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Puerto Rico's Rescue Plan Represents a Troublesome Trend, Economists Say.

It's the latest government to rewrite the rules for getting out of fiscal distress.

While many in Puerto Rico are no doubt relieved that Congress struck a deal to save the U.S. territory from total financial breakdown, economists are worried that recent rescue plans are creating a potentially troublesome precedent.

PROMESA, the Puerto Rico Oversight, Management and Economic Stability Act that President Obama signed last month, is the latest debt restructuring that takes unprecedented measures to get out of fiscal distress. For one, it calls for the creation of a control board to oversee the restructuring — something that's never occured beyond the municipal level. It also offers a layer of protection that technically shouldn't be available to a state or territory, many economists say, because neither is legally allowed to file for bankruptcy.

"One of my concerns as a credit analyst is I rely on the structure of a contract," said Steve Winterstein, chief municipal strategist at Wilmington Trust, an investment management firm. With PROMESA, he said, "all of a sudden the rules of the game can get changed."

But Puerto Rico isn't the only government to recently take unconventional steps to get out of financial trouble.

Detroit, the largest U.S. municipality ever to file for bankruptcy, created a restructuring plan that prioritized pension holders over general obligation bondholders. Those bondholders received about 80 cents on their dollar, but pensioners averaged around a 90 percent recovery rate.

San Bernardino and Stockton, Calif., which both filed for Chapter 9 in recent years, followed a similar trend. The cities opted to improve their finances by cutting retiree health benefits instead of pensions — an untraditional move in bankruptcy filings.

These unconventional restructurings worry creditors because they may set a new precedent in future cases: If other states and territories are given bankruptcy protection, that would negatively impact bondholders. Bondholders had hoped to sue the island for the $2 billion in bond payments they were owed, but PROMESA protects Puerto Rico — at least for now.

Economists say it's become unpredictable what states are able to do to avoid and recover from financial insolvency. Illinois, for example, has more than $7 billion in unpaid bills. It recently saw its credit rating downgraded to the lowest level of any state since 1992, and it has one of the least-funded pension plans in the country.

In the months and years to come, Puerto Rico hopes to model itself after Detroit's recovery, according to Gov. Alejandro García Padilla. Just a few years after filing for bankruptcy, the Motor City has started to see a revitalization. Up to 1,400 apartments are set to open in the heart of the city this year and more businesses — including dozens of start-ups — have opened downtown.

Puerto Rico’s recovery may be tougher, Padilla admits. The fiscal downturn has caused many residents to leave the island — the population of children under five is half of what it was in 2000. And the Zika virus, which has been declared a public health emergency in Puerto Rico, offers a new challenge.

“It’s going to take some time to reverse the drain that’s been ongoing,” said Padilla.

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