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Municipal Bond Maturities to Decline 38% After Market Contracts.

State and local government costs to repay maturing debt will fall 38 percent in 2015 after a year when the municipal bond market contracted.

Maturities are poised to drop to $175.98 billion from $281.87 billion in 2014, according to data compiled by Bloomberg. Issuers from California, New York, Texas, New Jersey, Massachusetts and Florida owe 50 percent of this year's amount.

The combination of last year's maturing debt and $226.54 billion of early redemptions exceeded new securities sales of $361.62 billion, Bloomberg data show. The municipal bond market shrank 4 percent in 2014 to a total of $3.5 trillion.

Lower costs for debt coming due lessens fiscal stress on cities and counties emerging from the sluggish growth that followed the financial crisis. The shrinking market, together with the improving U.S. economy, help explain last year's 9.8 percent return for municipal bonds, according to a Bank of America Merrill Lynch index. By comparison, investment grade corporate bonds earned 7.5 percent and Treasuries returned 6 percent.

Most Due

In the coming year, issuers from California have the most debt due, with $23.3 billion, followed by New York at $22.1 billion, Texas with $16.3 billion and New Jersey's $11.5 billion. Massachusetts and Florida both have $7.3 billion maturing. New York City, with $2.59 billion, and Los Angeles, at $1.59 billion, are the local governments with the largest repayments.

Municipal bond sales in the U.S. are set to increase in the next month while the amount of redemptions and maturing debt falls.

States and localities plan to sell $8.6 billion of bonds over the next 30 days, Bloomberg data shows. A week ago, the calendar showed $6.4 billion planned for the coming month. Supply figures exclude derivatives and variable-rate debt. Some municipalities set their deals less than a month before borrowing.

New York State Dormitory Authority plans to sell $1 billion of bonds, Texas A&M University has scheduled $377 million, Miami-Dade County will offer $372 million and Broward County, Florida, School Board will bring $273 million to market.

Illinois Debt

Municipalities have announced $12.1 billion of redemptions and an additional $8.5 billion of debt matures in the next 30 days, compared with the $26.1 billion total that was scheduled a week ago.

Issuers from Illinois have the most debt coming due with $2.27 billion, followed by New York at

$1.01 billion and Indiana with $801 million. The state of Illinois has the biggest amount of securities maturing, with $944 million.

The municipal market contracted by $4.1 billion last month. Sales of $46.1 billion compared with redemptions and maturing debt that totaled $50.2 billion.

Investors added $329 million to mutual funds that target municipal securities in the week ended Dec. 24, compared with $950 million in the previous period and the one-year average of $439 million, according to Investment Company Institute data compiled by Bloomberg.

Michigan Yields

State and local debt maturing in 10 years now yields 97.3 percent of Treasuries, Bloomberg data show. Since 2000, the gap has averaged 93.7 percent.

Bonds of Michigan and California had the best performance over the past year compared with the average yield of AAA rated 10-year securities, the data show. Yields on Michigan's notes narrowed 23 basis points to 2.32 percent while California's declined 13 basis points to 2.30 percent.

Puerto Rico and New Jersey handed investors the worst results. The yield gap on Puerto Rico notes widened 52 basis points to 9.49 percent and New Jersey's rose 10 basis points to 2.62 percent.

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