Recovery Best Seen in California and Texas as Debt Sales Shrivel.

Texas and California are so flush with cash they're enjoying a rare boom-times perk: The states don't have to borrow in the $3.6 trillion municipal-debt market to pay bills until tax collections flood in.

Texas is skipping its annual note sale for the first time in three decades because of a surplus left from a surging economy, which grew more than twice as fast as the U.S. last year. California, which was so broke after the recession that it took to issuing IOUs, isn't seeking a short-term loan for the first time since it was held aloft by the 1990s Internet bubble.

The two illustrate the fiscal revival among some states as the economic expansion enters its seventh year. As a result, the sale of notes is poised to fall for a fifth year to less than half the $78 billion peak in 2010, when governments were reeling from the recession, according to data compiled by Bloomberg.

"We're seeing a big decrease in issuance because their fiscal situations have improved significantly," said Doug McGinley, a money manager for Fidelity Investments. "We're seeing less supply because of the improving health of states and their fiscal situations."

While investors have focused on the persistent fiscal strain on borrowers including Puerto Rico, Illinois and New Jersey, finances in most state capitals have been steadily on the mend. A report by the National Association of State Budget Officers last month said revenue collections have stabilized, with growth of 3 percent projected for the current fiscal year.

Rising Rates

The dwindling supply of notes, which typically mature in a year or less, is forcing firms such as Fidelity to find other short-term investments for money-market funds, said McGinley. That's helped ease the pressure on the note market, where prices have slipped this year amid speculation that the Federal Reserve will raise interest rates for the first time in 9 years.

State and local government securities maturing in six to 12 months returned 0.16 percent this year, compared with 0.18 percent for the municipal market overall, according to Bank of America Merrill Lynch indexes.

"The supply of short-term paper will be more constrained," said Burt Mulford, who helps manage $34 billion at Eagle Asset Management in St. Petersburg, Florida.

1980s Phenomena

This year will be the first since 1985 that Texas hasn't sold notes to pay its bills until the bulk of its tax collections arrive. It borrowed $5.4 billion last year.

While the oil-price slide has exerted a drag on Texas's growth, the government has a surplus after its economy expanded by 5.2 percent last year, faster than any other state but North Dakota.

It has $8.5 billion in its rainy day fund, said Chris Bryan, a spokesman for Texas Comptroller Glenn Hegar. When lawmakers approved their annual budget this year, they left $6 billion of projected revenue unspent, he said.

"We probably have the best balance sheet of any state in the nation," Texas Governor Greg Abbott said during an interview Tuesday in Bloomberg's offices in New York.

California Treasurer John Chiang said the strong economy and steps to eliminate the state's budget deficit are allowing it to avoid short-term borrowing for the first time since the 2001 budget year. That was when California was still enjoying a tax windfall from the soaring stocks of dot-com companies, a good fortune that disappeared when the bubble collapsed.

On July 2, Standard & Poor's raised California's rating one step to AA-, it's highest grade from the company in 14 years.

"It says a lot about the stronger economy in these states," said Peter Hayes, head of munis at New York-based BlackRock Inc., which oversees about $116 billion of the securities. "There is less need to borrow."

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