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Puerto Rico Notches a Long-Awaited Win.

It's been more than three years since the Puerto Rican government acknowledged it was on the verge of economic collapse.

Since then, the island's journey back to fiscal health has been a trying one, defined by a lengthy restructuring process, contentious litigation and the devastating impact of Hurricane Maria. Finally, however, the prognosis is improving.

This month marks a major step forward on Puerto Rico's path to restructuring its massive public debt load. The island's oversight board has filed a formal plan of adjustment in federal court to restructure roughly $17.5 billion in bonds issued by the Puerto Rico Sales Tax Financing Corporation (COFINA). With any luck, it will be confirmed by early next year.

The COFINA plan reflects the spirit of compromise that Congress envisioned when it passed the Puerto Rico Oversight, Management and Economic Stability Act (PROMESA) in 2016. Its terms stem from a settlement agreement reached by the commonwealth and COFINA parties that were previously squaring off in court.

If litigation had not given way to a negotiated resolution, it could have proved devastating. A likely ruling in favor of the COFINA camp would have cost Puerto Rico billions of dollars in debt relief and new capital.

On the other hand, an unforeseen victory for the commonwealth parties would have eroded confidence in constitutionally-protected property rights and rattled the entire municipal finance market.

With this context in mind, it is clear PROMESA worked as intended by facilitating cooperation and consensus. The proof is in the COFINA plan's numbers.

The restructuring is slated to significantly cut the principal amount of outstanding debt by $7 billion and reduce future interest payments to bondholders. The commonwealth will also recoup more than 46 percent of the sales tax revenues that previously belonged to COFINA, resulting in hundreds of millions of dollars per year going back to the local government.

Along with anticipated reforms intended to entice private-sector investment, increasing the commonwealth's share of annual sales tax revenues should be a legitimate growth catalyst. The local government will have much more financial flexibility to invest in infrastructure, improve essential services and pay general obligation debt.

Another key component of this compromise is that it balances equitable recoveries for local bondholders while sending a signal to market participants about Puerto Rico's eventual ability to re-access capital markets. This is critical given that COFINA is the most widely held bond issuance among on-island retail investors and retirees.

Fair recovery levels, along with the resumption of coupon payments, can help stem outmigration and limit overdependence on the government.

But not everyone is on board. A handful of progressive pundits, including one former Treasury Department official involved in PROMESA's development, are now pointing to highly-pessimistic financial forecasts to poke holes in the COFINA plan. However, their skepticism and underestimation of our fellow Americans in Puerto Rico is unjustified.

Data shows the commonwealth has been running considerable budgetary surpluses in recent years, ranging from $1.6 billion in 2015 to $2.9 billion in 2018. The annual surplus available to pay creditors could easily rise to $4 billion or more by 2020 if reforms sought by the oversight board are expeditiously implemented.

This underscores that the COFINA restructuring, which will require $420 million per year in the near-term, is a very feasible deal.

Even when the escalated payment rate of more than $900 million per year is reached in 2041, the commonwealth should have ample resources to pay the restructured debt while comfortably funding other public initiatives and obligations.

Of course, this deal is only one facet of Puerto Rico's broader recovery. The local government must continue pursuing equitable restructuring agreements and deliver on important reforms called for in the oversight board's fiscal plan. Building on the momentum achieved this month is critical to restoring the island to full financial health.

THE HILL

BY FORMER SEN. JUDD GREGG (R-N.H.) — 10/29/18 05:30 PM EDT

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