

State of Arizona  
House of Representatives  
Fifty-first Legislature  
Second Regular Session  
2014

# HOUSE BILL 2331

AN ACT

AMENDING SECTIONS 20-1801, 20-1802, 20-1803, 20-1804, 20-1805, 20-1807 AND  
20-1808, ARIZONA REVISED STATUTES; RELATING TO LIFE CARE CONTRACTS.

(TEXT OF BILL BEGINS ON NEXT PAGE)

1 Be it enacted by the Legislature of the State of Arizona:

2 Section 1. Section 20-1801, Arizona Revised Statutes, is amended to  
3 read:

4 ~~20-1801.~~ Definitions

5 In this chapter, unless the context otherwise requires:

6 1. "Assets of a life care facility" means those assets held in the  
7 name of the life care facility only.

8 2. "CONTRACT HOLDER" MEANS A PERSON WHO ENTERS INTO A LIFE CARE  
9 CONTRACT WITH A PROVIDER OR WHO IS DESIGNATED, IN A LIFE CARE CONTRACT, TO BE  
10 A PERSON PROVIDED WITH SERVICES IN THE PERSON'S PRIVATE RESIDENCE WITH THE  
11 RIGHT TO FUTURE ACCESS TO SERVICES, BOARD AND LODGING IN A FACILITY.

12 ~~2.~~ 3. "Department" means the department of insurance.

13 ~~3.~~ 4. "Director" means the director of the department of insurance.

14 ~~4.~~ 5. "Entrance fee" means an initial or deferred transfer to a  
15 provider of a sum of money or property, made or promised to be made by a  
16 person entering into a life care contract, which assures a resident **OR**  
17 **CONTRACT HOLDER** of services pursuant to a life care contract.

18 ~~5.~~ 6. "Facility":

19 (a) Means a place or places in which a provider undertakes to provide  
20 a resident with nursing services, medical services or health-related  
21 services, in addition to board and lodging, for a term in excess of one year  
22 or for life pursuant to a life care contract.

23 (b) **DOES NOT INCLUDE A CONTRACT HOLDER'S PRIVATE RESIDENCE.**

24 ~~6.~~ 7. "Life care contract" means a contract to provide to a person  
25 for the duration of such person's life or for a term in excess of one year  
26 nursing services, medical services or health-related services, as defined in  
27 section 36-401, in addition to board and lodging for such person in a  
28 facility **OR SERVICES IN THE PERSON'S PRIVATE RESIDENCE WITH THE RIGHT TO**  
29 **FUTURE ACCESS TO SERVICES, BOARD AND LODGING IN A FACILITY**, conditioned upon  
30 the transfer of an entrance fee to the provider of such services in addition  
31 to or in lieu of the payment of regular periodic charges for the care and  
32 services involved.

33 ~~7.~~ 8. "Living unit" means an apartment, room or other area within a  
34 facility set aside for the exclusive use of one or more identified residents.

35 ~~8.~~ 9. "Manager" means a corporation, partnership, association, joint  
36 stock company, trust, or any other unincorporated organization which is  
37 contracted with to manage the residential section or health related section,  
38 or both, of a life care facility.

39 ~~9.~~ 10. "Permit" means a permit to enter into life care contracts  
40 issued by the department of insurance.

41 ~~10.~~ 11. "Promoter" means the primary person who is employed to consult  
42 or to promote the establishment of a life care facility.

43 ~~11.~~ 12. "Provider" means a person who provides services pursuant to a  
44 life care contract.

1           ~~12.~~ 13. "Resident" means a person who enters into a life care contract  
2 with a provider or who is designated, in a life care contract, to be a person  
3 provided with services, board and lodging **IN A LIVING UNIT OR AT A FACILITY.**

4           Sec. 2. Section 20-1802, Arizona Revised Statutes, is amended to read:  
5           **20-1802. Permit required; application; definition**

6           A. No person may solicit or enter into a life care contract as a  
7 provider or as a provider extend the term of an existing life care contract  
8 except pursuant to this chapter.

9           B. To qualify for a permit to enter into life care contracts with  
10 respect to a particular facility **OR TO PROVIDE SERVICES IN A CONTRACT**  
11 **HOLDER'S PRIVATE RESIDENCE WITH THE OBLIGATION TO PROVIDE FUTURE ACCESS TO**  
12 **SERVICES, BOARD AND LODGING TO THE CONTRACT HOLDER IN A FACILITY,** a person  
13 shall file an application for a permit with the department on permit  
14 application forms provided by the department that shall include as an exhibit  
15 a copy of the proposed form of life care contract to be entered into with  
16 residents at each facility **AND THE PROPOSED FORM OF LIFE CARE CONTRACT TO BE**  
17 **ENTERED INTO WITH CONTRACT HOLDERS TO PROVIDE SERVICES AT A CONTRACT HOLDER'S**  
18 **PRIVATE RESIDENCE WITH THE RIGHT TO FUTURE ACCESS TO SERVICES, BOARD AND**  
19 **LODGING AT EACH FACILITY.** The application shall contain the following  
20 information:

21           1. The name and business address of the applicant.

22           2. The name, the address and a description of the physical property of  
23 the facility.

24           3. The terms and conditions of the life care contracts to be used by  
25 the applicant, including the services to be provided to residents **AND**  
26 **CONTRACT HOLDERS,** pursuant to the contract and the fees or charges to be paid  
27 by residents **AND CONTRACT HOLDERS,** including the method of payment of the  
28 fees or charges.

29           4. If the applicant is not an individual, such as a corporation,  
30 partnership or trust, a statement naming the fiscal year end date that is the  
31 last day of a calendar month and the type of legal entity and listing the  
32 interest and extent of such interest of each principal in the entity.

33           5. If the applicant is not an individual, a biographical affidavit on  
34 a form approved by the director for each of the members of the board of  
35 directors, officers, trustees or managing partners.

36           6. The estimated number of residents of the facility to be provided  
37 services by the applicant pursuant to the life care contracts **AND THE**  
38 **ESTIMATED NUMBER OF CONTRACT HOLDERS WHO WILL RECEIVE SERVICES IN THEIR**  
39 **PRIVATE RESIDENCES WITH THE RIGHT TO FUTURE ACCESS TO SERVICES, BOARD AND**  
40 **LODGING AT THE FACILITY.**

41           7. A statement of the provisions that have been made or will be made  
42 to provide reserve funding or security by the provider to enable the provider  
43 to fully perform the provider's obligations pursuant to life care contracts,  
44 including the establishment of escrow accounts, accounts in financial  
45 institutions, trusts or reserve funds.

1           8. A statement as to whether the applicant was or is affiliated with a  
2 religious, charitable or other nonprofit organization, the extent of any  
3 affiliation and the extent to which the affiliate organization will be  
4 responsible for the financial and contract obligations of the applicant.

5           9. If the applicant is a subsidiary corporation or the affiliate of  
6 another corporation, a statement identifying the parent corporation or the  
7 other affiliate corporation and the primary activities of the parent or other  
8 affiliate corporation.

9           10. A description of the business experience of the provider in the  
10 operation of similar facilities and, if the facility will be managed on a  
11 day-to-day basis by a corporation or organization other than the provider, a  
12 description of the business experience of the manager in the operation or  
13 management of similar facilities.

14           11. A statement as to whether the applicant, a promoter, a principal, a  
15 parent or subsidiary corporation or an affiliate has had any injunctive or  
16 restrictive order of a court of record, or any suspension or revocation of  
17 any state or federal license or permit, arising out of or relating to  
18 business activity or health care applied against it, including without  
19 limitation actions affecting a license to operate a foster care facility, a  
20 health care institution, a retirement home or a home for the aged.

21           12. A statement of any periodic rates to be initially paid by residents  
22 AND CONTRACT HOLDERS, the method by which the rates are determined and the  
23 manner by which the provider may adjust the rates in the future. If the  
24 facility is already in operation, or if the provider operates one or more  
25 similar facilities within this state, the statement must include tables  
26 showing the frequency and average dollar amount of each increase in periodic  
27 rates at each facility for the previous five years or any shorter period as  
28 the facility may have been operated by the provider. IF A PROVIDER IS  
29 PROVIDING SERVICES TO A CONTRACT HOLDER IN THE PERSON'S RESIDENCE, THE  
30 STATEMENT MUST INCLUDE THE FREQUENCY AND AVERAGE DOLLAR AMOUNT OF EACH  
31 INCREASE IN PERIODIC RATES FOR CONTRACT HOLDERS FOR THE PREVIOUS FIVE YEARS  
32 OR ANY SHORTER PERIOD AS THE PROVIDER HAS BEEN PROVIDING SERVICES TO CONTRACT  
33 HOLDERS IN THEIR PRIVATE RESIDENCES.

34           13. A statement of the terms and conditions under which a life care  
35 contract may be canceled by the provider or resident OR CONTRACT HOLDER,  
36 including any health and financial conditions required for a person to  
37 continue as a resident OR CONTRACT HOLDER and any conditions under which all  
38 or any portion of the entrance fee will be refunded by the provider.

39           14. If construction or purchase of the facility has not yet been  
40 completed, a statement of the anticipated source and application of the  
41 monies to be used in the purchase or construction, including all of the  
42 following:

43           (a) An estimate of the cost of purchasing or constructing and  
44 equipping the facility including related costs as financing expense, legal  
45 expense, land costs, occupancy development costs and all other similar costs

1 that the provider expects to incur or become obligated for before the  
2 commencement of operations.

3 (b) An estimate of the total entrance fees to be received from  
4 residents on completion of occupancy.

5 (c) A description of any mortgage loan or other long-term financing  
6 intended to be used for the financing of the facility, including the  
7 anticipated terms and costs of the financing.

8 (d) An estimate of any funds that are anticipated to be necessary to  
9 fund start-up losses and to assure full performance of the obligations of the  
10 provider pursuant to life care contracts including any reserve fund escrow  
11 required by the director pursuant to section 20-1806.

12 15. Certified financial statements of the provider, promoter and  
13 manager as of a date not more than ninety days before the date the permit  
14 application is filed, that shall include a balance sheet and the related  
15 statements of income, retained earnings or equity and changes in financial  
16 position for the three most recent fiscal years or any shorter period of time  
17 as the provider, promoter or manager has been in existence. Each of these  
18 statements shall be prepared in accordance with generally accepted accounting  
19 principles and reported on by a certified public accountant in accordance  
20 with generally accepted auditing standards. If the fiscal year ended more  
21 than ninety days before the date of filing, the provider shall include an  
22 income statement, that need not be certified, covering the period between the  
23 date the fiscal year ended and a date not more than ninety days before the  
24 date the application is filed.

25 16. A feasibility study that shall include a financial forecast of the  
26 life care facility estimating the most probable financial position, results  
27 of operations and changes in financial position for the immediately  
28 succeeding five year period. The feasibility study must set forth the  
29 actuarial assumptions for determining that the project has sufficient  
30 revenues and funds, including reserves, for the project to continue as a  
31 viable operating concern. The study must include all of the following:

32 (a) Beginning cash balance, and in the event that operation of the  
33 facility has not yet commenced, the beginning cash balance shall be  
34 consistent with the statement of anticipated source and application of funds  
35 described in paragraph 14.

36 (b) Anticipated earnings on cash reserves.

37 (c) Estimates of net receipts from entrance fees, other than entrance  
38 fees included in the statement of source and application of funds required  
39 under paragraph 14, less estimated entrance fee refunds and a description of  
40 the actuarial basis and method of calculation for the projection of entrance  
41 fee receipts.

42 (d) An estimate of gifts or bequests if any are to be relied on to  
43 meet operating expenses.

44 (e) A projection of estimated income from fees and charges other than  
45 entrance fees, showing individual rates presently anticipated to be charged,

1 including a description of the assumptions used for calculating the effect on  
2 the income of the facility of subsidized health services to be provided  
3 pursuant to the life care contracts.

4 (f) A projection of estimated operating expenses of the facility AND  
5 FOR PROVIDING SERVICES IN CONTRACT HOLDERS' PRIVATE RESIDENCES, including a  
6 description of the assumptions used in calculating the expenses, and separate  
7 allowances for the replacement of equipment and furnishings and anticipated  
8 major structural repairs or additions.

9 (g) An estimate of annual payments of principal and interest required  
10 by any mortgage loan or other long-term financing.

11 17. An actuarial study prepared by a qualified actuary to be submitted  
12 with the feasibility study for the purpose of demonstrating that the project  
13 has sufficient revenues and funds, including reserves, for the project to  
14 continue as a viable operating concern. The actuarial study shall include a  
15 cash flow projection, an evaluation of the adequacy of current pricing  
16 structures and an analysis of the long-term relationship between the  
17 project's assets and liabilities.

18 18. If the feasibility study required by paragraph 16 indicates that  
19 the provider will have cash balances over and above two months' projected  
20 operating expenses of the facility, a description of the manner in which the  
21 reserve funds will be invested and the persons who will be making the  
22 investment decisions.

23 C. The application shall be signed under oath by the chief executive  
24 officer of the applicant.

25 D. Copies of the escrow agreements executed with an escrow agent  
26 pursuant to sections 20-1804 and 20-1806 shall be recorded as exhibits to the  
27 application.

28 E. The life care contract shall provide that any person entering into  
29 the contract shall have a period of seven days within which to rescind the  
30 life care contract without penalty or further obligation beginning with the  
31 first full calendar day following the last to occur of the execution of the  
32 contract, the payment of an initial sum of money as a deposit or application  
33 fee or receipt of a copy of the provider's most recent annual report if the  
34 provider has filed an annual report with the director pursuant to section  
35 20-1807, or, if the provider has not filed an annual report, a copy of the  
36 provider's application. In the event of a rescission, all money or property  
37 paid or transferred by the person shall be fully refunded by the provider. A  
38 person shall not be required to move into a facility OR BEGIN RECEIVING  
39 SERVICES IN THE PERSON'S PRIVATE RESIDENCE until after the expiration of the  
40 seven-day rescission period.

41 F. The director may charge an applicant the fee prescribed in section  
42 20-167 for processing the application filed pursuant to subsection B of this  
43 section.

44 G. Nothing in this article requires the director to determine the  
45 actual financial condition of any life care contract provider. The approval

1 of a permit indicates only that the entity appears to be financially viable  
2 based on the information provided to the director.

3 H. For the purposes of this section, "principal" means any person or  
4 entity having a ten per cent or more financial interest or, if the legal  
5 entity is a trust, each beneficiary of the trust holding a ten per cent or  
6 more beneficial interest.

7 Sec. 3. Section 20-1803, Arizona Revised Statutes, is amended to read:  
8 20-1803. Issuance of permit

9 A. The director shall review applications for completeness and issue a  
10 report of deficiencies to the applicant within sixty days of receipt of the  
11 application. The director shall issue a permit to the provider within thirty  
12 days of the receipt of a completed application and exhibits and payment of  
13 the fee by the applicant, and proof of compliance by the applicant with the  
14 provisions of sections 20-1804 and 20-1806. If the applicant has already  
15 paid the fee as a part of the process to receive a provisional permit under  
16 subsection E of this section, this subsection does not establish an  
17 additional fee. The director shall issue an order refusing the permit if the  
18 applicant does not meet the requirements therefor. The permit shall be  
19 subject to the conditions imposed pursuant to sections 20-1804 through  
20 20-1806 allowing the provider to enter into life care contracts with respect  
21 to the number of living units and facility **AND THE NUMBER OF CONTRACT HOLDERS**  
22 **TO BE PROVIDED SERVICES IN THEIR PRIVATE RESIDENCES** described in the  
23 application.

24 B. A permit issued under this section shall remain in full force,  
25 subject to the provisions of this chapter.

26 C. A permit issued pursuant to this section shall contain, in a  
27 prominent location, a statement that the issuance of a permit pursuant to  
28 section 20-1803 does not constitute approval, recommendation or endorsement  
29 by the department or director, nor does such a permit evidence the accuracy  
30 or completeness of the information set out in the application or the annual  
31 report of the provider.

32 D. All permits shall be nontransferable.

33 E. The director shall review an application for a provisional permit  
34 for completeness and issue a report of deficiencies to the applicant within  
35 sixty days of receipt of the application. The director may grant an  
36 applicant a provisional permit within thirty days of the receipt of a  
37 completed application and exhibits and payment of the fee by the applicant if  
38 the applicant has submitted an application containing the information  
39 required in ~~paragraphs 1 through 15 of subsection B of~~ section 20-1802,  
40 **SUBSECTION B, PARAGRAPHS 1 THROUGH 15**. Under the provisional permit, the  
41 applicant may solicit reservations for residences in the facility **AND**  
42 **RESERVATIONS FOR THE PROVISION OF SERVICES IN PRIVATE RESIDENCES** and collect  
43 deposits therefor. The applicant shall establish a trust account in which  
44 all reservation deposits shall be placed. The person entering into the  
45 contract for a reservation may rescind the agreement at any time prior to

1 entering into the life care contract. In the event the reservation agreement  
2 is rescinded, all money or property, including accrued interest thereon,  
3 shall be returned to the person.

4 Sec. 4. Section 20-1804, Arizona Revised Statutes, is amended to read:  
5 20-1804. Entrance fee escrow

6 A. As a condition for the issuance of a permit pursuant to section  
7 20-1803, the director shall require that the provider establish an escrow  
8 account with a licensed agent which provides that all of any entrance fee  
9 received by the provider prior to the date the resident is permitted to  
10 occupy his or her living unit in the facility OR THE DATE THE CONTRACT HOLDER  
11 IS TO BEGIN RECEIVING SERVICES IN HIS OR HER PRIVATE RESIDENCE be placed in  
12 escrow with a bank, trust company or other escrow agent approved by the  
13 director, subject to the condition that such funds may be released only as  
14 follows:

15 1. IF THE ENTRANCE FEE APPLIES TO A CONTRACT HOLDER WHO WILL BE  
16 RECEIVING SERVICES IN HIS OR HER PRIVATE RESIDENCE, THE ENTRANCE FEE SHALL BE  
17 RELEASED TO THE PROVIDER AT SUCH TIME AS THE LIFE CARE CONTRACT COMMENCES.

18 ~~1.~~ 2. If the entrance fee applies to a living unit which has been  
19 previously occupied in the facility, the entrance fee shall be released to  
20 the provider at such time as the living unit becomes available for occupancy  
21 by the new resident.

22 ~~2.~~ 3. If the entrance fee applies to a living unit which has not  
23 previously been occupied by any resident, the entrance fee, or that portion  
24 of the entrance fee not to be held in escrow pursuant to section 20-1806,  
25 shall be released to the provider at such time as the director is satisfied  
26 that all of the following conditions exist:

27 (a) Construction or purchase of the facility has been substantially  
28 completed and an occupancy permit covering the living unit has been issued by  
29 the local government having authority to issue such permits.

30 (b) A commitment has been received by the provider for any permanent  
31 mortgage loan or other long-term financing described in the statement of  
32 anticipated source and application of funds submitted by the provider as part  
33 of its permit application, and any conditions of the commitment prior to  
34 disbursement of funds thereunder have been substantially satisfied.

35 (c) Aggregate entrance fees received or receivable by the provider  
36 pursuant to binding life care contracts, plus the anticipated proceeds of any  
37 first mortgage loan or other long-term financing commitment are equal to not  
38 less than ninety per cent of the aggregate cost of constructing or  
39 purchasing, equipping and furnishing the facility plus not less than ninety  
40 per cent of the funds estimated in the statement of anticipated source and  
41 application of funds submitted by the provider as part of its permit  
42 application, to be necessary to fund start-up losses and assure full  
43 performance of the obligations of the provider pursuant to life care  
44 contracts.

1 B. If the funds in an escrow account required to be established under  
2 subsection A are not released within such time as provided by rules and  
3 regulations issued by the director, then such funds shall be returned by the  
4 escrow agent to the persons who had made payment to the provider.

5 C. An entrance fee held in escrow may be returned by the escrow agent  
6 to the person or persons who had made payment to the provider at any time  
7 upon receipt by the escrow agent of notice from the provider that such person  
8 is entitled to a refund of the entrance fee.

9 D. Nothing in this section shall be interpreted as requiring the  
10 escrow of any nonrefundable application fee, designated as such in the permit  
11 application required by section 20-1802, received by the provider from a  
12 prospective resident OR CONTRACT HOLDER.

13 Sec. 5. Section 20-1805, Arizona Revised Statutes, is amended to read:  
14 20-1805. Recording of lien by director

15 A. The director shall, as a condition to granting a permit to an  
16 applicant, record with the county recorder of any county a notice of lien  
17 against the facility's properties on behalf of all residents AND CONTRACT  
18 HOLDERS who enter into life care contracts with the applicant to secure  
19 performance of the provider's obligations to residents AND CONTRACT HOLDERS  
20 pursuant to life care contracts.

21 B. From the time of such recording there exists a lien for an amount  
22 equal to the reasonable value of services to be performed under a life care  
23 contract in favor of each resident AND CONTRACT HOLDER on the land and  
24 improvements of the facility's properties owned by the provider, not exempt  
25 from execution, which are listed in the notice of lien filed pursuant to  
26 subsection C of this section and which are located in the county in which the  
27 notice of lien is recorded.

28 C. The lien shall be perfected by the director by executing by  
29 affidavit the notice and claim of lien, which shall contain:

30 1. The legal description of the lands and improvements to be charged  
31 with a lien.

32 2. The name of the owner of the property affected.

33 3. A statement providing that the lien has been filed by the director  
34 pursuant to section 20-1805.

35 D. The lien may be released or partially released at the request of  
36 the applicant if, in the judgment of the director, such release or partial  
37 release inures to the benefit of the residents AND CONTRACT HOLDERS and the  
38 performance of the provider's obligations to the residents AND CONTRACT  
39 HOLDERS.

40 E. The lien may be foreclosed by civil action. Any number of persons  
41 claiming liens against the same property pursuant to this section may join in  
42 the same action. If separate actions are commenced, the court may  
43 consolidate such actions. The court shall, as part of the costs, allow  
44 reasonable attorney's fees for each claimant who is a party to the action.

1 F. In a civil action filed pursuant to this section, the judgment  
2 shall be given in favor of each resident **AND CONTRACT HOLDER** having a lien  
3 who has joined in the foreclosure action for the amount equal to the  
4 reasonable value of services to be performed under a life care contract in  
5 favor of each resident **AND CONTRACT HOLDER**. The court shall order the  
6 sheriff to sell any property subject to the lien at the time judgment is  
7 given, in the same manner as real and personal property is sold on execution.  
8 The lien for the reasonable value of services to be performed under a life  
9 care contract shall be on equal footing with claims of other residents **AND**  
10 **CONTRACT HOLDERS**. If a sale is ordered and the property sold and the  
11 proceeds of the sale are not sufficient to discharge all liens of residents  
12 **AND CONTRACT HOLDERS** against the property, the proceeds shall be prorated  
13 among the respective residents **AND CONTRACT HOLDERS**.

14 G. The liens provided for in this section are preferred to all liens,  
15 mortgages or other encumbrances upon the property attaching subsequently to  
16 the time the lien is recorded and are preferred to all unrecorded liens,  
17 mortgages and other encumbrances. The amount secured by any lien having  
18 priority to the lien filed pursuant to this section may not be increased  
19 without prior approval of the director.

20 H. The director shall file a release of the lien upon proof of  
21 complete performance of all obligations to residents **AND CONTRACT HOLDERS**  
22 pursuant to life care contracts.

23 I. The director may subordinate any lien filed pursuant to this  
24 section to the lien of a first mortgage or other long-term financing obtained  
25 by the provider, regardless of the time at which the subsequent lien  
26 attaches.

27 Sec. 6. Section 20-1807, Arizona Revised Statutes, is amended to read:  
28 20-1807. Annual report; civil penalty

29 A. Each year not later than ninety days after the last day of the  
30 provider's fiscal year, each provider shall file with the department an  
31 annual report accompanied by the fee prescribed in section 20-167. The  
32 annual report shall include the information required by section 20-1802,  
33 subsection B, except that the information required by section 20-1802,  
34 subsection B, paragraphs 5, 15 and 17 shall be filed in accordance with the  
35 provisions of subsection C of this section. The annual report need not  
36 include the information required by section 20-1802, subsection B,  
37 paragraph 16. The annual report shall be made on forms provided by the  
38 department. The annual report and any amendment to the annual report shall  
39 be signed under oath by the chief executive officer of the provider. For  
40 good cause, the director may extend the due date for a provider to file its  
41 annual report and pay the required fee.

42 B. A provider shall amend its annual report on file with the  
43 department at any time, without the payment of any additional fee, if an  
44 amendment is necessary to prevent the annual report from containing a

1 material misstatement of fact or omitting to state a material fact required  
2 to be stated.

3 C. Any provider, manager or promoter shall comply with the  
4 requirements of this section as follows:

5 1. Information required by section 20-1802, subsection B, paragraph 5  
6 shall be filed:

7 (a) Immediately on the substitution or installation of a member of the  
8 board of directors or an officer, trustee or managing partner different from  
9 the information disclosed in the provider's application or submission  
10 pursuant to subdivision (b).

11 (b) Every three years after the initial filing of the biographical  
12 affidavit by the provider.

13 2. Certified financial statements required by section 20-1802,  
14 subsection B, paragraph 15 for the two most recent fiscal years shall be  
15 filed with the annual report by the provider and manager only. The certified  
16 financial statements of the promoter shall be filed with the annual report  
17 unless the promoter is not currently employed by the provider.

18 3. The actuarial study required by section 20-1802, subsection B,  
19 paragraph 17 shall be filed by the provider on a triennial basis beginning  
20 with the year in which resident occupancy began at the facility OR CONTRACT  
21 HOLDERS BEGAN RECEIVING SERVICES pursuant to the permit issued to the  
22 provider. The director may require a provider to file an actuarial study on  
23 a more frequent basis if the director deems it necessary and may adjust  
24 subsequent triennial filings accordingly.

25 D. A provider shall not change the fiscal year end date disclosed  
26 pursuant to section 20-1802, subsection B, paragraph 4 without the prior  
27 approval of the director. The director shall approve the change if the  
28 commissioner of the internal revenue service grants a request for a change of  
29 a fiscal year pursuant to 26 United States Code section 442.

30 E. Assets shall be reported at values determined pursuant to sections  
31 20-511 through 20-515. If the director deems it necessary to value any real  
32 estate the director may employ one or more competent appraisers for that  
33 purpose, and the reasonable expense shall be borne by the provider.

34 F. The director may assess and collect a civil penalty of not more  
35 than twenty-five dollars for each day the annual report is late against a  
36 provider who fails to file the annual report timely accompanied by the  
37 required fee.

38 Sec. 7. Section 20-1808, Arizona Revised Statutes, is amended to read:

39 20-1808. Ratio of assets to liabilities; report; rehabilitation  
40 of provider

41 A. The provider shall possess assets in the first year of operation  
42 equal to at least seventy-five per cent of the unamortized endowment fees  
43 plus all other liabilities including long-term debt. The unamortized  
44 endowment fees shall be based on life expectancy of purchasers. Thereafter,  
45 the provider shall at all times possess assets in an amount sufficient to

1 assure full performance of the obligations of the provider pursuant to life  
2 care contracts including any reserve fund escrow required by the director  
3 pursuant to section 20-1806.

4 B. If revenues or funds including reserves are inadequate or projected  
5 to be inadequate pursuant to the annual report or an actuarial report or if  
6 the provider does not meet the requirements of subsection A of this section,  
7 the director may employ an independent management consultant experienced in  
8 the operation of life care facilities, at the expense of the provider, who  
9 shall examine the financial structure and operations of the provider and make  
10 recommendations on remedial action to the director. The director shall not  
11 be bound by such recommendations.

12 C. At any time the director receives notice from the escrow agent that  
13 section 20-1806 has not been complied with, or at any other time when the  
14 director has reason to believe that the provider is in a financially unsound  
15 or unsafe condition, or that its condition is such that it may otherwise be  
16 unable to fully perform its obligations pursuant to life care contracts, or  
17 when the provider fails to implement the director's recommendations as a  
18 result of a management consultant's report or when it is obvious to the  
19 director that to obtain the services of a financial consultant under  
20 subsection B of this section would be futile, the director, through the  
21 attorney general, shall apply to the superior court in the county in which  
22 the provider's facility is located for an order directing him to assume  
23 management and possession of the provider's facility and to rehabilitate the  
24 provider to enable it to fully perform its obligation pursuant to life care  
25 contracts. The court shall act upon the application upon notice to the  
26 provider, and any objection to the petition shall be filed with the court  
27 within the time prescribed by such notice.

28 D. If the court upon hearing finds that the provider is in a  
29 financially unsound or unsafe condition or that its condition is such that it  
30 may otherwise be unable to fully perform its obligations pursuant to life  
31 care contracts, the court shall issue an order directing the director to take  
32 possession of the property of the provider and to conduct the business  
33 thereof, and to take such steps toward removal of the causes and conditions  
34 which have made rehabilitation necessary, as the court may direct. The order  
35 shall include a provision directing the issuance of a notice of the  
36 rehabilitation proceedings to the residents at such facility, **TO THE**  
37 **PROVIDER'S CONTRACT HOLDERS** and to such other interested persons as the court  
38 shall direct.

39 E. Appointment of the director to rehabilitate a provider shall  
40 authorize the director to:

41 1. Take possession of and preserve, protect and recover any assets,  
42 books and records or property of the provider, including claims or causes of  
43 action belonging to or which may be asserted by the provider and to deal with  
44 such property in his own name in the capacity as director, and purchase at

- 1 any sale any real estate or other asset upon which the provider may hold any  
2 lien or encumbrance or in which it may have an interest.
- 3 2. File, prosecute and defend or compromise any suit or suits which  
4 have been filed or which may thereafter be filed by or against such provider  
5 which are deemed by the director to be necessary to protect the provider or  
6 the residents OR CONTRACT HOLDERS or any property affected thereby.
- 7 3. Take possession of and deposit and invest any of the provider's  
8 available funds.
- 9 4. Pay all expenses of the rehabilitation.
- 10 5. Exercise such other powers and duties as may be provided by order  
11 of the court.
- 12 6. Appoint managers, supervisors or employees necessary to properly  
13 manage and operate the provider and the provider's facility.
- 14 7. Take possession of and, with the prior approval of the court, sell,  
15 exchange, lease, mortgage or otherwise dispose of any property of the  
16 provider by public sale, bidding or otherwise.
- 17 8. With the prior approval of the court, borrow money with or without  
18 security for the purpose of facilitating the rehabilitation of the provider.
- 19 9. Perform all duties of the provider.
- 20 10. Reject any executory contract to which the provider is a party.
- 21 11. Withdraw any sums remaining in the escrow account established  
22 pursuant to section 20-1806 for the purpose of rehabilitating the provider's  
23 facility.
- 24 F. The court may at any time during a rehabilitation proceeding issue  
25 such other instructions or orders as are deemed necessary to aid the director  
26 in the rehabilitation proceeding.
- 27 G. The director, or any interested person upon due notice to the  
28 director, at any time may apply to the court for an order terminating the  
29 rehabilitation proceedings and permitting the provider to resume possession  
30 of its property and the conduct of its business, but no such order shall be  
31 granted except when, after a full hearing, the court has determined that the  
32 purposes of the proceeding have been fully accomplished and that the facility  
33 can be returned to the provider's management without further jeopardy to the  
34 residents of the facility, creditors, owners of the facility, and to the  
35 public. An order terminating the rehabilitation proceeding shall be based  
36 upon a full report and accounting by the director of the conduct of the  
37 provider's officers during the rehabilitation and of the provider's current  
38 financial condition.
- 39 H. If at any time the director deems that further efforts to  
40 rehabilitate the provider would be useless, he may report to the court and  
41 apply for an order of liquidation and dissolution pursuant to title 10,  
42 chapter 14, article 3, if a corporation, or may apply for other appropriate  
43 relief for dissolving the provider and winding up its affairs. An order  
44 directing the liquidation or dissolution of the provider shall act as a  
45 revocation of the provider's permit issued pursuant to section 20-1803.

1           I. In connection with the rehabilitation proceedings, the director may  
2     appoint one or more special deputy directors of insurance to act for him and  
3     may employ such counsel, clerks or assistants as he deems necessary. The  
4     compensation of the special deputies, counsel, clerks or assistants and any  
5     expenses of taking possession of the provider's facility and of conducting  
6     the proceedings shall be set by the director, subject to approval of the  
7     court, and shall be paid out of the funds or assets of the provider.