed by the National Statistics Office), in which those aged below 16 years and above 65 years have a greater weight. The calculation also takes account of the population that benefits from health services (weighted differently by age bracket), which does not always coincide with population registered. This data is calculated following the methodology described by the Working Group on Healthcare Cost Analysis in its 2007 report and will be provided by the Healthcare Minister. In Fitch's view, relying on two sources of information to determine the population, especially where one source is based on the other (the population that benefits from health services is calculated in relation that registered at city halls and reduced by some factors), complicates the visibility and the calculation of the "adjusted population". Other terms affecting "adjusted population" are size of territory, remoteness of islands and population dispersion.

As shown in Table 4, the new definition of adjusted population benefits autonomous communities with a greater percentage of inhabitants in the upper age group (such as Castilla y Leon) or a much younger profile (such as Canary Islands), whereas autonomous communities whose population is mostly working age (such as Madrid or Catalonia) will not benefit that much.

GBPSF's Coverage of Basic Social Services

Based on the report published by the Ministry of Finance on the tax settlement for 2007 and applying the new shares of the devolved taxes, Fitch estimates that the GBPSF would have been about EUR83.8bn in 2007 (including the extra EUR7.4bn added by the state), less than the EUR114.5bn of resources obtained by the autonomous communities in 2007, less than the EUR118bn current expenditure

Wealth Transfer Tax and Legal Documents' Development



Source: Ministry of Economy and Finance

State's Tax Revenue Index (ITE)

- In a single year, this is made up of PIT, VAT and special taxes, all collected in cash by the state. It excludes the amounts devolved to autonomous communities in the same year. Transfers to autonomous communities regarding taxes depend on: expectations of the amounts the state has to transfer to autonomous communities and the effective tax settlement from two years before (n-2). The state's expectations for tax revenue development for the year and the accuracy of the expectation made in n-2 therefore affect the ITE.
- The ITE in 1999-2007 was 1.81, whereas it was budgeted at 1.65. The difference (which meant a greater Sufficiency Fund) led to positive settlements in favour of the autonomous communities in n+2.

made by autonomous communities under the common regime in 2007, and less than the EUR89.7bn that autonomous communities under the common regime spent on healthcare, education and social services in 2007. In addition, it is very likely that tax revenue strongly diminished in 2009 (therefore reducing the GBPSF). Fitch therefore questions whether the GBPSF will be able to achieve its goal.

Demographic Figures to be Updated Annually

Transfers might be positive (from the GBPSF) or negative (to the GBPSF), determined by the formulae above. Article 19 of the law states that the transfer to or from each autonomous community will be calculated following demographic trends updated annually. The transfer amount is therefore likely to change from year to year for each autonomous community.

Tax Revenue Collected by Regional Governments Included in GBPSF, Entailing Some Risks

As the GBPSF includes some of the taxes collected by regional governments, the law specifies in Article 19.3 the normalisation that must be applied. In Fitch's view this may give rise to some risks. Deviations from these pre-established values could mean that autonomous communities have to fund the negative deviations, or benefit if the normative value is below collection (see Appendix B on calculation methodology for these normative values).

Nevertheless, as the normative value of the WTT&LD is based on the 2009 collection, updated in subsequent years at the same rate as other taxes (PIT, VAT and special taxes), the fact that the 2009 collection could be below that of 2004, the target might appear easy to reach. This is positive in light of the volatility of this tax (see the chart *Wealth Transfer Tax and Legal Documents' Development*).

The GBPSF Discourages Lowering Fiscal Pressure

As the "normative values" are calculated to eradicate the effect of tax discounts (and tax burdens), those autonomous communities who reduced fiscal pressure will not only suffer from consequent reduced revenue, but also will have to participate in the GBPSF with an amount that has not been actually collected. Fitch therefore considers that the equalisation mechanism dissuades autonomous communities from reducing fiscal pressure.

The Global Sufficiency Fund and the Importance of the Determination of "Global Funding Needs" in 2010

The GSF is the third basic revenue block in the new funding system. The GSF is a link between the revenue that autonomous communities obtained under the previous system and the new one. It is a fixed amount, positive or negative, individually calculated for every autonomous community for one year (the final one based on 2010) and will grow at the same rate as the state's ITE (see text box).

Formula for Determining the GSF in 2010

$$\text{Global Sufficiency Fund year 2010} = \text{Funding Needs 2010: Most of the revenues from the previous system} + \text{Additional Revenues granted by the State in 2009 and 2010} - (\text{Tax Revenues (new system)} + \text{Transfer General Fund Social Services})$$

The preliminary calculation of the GSF for 2009 as the difference between the 2009 "global funding needs" (funding under the previous system, see Appendix A for how these are calculated, and the specific share of the EUR5bn injected by the state for 2009), 100% of the fiscal capacity described in Table 1 (except the wealth tax, which is excluded from fiscal capacity), and the transfer related to the GBPSF. The GSF will be finally calculated for 2010 as the difference between the 2010 funding needs (which will be enlarged by the additional funds granted by the state for that year) and revenue (fiscal capacity and the transfer related to the GBPSF). As the

2010 settlement of the system will not be known until 2012, the final GSF cannot be known before then. In subsequent years, the GSF will be indexed to the state's ITE.

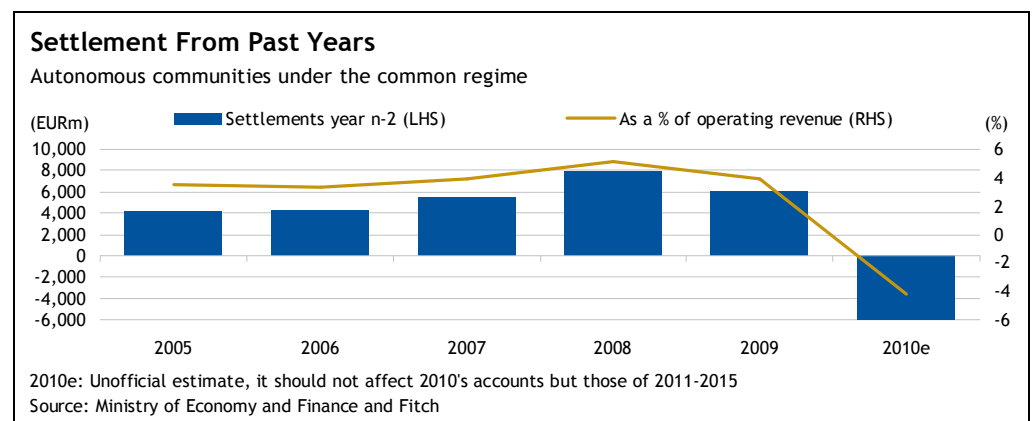
Therefore, the determination of "global funding needs" is key for the calculation of the GSF. These needs are an estimate of the cost of the responsibilities carried out by the autonomous communities (see Appendix A for exact determination details). However, the estimate is based on revenue rather than actual costs, taking into account most of the revenue received by autonomous communities with the previous system. The "global funding needs" are then gradually enlarged to reflect the state's injection of the additional funds in 2009-2010. In the previous model, the "funding needs" were estimated as a complex determination of items including the revenue the autonomous communities received in 1999 (under the system in force at the time), but also the cost of some of some services that had been recently transferred or were about to be.

The new definition of "global funding needs" has several consequences for the calculation of the GSF of each autonomous community:

- As most of the "global funding needs" are established by the revenue that autonomous communities received under the previous system, the GSF captures any under- or over-funding that autonomous communities received in the previous funding system, and does not correct any eventual imbalance arising from the preceding system.
- In 2009 and 2010 only, the calculation of the GSF wholly cancels out the distribution of resources according to adjusted population.
- The formulae used to distribute among the 15 autonomous communities the EUR7.4bn of the extra funds added by the state in 2009 and 2010 will affect the calculation of the final GSF in 2010. Therefore, the relative growth of adjusted population during 1999-2009 will have most weight in the distribution of addition resources. Those autonomous communities whose adjusted population grew the most in this period will have a greater GSF or a less negative GSF (chiefly the Balearic Islands, Canaries, Catalonia, Valencia, Madrid, Murcia and La Rioja). The formulae established for the distribution of the additional funds in 2009 and in 2010 have been arbitrarily set and may not correspond with the effective future cost of responsibilities.

The Dynamics of the Model

More Resources Subject to Estimates and Settlement by the State

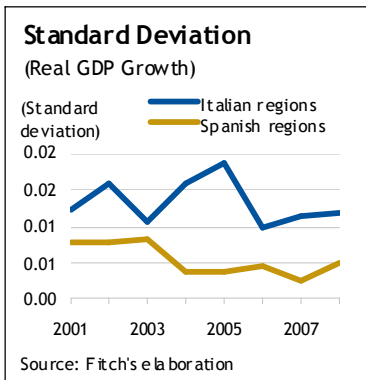


As under the previous model, most of the autonomous communities' revenue will be subject first to the state's estimates and two years later to a settlement of actual collections. In the past, the settlements have been quite substantial (see the chart *Settlement from Past Years* above) and therefore have complicated autonomous communities' budgetary planning. As the new model integrates additional variables

Table 5: Expected Full Impact of the Additional Funds for 2010^a

(EURm)	
Andalusia	1,588
Aragon	365
Asturias	206
Valencia	1,294
Canary Is.	401
Cantabria	110
CyLeon	520
Castile-la Mancha	529
Catalonia	2,791
Extremadura	368
Galicia	620
Balearic Is.	306
Madrid	1,742
Murcia	427
Rioja	40

^a Taking into account the 85% budgeted for 2010 and adding the remaining 15% that should be settled in 2012. Includes the convergence funds
Source: Individual budgets and declarations, and Fitch's elaboration



subject to settlement (such as demographic figures), the state's task in estimating initial funding becomes more difficult and could reduce visibility on future revenue for autonomous communities.

Revenue More Linked to National Economic Performance Than Regional

Fitch estimates that about 66% of the revenue contained in the new funding system (75% of tax revenue and EUR7.4bn of additional revenue) will be shared among autonomous communities according to the adjusted population index. Autonomous communities' revenue will therefore be less exposed to regional economic conditions and more to the national cycle. This reduces exposure to regional slowdowns but also to regional recoveries.

About 68% of the total funding that autonomous communities received in 2007 (under the 2001 model) was linked to taxes collected by the state or by the region but estimated to have been generated within the regional territory. As regional economies tend to be more volatile than larger economies (such as the national one), the new model should bring more stability to autonomous communities' revenue. However, as 25% of assigned tax revenue generated within autonomous communities' boundaries will not be equalised, those with faster growth will benefit more than those economically lagging behind.

Unlike in other countries, Spain's regional economies have in the past grown at more or less the same pace. Regional real GDP growth in 2008 ranged between 0.3% and 2.0%, whereas among Italian regions the gap was much wider (negative 2.0%-positive 2.4%; see the chart *Standard Deviation (Real GDP Growth)*). Consequently, none lose out significantly through the linking of their revenue performance to the national economy.

The annual updating of the "adjusted population" figures means that autonomous communities whose adjusted population grows faster than average will benefit from a higher share of the GBPSF – but probably will also have a higher cost of services. However, in Fitch's view, the likelihood of dramatic changes in adjusted population is rather limited. In Table 6 population trends in the two regions shown were among those that most diverged from the average (Murcia's population growth was among the fastest, whereas Asturias' was the slowest): their weight on the GBPSF would have increased by 0.07bp for Murcia and reduced by 0.12bp for Asturias. If the GBPSF had been around EUR83bn for 2005 and 2009, this would have meant a gain of about EUR55m for Murcia and a loss of EUR100m for Asturias.

Table 6: Approximation of Adjusted Population Index Development

(%)	2005	2009	Δ
Common Regime	100	100	
Murcia	3.27	3.34	0.07
Asturias	2.55	2.42	-0.12

Source: Fitch's own elaboration

The Two Convergence Funds

Two new convergence funds will be introduced by the new system. Fitch expects them to contribute about 3.1% of total revenue. Their objective is to offset two types of imbalance: autonomous communities receiving revenue per person below the average and those at a comparative disadvantage in terms of territory or wealth. These two funds are fully funded by the state, and the new funding system law guarantees in article 6.B that in the settlement in 2012 their allocation will be 30% more than in 2009.

Competition Fund

Although the new model reduces the gaps among autonomous communities in terms of financing per capita, this fund is aimed at reducing the gap further. Autonomous communities eligible for this fund are those with a level of funding per adjusted population below the national average or below their own fiscal capacity. It received an allocation of EUR2,752m in 2009 – this amount will subsequently be adjusted at the same rate as the state's ITE (see text box above) and will be shared among autonomous communities' beneficiaries according to "adjusted population".

Requirements for Being a Beneficiary of the Cooperation Fund

- GDP per capita during the preceding three years less than 90% of the average for autonomous communities under the common regime
- Population density below 50% of the average
- Population growth below 90% of the average and a low population density (less than 1.25x the average for autonomous communities)

Source: Article 24.2 of the Law 22/2009

Cooperation Fund

The autonomous communities eligible for this fund will have to meet at least one of the three conditions set out in the text box *Requirements for Being a Beneficiary of the Cooperation Fund*. In Fitch's view nine autonomous communities could be eligible for payments from the fund (Andalusia, Canary Islands, Castile-la Mancha, Valencia, Extremadura, Galicia, Murcia, Castilla y Leon and Asturias). The state will include this fund in its annual budgets with an initial allocation of EUR1.2bn in the base year (2009), which will grow at the same rate as the state's ITE. The distribution among eligible autonomous communities will be two-thirds based on adjusted population and relative wealth figures, and one-third based on low population growth.

New Funding System to be Gradually Introduced

The transitional regime established by means that in 2009 and in 2010, autonomous communities will receive tax revenue and sufficiency fund following the 2001 system. However, the law establishes that autonomous communities will receive 70% and 85% in 2009 and in 2010, respectively, as advanced payments stem from all the additional resources injected by the state. The state budgeted an extra EUR9.7bn in the 2010 budget under the heading "New Funding System", which should be transferred to autonomous communities under the common regime.

Table 7: Gradual Implementation of the Model

	2009	2010	2011	2012
Tax revenue	O	O	N	N
Sufficiency fund (SF) or GSF	O:SF	O:SF	N:GSF	N:GSF
Transfer from GBPSF	-	-	N	N
Settlement	2007 (O)	2008 (O)	2009 (N)	2010 (N)
Injection – additional funds (%)	70%: EUR6.1bn	85%: EUR9.7bn	100%: EUR11bn	100%: EUR11bn

O: Old model; N: New model
Source: Fitch's elaboration

Appendix A: Global Funding Needs

In 2009, “global funding needs” is defined as most of the revenue that autonomous communities received under the previous system in 2009, plus some other items and the extra revenue granted by the state in 2009. In 2010, the global funding needs will be increased by the revenue injected by the state for that year.

The overall amount includes:

- revenue received by autonomous communities in 2007 under the previous system: 33% of the PIT, 35% of the VAT, 40% of special taxes, 100% of the electricity tax and sufficiency fund, 100% of the tax on retail trade of certain hydrocarbons, 100% of vehicle registration fees, compensation for the wealth tax (see Table 9 for the values for 2007);
- tax revenue collected by regional governments (standardised, excluding regional tax discounts) such as wealth transfer tax and legal documents, inheritance and gift tax gambling tax and fees earmarked for the provision of certain responsibilities;
- the additional funds approved in 2005 for healthcare expenditure (maximum of EUR600m); and
- for autonomous communities in charge of Navy Institutes, the cost of this.

Additional funds granted by the state in 2009 are part of the funding needs.

- EUR4.9bn, to be shared as follows: 75% according to the growth of adjusted population between 1999-2009; 25% according to: weight of adjusted population over the total population of the 15 regions; the proportion of the population potentially dependent; and the proportion classified as “dependent” and effectively receiving care from the autonomous community.
- EUR50m shared among autonomous communities with higher population dispersion than average, according to the number of population cities within the territory.
- EUR50m shared among autonomous communities with lower population density than average according to their relative “adjusted population”.

Resources integrated in 2010, are part of the 2010 funding needs, and are shared as follows:

- EUR1.2bn shared among autonomous communities according to the proportion of dependants receiving care in April 2009 (see Table 8);
- EUR1.2bn shared by “adjusted population”.

Table 8: Index of Distribution of Dependents

	Distribution (%)	(EUR1.2bn)
Andalusia	29.18	350.16
Aragon	4.3	51.6
Asturias	2.91	34.92
Balearic Islands	2.13	25.56
Canary Islands	1.98	23.76
Cantabria	1.92	23.04
Castilla y León	5.87	70.44
Castile-la Mancha	6.47	77.64
Catalonia	18.11	217.32
Valencia	5.67	68.04
Extremadura	3.06	36.72
Galicia	6.75	81
Madrid	6.22	74.64
Murcia	4.04	48.48
Rioja (La)	1.39	16.68
Total	100	1,200

Source: Fitch elaboration from data contained in the law

Table 9: Total Resources 2001 Funding System in 2007

(EURm)	Tax revenue (state)	Tax revenue (regional)	Sufficiency fund	Others	Total
Catalonia	11,956	4,303	2,897	138	19,295
Galicia	3,235	927	3,891	76	8,129
Andalusia	8,653	3,484	9,724	274	22,135
Asturias	1,477	407	1,186	41	3,111
Cantabria	827	306	738	15	1,885
Rioja	437	152	403	5	998
Murcia	1,589	767	1,184	18	3,558
Valencia	6,295	2,616	2,799	72	11,782
Aragon	1,958	658	1,182	34	3,832
Castile-la Mancha	2,291	839	2,528	50	5,707
Canary Islands	881	718	3,419	40	5,059
Extremadura	1,018	267	2,061	30	3,377
Balearic Islands	1,947	759	-230	19	2,495
Madrid	11,631	3,814	-196	176	15,426
Castilla y Leon	3,260	939	3,274	94	7,567
Total	57,455	20,956	34,862	1,084	114,357

Source: Table 7.3 of the Annex “2007 Settlement of Autonomous Communities Funding System”. Ministry of Economy and Finance

Appendix B: Homogenisation of Tax Revenue: Normative Values

Normative values are defined as the tax revenue allocated to autonomous communities without taking into account eventual regional fiscal discounts or burdens. They are used to define the participation of each autonomous community in the GBPSF. However, as this could create disputes in relation to the taxes collected by the autonomous communities, the law specifies how these taxes should be homogenised. Article 3.b of the law defines the normative value for 2007; article 19 specifies the 2009 normative value and how it has to be updated in subsequent years.

- **WTT&LD:** For 2007 and 2009 this is defined as 85% of the amount collected for corresponding years (excluding regional tax discounts). In subsequent years, the normative value will be that of 2009 updated at the same growth rate as the regional special taxes, VAT and PIT, the latter excluding regional discounts.
- **Inheritance and gift tax:** For 2007 this is defined as double the 1999 normative value specified in article 6 of Law 21/2001 (the law establishing the previous funding system). For subsequent years, the value will be the result of applying the national ITE to the 2007 value.
- **Gambling tax:** For 2007 the 1999 value disclosed in Law 21/2001 is updated by the national tax growth index. For subsequent years, the normative value will be the result of applying to the base year (2007) the growth of the national ITE.
- **Tax on retail trade of some hydrocarbons and tax on vehicle registration:** The normative value for any single year is established as the collection each autonomous community achieves in that year, excluding any eventual regional discounts. As these taxes are collected by the tax authority, disputes should not arise.

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