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CHILD CARE IN ARIZONA: AN ECONOMIC OPPORTUNITY WITH WIDE IMPLICATIONS

AUTHORS: GLENN FARLEY & ZACH MILNE

ABOUT THE AUTHORS



Glenn Farley is CSI Arizona's Director of Policy & Research. Before joining CSI in 2022, Glenn worked in the Office of the Arizona Governor, most recently as Gov. Doug Ducey's Chief Economist and a policy advisor. In that role he advised on issues of tax, fiscal, and regulatory policy, and was one of the Governor's lead architects of his two major tax reforms – including the 2021 income tax omnibus which phased in a 2.50% flat tax (the lowest in the country). Glenn also led the budget team that produced the Executive revenue forecasts and caseload spending numbers that have helped ensure the longest run of structurally balanced budgets in State history. Glenn has a Master's Degree in Economics from Arizona State University's WP Carey College of Business, as well as a B.S. from Arizona State University. He was born and raised in Arizona where he now lives with his wife and two daughters and a son.



Zachary Milne is the Senior Economist and Research Analyst for the Common Sense Institute AZ. Zachary works with the Arizona research team to craft important and thoughtful research concerning the Arizona economy.

Prior to CSI, Zachary attended Arizona State University, where he first attained a bachelor's in economics and statistics, followed by a master's degree in economics. Zachary has also worked in the Arizona Governor's budget office, where he served as an economist. In this capacity he developed the state's revenue forecasts, and advised a team of budget analysts on the creation of K-12 and Medicaid caseload figures for the State's annual budget. He also advised the Executive policy and leadership teams on fiscal policy, and regularly presented detailed analyses on each of the dozens of tax bills introduced in the Arizona Legislature each year.

Zachary is originally from upstate New York, and is an enthusiastic NY Jets fan. He also served over eight years in the United States Air Force, and currently serves in the Arizona Air National Guard at the 161st Air Refueling Wing in Phoenix Arizona. He is a proud husband and father to four beautiful children.



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ABOUT COMMON SENSE INSTITUTE

Common Sense Institute is a non-partisan research organization dedicated to the protection and promotion of Arizona's economy. CSI is at the forefront of important discussions concerning the future of free enterprise and aims to have an impact on the issues that matter most to Arizonans. CSI's mission is to examine the fiscal impacts of policies, initiatives, and proposed laws so that Arizonans are educated and informed on issues impacting their lives. CSI employs rigorous research techniques and dynamic modelling to evaluate the potential impact of these measures on the Arizona economy and individual opportunity.

TEAMS & FELLOWS STATEMENT

CSI is committed to independent, in-depth research that examines the impacts of policies, initiatives, and proposed laws so that Americans are educated and informed on issues impacting their lives. CSI's commitment to institutional independence is rooted in the individual independence of our researchers, economists, and fellows. At the core of CSI's mission is a belief in the power of the free enterprise system. Our work explores ideas that protect and promote jobs and the economy, and the CSI team and fellows take part in this pursuit with academic freedom. Our team's work is informed by data-driven research and evidence. The views and opinions of fellows do not reflect the institutional views of CSI. CSI operates independently of any political party and does not take positions.

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INTRODUCTION

Arizona's child care system stands at a critical juncture. As the state's population has surged over the past two decades, the number of licensed child care providers has steadily declined – falling by nearly half since 2002. In multiple interviews conducted by CSI, local providers cited regulatory and labor costs, as well as long waitlists for low-income support programs as constricting their ability to provide more care at rates families can afford. Coincident with rising costs for services and burdensome regulations on the industry, this contraction has left many families struggling to find affordable, reliable care and has created substantial disparities in access across regions. Urban counties like Maricopa and Pima, while relatively better served, still face shortages, while Arizona's rural communities experience more severe shortages.

As a result, the cost of care has risen sharply, outpacing both inflation and household income growth. For many Arizona families, particularly those with infants, the price of licensed care consumes a significant share of monthly earnings, pushing parents – often mothers – out of the workforce or into informal care arrangements. These challenges are compounded by a complex regulatory environment and persistent labor shortages that constrain the supply of licensed providers.

This report examines the current landscape of child care in Arizona, tracing the long-term decline in providers, the rising cost of care, and the structural and regulatory factors shaping supply. It also estimates the scale of the state's child care gap and models the potential economic benefits of closing it. Together, these findings underscore the urgent need for policies that expand access, improve affordability, and strengthen Arizona's economy by enabling more parents to participate fully in the labor force.

As the state's population has surged over the past two decades, the number of licensed child care providers has steadily declined – falling by nearly half since 2002.

KEY FINDINGS

- In 2002, there were 5,126 licensed childcare providers in Arizona. As of 2024, there were just 2,779. A 46% decline, this has likely contributed to higher costs, longer waitlists, and declining access.
- This shortage is particularly acute in rural Arizona. **Santa Cruz County (with a population of 48,000) only has enough child care slots for 1% of its infant population.**
- But even highly urban Maricopa County – home to 60% of the state’s population and about two-thirds of its economy – only has enough slots for about 15% of its children under age six.
- The cost of care has risen rapidly, and public support cannot keep pace. Today, infant care costs about \$61/day (+42% from \$43/day in 2018) – **a prohibitive expense for minimum- and low-wage workers, who would need to work up to 90 hours per month just to afford child care** (over a third of a typical household’s total working hours). This effectively means the cost of child care locks at least one low-income parent out of the work force, absent other support.
- The opportunity cost of the child care gap is significant. **CSI estimates that eliminating this gap could draw approximately 50,000 workers into the labor force, increasing the size of Arizona’s economy by up to 5%** and generating as many as:
 - > 132,000 new jobs
 - > \$14 billion in state Gross Domestic Product
 - > \$13 billion in new personal income
 - > Almost \$669 million per year in new State tax revenues

THE CHILD CARE LANDSCAPE IN ARIZONA

Arizona's rapid population growth in recent years has placed increasing demands on the state's child care system, highlighting the challenges families face in finding accessible, affordable care. **Over the past two decades, the number of registered child care providers has declined sharply, dropping from 5,126 in 2002 to just 2,779 in 2024.**ⁱⁱ While the early years of this period saw a gradual decline – averaging about 1.6% per year – the pace of closures accelerated significantly in the years surrounding the COVID-19 pandemic, **with annual reductions exceeding 9% between 2018 and 2022.**^{iii iv} Although there has been some recovery through 2024, the total number of providers remains just over half of what it was two decades ago, reflecting a long-term contraction in the availability of formal child care providers across the state. The causes of this are complex and many - including labor shortages, low pay, and rising costs, including from increasingly stringent regulatory and licensing requirements.^{v vi vii viii}

This long-term decline in providers has tangible effects on families across Arizona. Today, an estimated 460,882 children under the age of 6 are potentially in need of child care;^{ix} there are just 256,267 licensed child care slots available to such children at the states fewer than 3,000 providers. Many communities

face limited availability of child care slots, particularly for infants and toddlers, while costs have continued to rise, placing a growing financial burden on households.

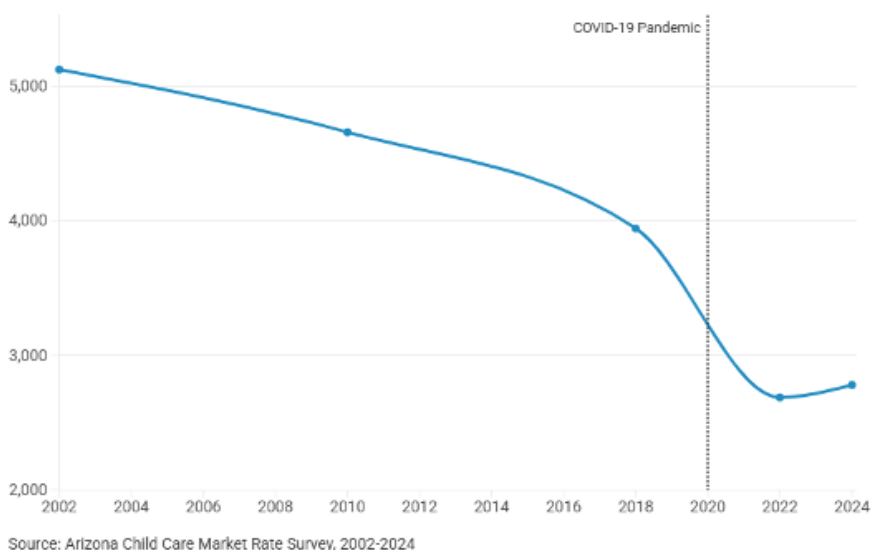
As a result, low-income families often contend with waitlists for assistance, longer commutes to available centers, or reliance on informal care arrangements.^x

Beyond the overall decline in providers, the availability of child care in the state differs drastically by county, reflecting unique challenges faced by, particularly, families

FIGURE 1.

Licensed Child Care Facilities in Arizona

Data from Arizona's bi-annual Child Care Market Rate Surveys shows a consistent decline in the number of child care facilities operating in the state. The number fell on average 1.6% between 2002 and 2018, but plummeted an average of 9.2% per year between 2018 and 2022, likely due to COVID-era restrictions which strained child care providers.



with new-born children and those living in more rural areas of the state. According to licensed provider data from the AZDHS, Arizona's most populous and urban county has a child care capacity-to-infant ratio of 0.13 – meaning there are only enough child care slots to cover roughly 13% of all infants in the county.

However, the ratio for Arizona's rural counties like Santa Cruz is much lower, with that county possessing enough licensed capacity to support only 1% of the county's infant population.

FIGURE 2.

Child Care Ratios for Arizona and Select Counties

The ratio of available child care slots to children is much lower in Arizona's rural areas and for younger age groups, reflecting the unique challenges faced by parents of young children, particularly in the state's least populated areas.

	Infants	One-year olds	Children 2-6	Slots:Infants	Slots:1yr Olds	Slots:All Other Ages
Arizona	70,165	72,857	421,890	0.11	0.23	0.55
Maricopa	43,972	47,016	273,987	0.13	0.26	0.60
Santa Cruz	424	585	2,992	0.01	0.04	0.31

Source: Arizona Department of Health Services, U.S. Census Bureau

Growing Costs Over Time

Coinciding with the decline in providers, families in Arizona have faced rapidly rising child care costs. Since 2018, the price of care has climbed by more than 60% for some provider models and age groups. For infants in licensed day care centers, daily costs rose 42.7% between 2018 and 2024.^{xi xii} These increases have been felt across the state, though not evenly: in Maricopa County, daily infant care costs increased by 42.3% over that period, while in Santa Cruz County the increase was even sharper at 52.1%. As of the 2024 Arizona Child Care Market Rate Survey, the median daily child care cost for children <1 year old is \$61.40 – versus just \$43.03 per day six years ago, according to the 2018 survey.

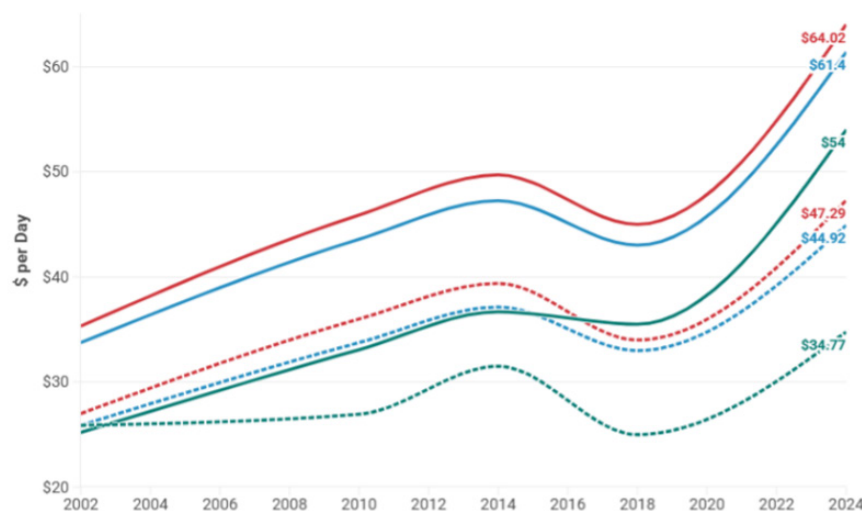
Overall, child care costs remain *highest* in Arizona's urban areas, particularly Maricopa County, despite possessing relatively better access to care.¹ CSI estimates that families must dedicate

FIGURE 3.

Daily Child Care Cost by Region

The cost of child care increased along with the fall of child care availability across the state between 2002 and 2024, despite some apparent improvements in affordability between 2014 and 2018.

■ Arizona ■ Maricopa County ■ Santa Cruz County



Source: Arizona Child Care Market Rate Surveys • Solid lines represent costs for infant care - dashed lines represent cost for pre-school care.

¹This may be a case of Baumol's "Cost Disease" – the cost of services often seems to rise with income and prevailing wages, even if overall service *quality* is unchanged. This assumes licensed providers are comparable in service quality between urban and rural Arizona, but providers in Maricopa County compete with other high-wage employers for labor (impacting final prices).

nearly 38 hours of work each month to cover the cost of care for a child under one year old in Maricopa county, compared to 34 hours in Santa Cruz County and 32 hours statewide.

However, pure comparisons between average wages and child care costs ignore important information on demographics and family composition, and comparisons can flip once these factors are accounted for. With more dual-earner households and higher average incomes, families in Maricopa ultimately spend a smaller share of their resources on care than those in more rural counties. On average, **full-time child care in Maricopa consumes about 14.8% of the median family income, compared to 18.8% in Santa Cruz.**

Zooming out to the rest of the nation, Arizona stands out as a relatively expensive state for families seeking child care. For toddlers (ages one to two), Arizona ranks 26th highest in absolute center-based costs. But when measured as a share of median family income – a more direct gauge of affordability – the state’s rank deteriorates to 18th.

FIGURE 4.

Hours of Work Needed to Afford Infant Center-Based Child Care in Arizona and Select Counties

Although the cost of monthly childcare is cheaper in the state's rural counties like Santa Cruz, these costs account for a much larger portion of median family income due to relative incomes in those areas, and family demographics.

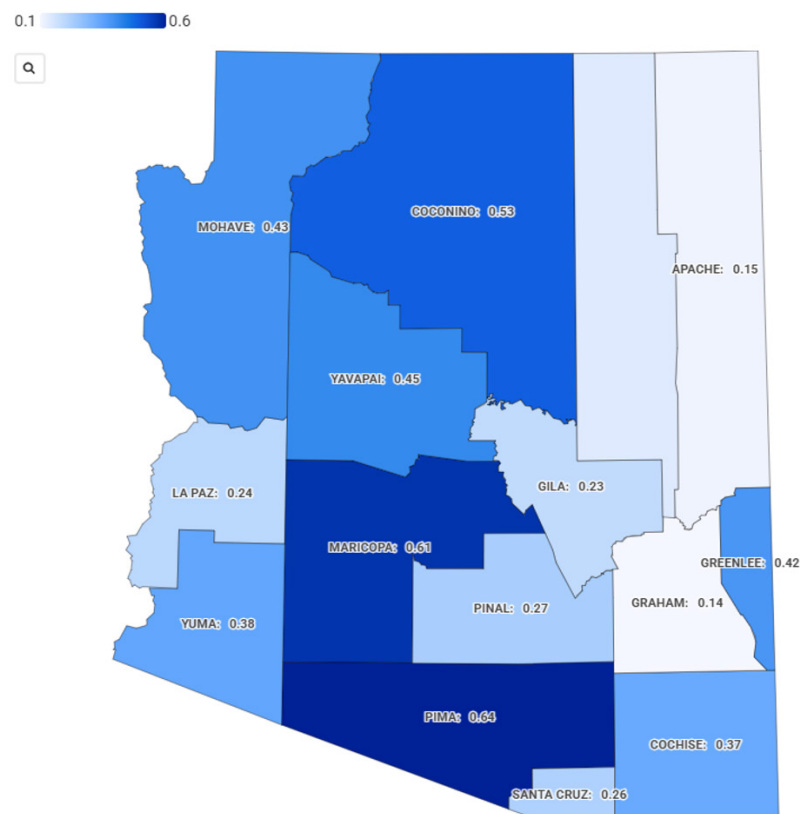
Area	State Minimum Wage	Average Hourly Wage	Cost of Monthly Child Care for Infants	Hours Needed at Minimum Wage	Hours Needed at Average Wage	Share of Median Family Income
Arizona	\$ 14.35	\$ 33.2	\$ 1,044	72.8	31.5	16.4%
Maricopa County		\$ 34.5	\$ 1,298	90.4	37.6	14.8%
Santa Cruz County		\$ 30.1	\$ 1,033	72.0	34.3	18.8%

Source: Bureau of Labor Statistics, Department of Labor - Women's Bureau • Average hourly wage data is not available for Maricopa and Santa Cruz Counties. CSI used the Phoenix-Mesa-Chandler area as a proxy for Maricopa county, and the average of the Sierra Vista-Douglas and Tucson Areas for Santa Cruz.

FIGURE 5.

Ratio of Licensed Child Care Slots to Children < 6 Years Old

The availability of child care varies drastically between the different regions of the state, with urban counties - like Maricopa and Pima - having much more availability compared to rural counties.



Source: Arizona Department of Health Services, U.S. Census Bureau

The affordability gap is even more striking for infant care, where Arizona ranks 20th in overall costs but 6th highest once median family income is accounted for.

The U.S. Department of Health and Human Services defines affordable child care to be that which takes up no more than 7% of a family's income. However, data shows that median costs across the nation well exceed this benchmark, especially in states like Arizona where costs for families with infants more than doubles it. Taking instead as a benchmark the average cost as a share of median family income across all states, costs in Arizona – at least for infant care – exceeds the national average by 3.4 percentage points, or more than 1.2 standard deviations. These figures underscore that while Arizona is not among the most expensive states in absolute terms, its affordability challenges are severe given the state's income distribution and family economic circumstances.

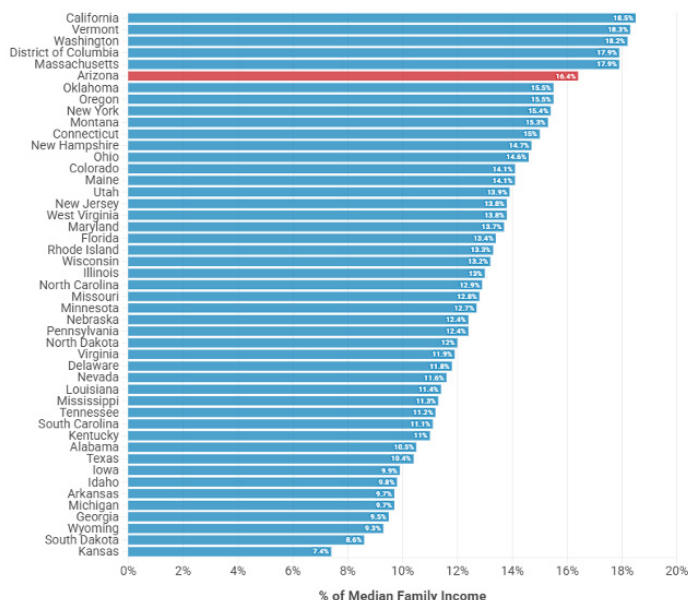
Center-Based vs. Home-Based Care

Center-based child care accounts for over 80% of child care facilities in the state, and over 98% of the child care capacity (total slots). However, home-based care provides an alternative to the center-based model and is often cheaper, though it is a much smaller share of the total market space. According to the U.S. Department of Labor's Women's Bureau, the median

FIGURE 6.

Center-Based Infant Child Care Costs Relative to Income

Arizona is the 6th most expensive state in terms of center-based infant child care costs relative to median family income, demonstrating the particular strain that the childcare shortage places on families in the Grand Canyon state.

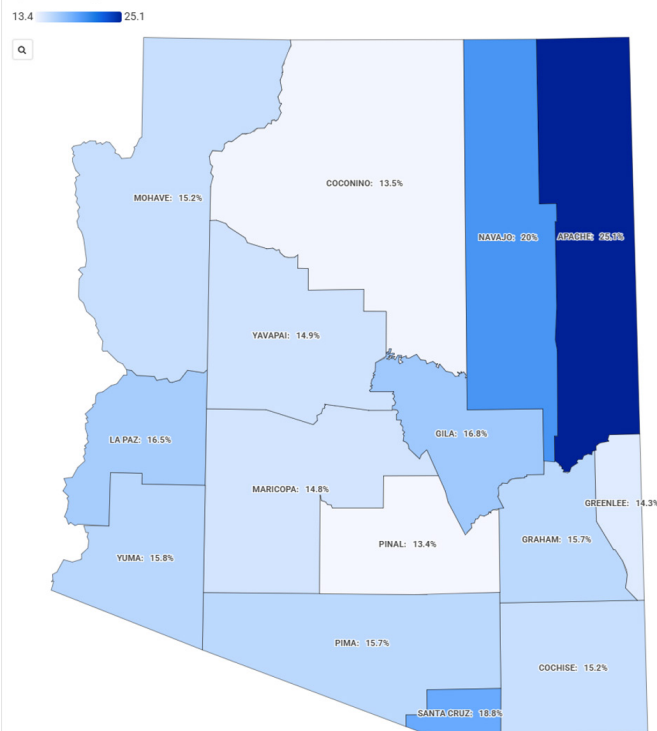


Source: U.S. Department of Labor - Women's Bureau

FIGURE 7.

Center-Based Child Care Costs for Infants - % of Median Family Income

Rural families typically must devote a much larger share of their income to child care costs, especially in Apache, Navajo, and Santa Cruz counties.



Source: U.S. Department of Labor - Women's Bureau

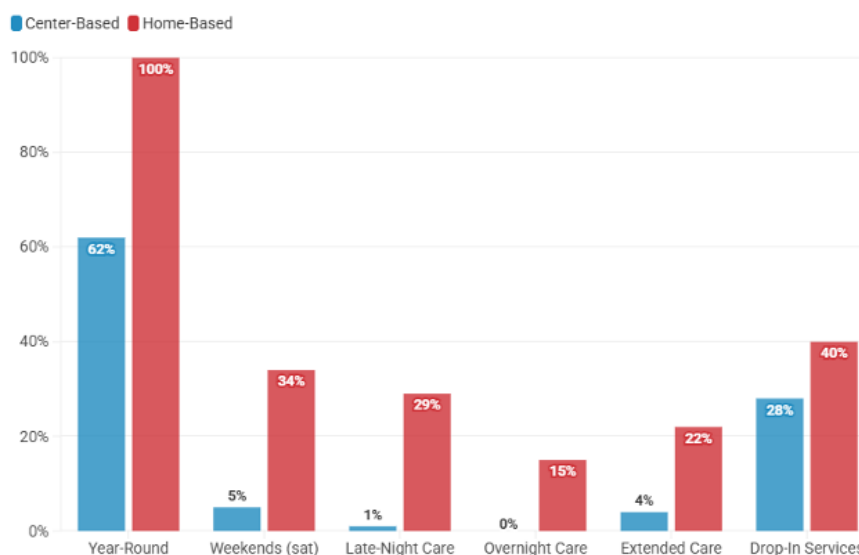
annual cost of home-based infant child care across the U.S. is nearly 21% cheaper compared to center-based models, while toddler and pre-school care averages 18% less expensive. According to the 2024 Arizona Child Care Market Survey, the median daily cost of child care in home-based settings is cheaper by upwards of 43% (infant care in certified family homes vs child care centers).

Home-based child care options not only provide cheaper alternatives to center-based care, but they more often provide flexible hours and operate year-round. Out of the 369 home-based providers surveyed in the 2024 Arizona Child Care Market Rate Survey, nearly all provided year-round care, while only 75% of the 1,171 child care centers did. Similar patterns exist for weekend, overnight, extended, and late-night care – especially important given that the federal Administration for Children and Families reports that nearly 40% of young children require child care during non-traditional hours.^{xiii} Only 6% of child care centers offer weekend care, while 42% of certified family homes and 29% of small group homes did.

FIGURE 8.

Share of Providers Offering Non-Traditional Care Options

Although home-based care providers represent only a small share of all licensed providers in the state, they offer the most flexible options for families - particularly low income families who more often need care during non-traditional hours.



Source: 2024 Arizona Child Care Market Rate Survey

WHY IS CHILD CARE SO EXPENSIVE?

Although child care workers are not generally highly compensated^{xiv}, child care as a service is extremely expensive. And costs have been going up and going up faster than inflation.^{xv} The result? Child care deserts, long waitlists, and growing demand for public assistance. While the causes are manifold, child care provision in Arizona, as in most of the United States, is heavily regulated. While parents want their children in safe and supportive environments, and licensing rules can help, the scope of operational requirements has changed significantly in the last decade. Since 2016, Arizona's licensed providers have been required to meet a growing volume of state and federal requirements to receive federal monies or receive their state license.

Although policymakers design these rules with the aim of protecting children and ensuring that care meets minimum quality standards, these benefits come with trade-offs: every additional mandate adds costs for providers, who already operate on slim margins in a labor-intensive industry.^{xvi} In this market, regulation plays a dual role – almost certainly improving quality but, at times, constraining the supply of care and contributing to its high cost.

Staff for licensed providers must also meet certain qualifications, including for facility directors a minimum of two years of child care experience, 72 hours of instruction, six credit hours or more in early childhood, child development, or a closely-related field from an accredited college or university, and must be 21 years of age.^{xvii} Interestingly, regulations prohibit teacher-caregiver aids and student-aides from counting towards minimum staff-to-child ratios, which further restricts the supply of child care services even when the number of staff far exceeds the minimum guidelines. This raises costs for providers and in turn limits the supply of services.

Arizona child care providers must also navigate licensing and other fees – which for child care centers can reach as high as \$2,575 per year just for the licensing fees charged by AZDHS, and in interviews with CSI were cited multiple times as a

“The licensing costs we have to pay are very high, and our insurance keeps increasing. Otherwise we could probably provide scholarships to a few low-income families”

– LOCAL CHILD CARE PROVIDER
IN ARIZONA

strain for local providers.^{xviii} Providers also face annual training mandates, square footage requirements, and zoning laws that dictate where and how centers may operate. For example, regulation requires at least 35 square feet of indoor activity space for each infant and 1-year-old child.^{xix} Those providers that wish to provide care to low-income recipients of Child Care Assistance (CCA) from AZDES are subject to additional rules and regulations, including the possession of more expensive insurance plans which represented a significant cost for those providers interviewed by CSI.

Perhaps the most restrictive regulations are placed on home-based providers, who as we already discussed more often provide the non-traditional type of care required by many children and families. These providers are capped completely on the number of children they can serve at each home from between 4 children² (Certified Family Child Care Home Providers), to a maximum of 10 (Child Care Group Homes).

Oversight responsibilities are spread across different agencies depending on the type of care setting as well, creating a patchwork system that can be confusing for providers to navigate. For new entrants to the child care market, these layers of regulation can pose a high barrier to entry, discouraging expansion and limiting the state's ability to rebuild its child care network in the wake of provider declines.

FIGURE 9.

Staff-to-Child Ratios for Licensed Child Care Settings

Staff-to-child ratios and other regulations are more stringent for home based providers - who at most can only provide care for up to 10 children - despite these providers offering the more flexible and inexpensive care options to low-income parents.

Care Setting	Infants	Age 1	Age 2	Age 3	Age 4	Age 5 and Above	Notes
Center-Based	1:5	1:6 or 2:13	1:8	1:13	1:15	1:20	If 6 or more enrolled children present a facility director and one additional staff member must be present.*
Child Care Group Home	1:5 or 2:6-10	1:5 or 2:6-10	1:5 or 2:6-10	1:5 or 2:6-10	1:5 or 2:6-10	1:5 or 2:6-10	Max of 10 children
Certified Family Home Provider	1:4 (1:6 if provider's own children are included)	1:4 (1:6 if provider's own children are included)	1:4 (1:6 if provider's own children are included)	1:4 (1:6 if provider's own children are included)	1:4 (1:6 if provider's own children are included)	1:4 (1:6 if provider's own children are included)	Max of 4 children for compensation (may include up to 2 of provider's own children)
Certified In-Home Provider	1:4	1:6	1:6	1:6	1:6	1:6	Maximum of 4-6 children
Registered Child Care Home	1:4	1:4	1:4	1:4	1:4	1:4	Maximum of 4 children

Source: Arizona Department of Health Services • *Teacher-caregiver-aides do not count towards staff-to-child ratios.

Labor Market Constraints

These structural challenges intersect with broader labor market issues. While official child care capacity is calculated using licensed space and regulatory ratios, the true number of available slots is often lower because providers struggle to recruit and retain staff, a phenomenon that has grown in severity since the pandemic in 2020 according to local child care providers in Arizona. Low wages are a persistent problem in the sector, as the average hourly wage for child care workers in Arizona is only a fraction of the average hourly earnings across all occupations. **According to 2024 occupational wage data tracked by the U.S. Bureau of Labor Statistics, child care workers in Arizona earn only 57 cents on the dollar relative to the average worker in the state – a \$13.67/hr earnings gap.^{xx}**

²Maximum is increased to 6 if provider's own children are included

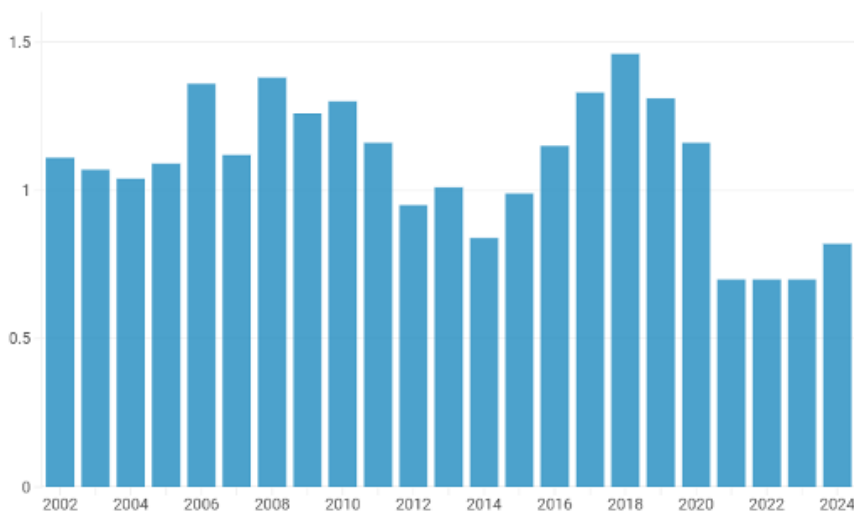
As alternative employment opportunities expand for those in the childcare sector, the opportunity cost of remaining a childcare provider rises. Childcare is a demanding occupation, often involving irregular hours and part-time schedules.^{xxi} Even when hourly wages in the sector grow relative to comparable positions, as recent data suggest,^{xxii} the total income potential for childcare workers may still lag behind that of similar roles – such as preschool teachers or home health and personal care aides – who require comparable education and training but offer more full-time work at higher hourly rates.^{xxiii} Opportunities for advancement or upward mobility are also more limited in childcare, further discouraging employment in the field. All these factors are likely contributing to the recent decline in childcare workers per-capita in the state, from a high of nearly 1.5 workers for every 1,000 residents to 0.8 in 2024.

This creates a paradox for the provision of child care services – efforts to improve or maintain affordability can conflict with efforts to raise wages or otherwise improve the working environment for providers and thus attract sufficient labor to meet child care demands. Navigating this balance between regulation, affordability, and access lies at the heart of Arizona’s child care policy challenges today.

FIGURE 10.

Child Care Workers Per Capita

Because child care is a labor intensive industry, the number of child care workers serves as a good proxy for child care supply. Since 2018, the state has seen a marked decline in the number of childcare providers per 1,000 residents.



Source: BLS Occupational Employment and Wage Statistics, U.S. Census Bureau

“Since COVID it’s been hard to find and keep staff. We’ve had to increase how much we pay people by a lot which makes it hard to run the business”

— LOCAL CHILD CARE PROVIDER IN ARIZONA

THE CHILD CARE GAP

Given high costs, long wait lists for subsidized care, and other indicators, Arizona likely faces a significant gap between the number of licensed child care slots available to families and demand. But how significant?

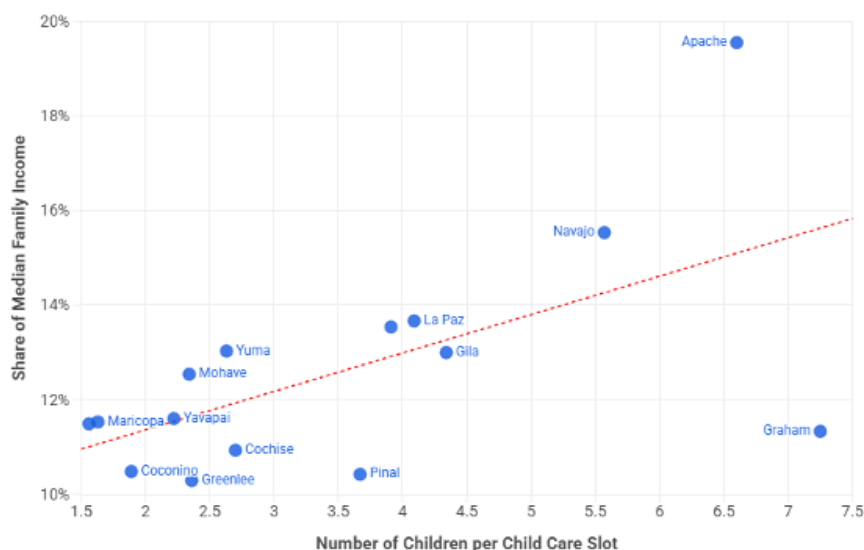
A simple assumption is that if there are fewer licensed child-care slots than children under age six, there's a shortage. In Arizona, the Department of Health Services reports licensed capacity for 256,267 children. Yet there are nearly two children under six for every licensed slot—an estimated gap of roughly 250,000 slots. This gap is not evenly distributed: while Maricopa and Pima counties – the state's two most populous and urban counties – offer one licensed slot for every 1.6 children under six, other areas face much steeper shortages. Arizona's rural areas have far less coverage. In Santa Cruz County, there is only one slot for every four children, while in Apache County the disparity is even greater, with nearly seven children under six for every licensed slot. Moreover, this gap reflects the difference between licensed capacity and children, not the number of actual slots offered by all licensed providers. Because providers often face labor shortages, the number of slots they can legally fill at any given time may be less than their total licensed capacity, further exacerbating the child care gap in the state.

These shortages directly affect both affordability and the ability of parents to have access to child care and the opportunity to participate fully in the labor market. Across Arizona, there is a clear relationship between the ratio of young children to licensed slots and the share of median family income devoted to child care. Regression analysis suggests that an additional child per licensed slot in a county is

FIGURE 11.

Relationship Between Child Care Availability and Cost

The cost of child care as a share of family income tends to rise as the ratio of total children <6 to child care slots rises, confirming a link between child care supply and cost.



Source: U.S. Department of Labor - Women's Bureau, Arizona Department of Health Services, 2023 ACS 5yr Estimates

associated with a 0.8 percentage point increase in child care costs as a share of median family income. Put simply, **counties with fewer licensed providers relative to the number of young children tend to have higher costs - reflecting the relationship between prices and supply.** For families, these added expenses represent a growing strain on household budgets and force difficult choices about whether one parent – most often mothers – remains in the workforce.

While this measure is useful and illustrative – particularly given the relationship between slots, eligible population, and child care costs – it remains simple. Not every family is going to take advantage of licensed child care. Some parents want to stay home with their young children; others will rely on family, a nanny, or other private solutions. Again, though illustrative, this approach likely grossly overstates the true need.

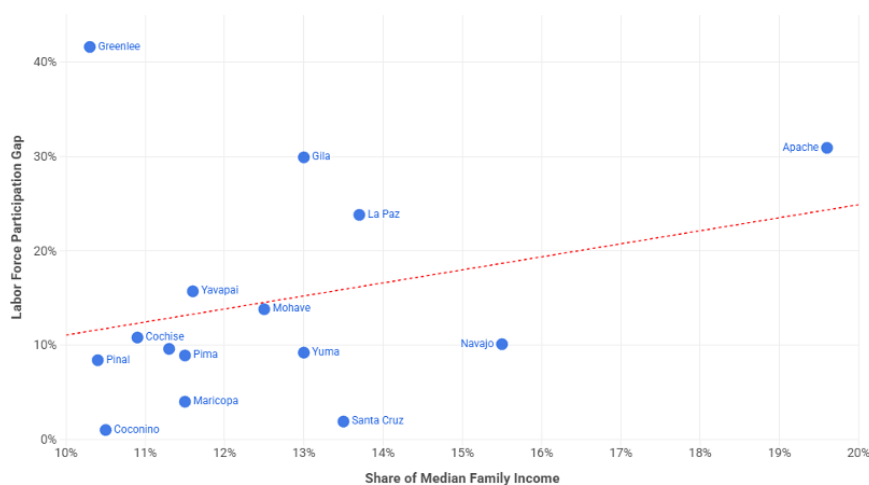
Alternatively, though, we consider revealed preferences: while families with younger children work less in general (and women in particular appear to substitute time at home for time at work after childbirth), there is a clear gap between the labor force participation rate of women with children less than six (young *but not school-aged* children) and women with *older and now school-aged* (e.g., six and over) children. The sharp shift suggests that once families can use low- or no-cost care through public schools, more mothers re-enter the workforce; when childcare is often in short supply and costly, fewer women work.

According to national data from the U.S. Department of Labor, the labor force participation rate of women with children under six is 6.3 percentage points lower in Arizona (68.4%) than for women with children ages six to 17 (74.7%).^{xxiv} Again, while families with children tend to work less in general, the disparity between families with school-aged versus child-care-aged children partially controls for this and reveals the potential preference shift imposed by the high cost of child care (relative to the universal option of taxpayer-subsidized care via the public school system after age six). In Arizona, county-level comparisons reinforce this point. Counties with the largest child-to-slot gaps and highest child care costs also exhibit the largest differences in labor force participation between mothers of young children and mothers of school-age children, suggesting a link between child care shortages, affordability, and in particular, female labor market outcomes.

This gap provides an alternative – and more plausible – approach to estimating the child care gap. Exploiting the behavior shift around school-aged relative to child care-aged children tells us something about how many families would choose

FIGURE 12.

Relationship Between Child Care Costs and Female Labor Force Participation
As child care costs rise as a share of median family income, the gap between the labor force participation rate of women with day-care-aged children falls relative to women with school-aged children.



Source: U.S. Department of Labor - Women's Bureau • The labor force participation rate (LFPR) gap is defined as the difference between the LFPR for women with children older than 6 years of age, and that of women with children 6 or younger.

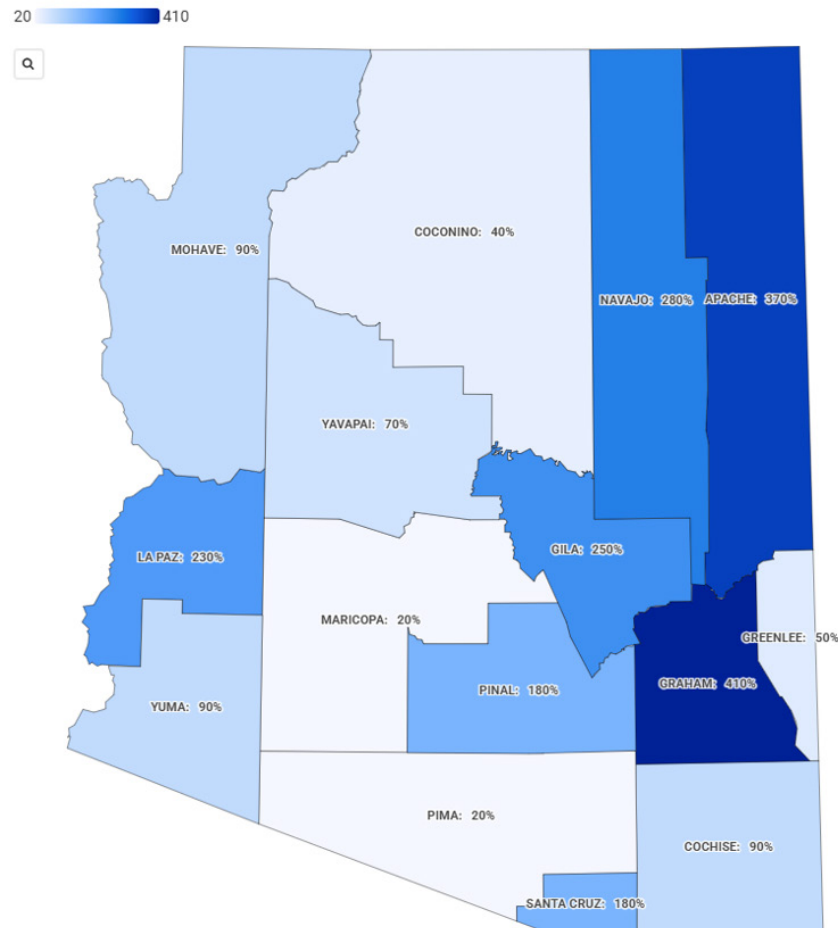
a licensed, congregate daycare setting if it were available at low (or no) cost and instead return to work.

Leveraging these differences in labor force participation rates for these two groups of women, in addition to our population- and demographic-driven conclusions, CSI estimates that Arizona suffers from a statewide child care gap of between 15,500 and 87,800 licensed slots, depending on the true cost-driven preferences shift, the share of families that rely on informal arrangements such as relatives, neighbors, or unlicensed in-home providers, and assumptions about the average number of children under age 6 per family.^{3 xxv}

FIGURE 13.

Estimated Licensed Child Care Gap as a % of Existing Supply

The estimated childcare gap across the state's 15 counties generally aligns with the relative costs in each county - i.e. where the gap is higher, costs as a share of family income tend to be higher as well.



Source: U.S. Department of Labor - Women's Bureau

³For our low estimate of the child care gap, we assume 25% of children are provided child care through these informal methods, consistent with figures cited by the U.S. Census Bureau.

THE ECONOMIC BENEFITS OF CLOSING THE CHILD CARE GAP

To estimate the economic impacts of closing the child care gap, CSI modeled a scenario in which child care becomes sufficiently affordable and accessible to allow women with children under age six to participate in the labor force at rates similar to women with older children. In Arizona, **we estimate this adjustment would induce between 15,500 and 87,800 new entrants into the labor market**, with the high estimate assuming one child per new entrant, and no utilization of non-licensed child care, and the low assuming 1.5 children per new entrant and that 25% of children under age 6 receive care from non-licensed sources.

Using Regional Economic Models Inc.'s Tax-PI+ model, CSI simulated how these labor market changes would ripple through the broader state economy. The results indicate substantial economic benefits. Total employment in Arizona would increase by 40,600 to 233,600 jobs by year five once indirect and induced impacts are taken into account, reflecting not only the direct impact of more women entering the workforce but also the additional opportunities created across other sectors. Under our mid-point estimate of 50,000 new direct jobs created, total employment rises by 131,700 jobs by year five, increasing Gross Domestic Product (GDP) by approximately \$17.5 billion (+2.8%). Personal income in the state increases by over \$13.5 billion by year five (+2.2%). Under this mid-point scenario, the State would also see an increase in income tax revenues as a result of the increased employment, estimated at \$188 million under average hourly wage assumptions.

Traditionally, child care subsidies have been the preferred policy response to this issue. A review of current child care subsidies paid by the Arizona Department of Economic

Economic Impact of Solving Child Care Access



Employment Growth
40,600 – 233,600 jobs
(+2.9%)



Personal Income Growth
\$4.1B - \$24.1B
(+2.2%)



GDP Growth
\$5.4B - \$34.0B
(+2.8%)

Security (AZDES) provides some context to what such a policy could cost the State, relative to the benefits suggested by this analysis. Expanding the current AZDES child care subsidy to cover the 15,500 – 87,800 children whose parents would instead enroll their child in day care and enter the work force were it made more affordable or available, the State would incur an additional annual cost of between \$200.2 and \$1,132.7 million each year.^{xxxvi} On the other hand, this policy would generate between \$58 and \$330 million per year in new income tax revenues, and between \$115 and \$669 million in new total state revenues each year.

Costly, scarce child care sidelines too many parents. Make it more available and affordable and Arizona wins—more people working, higher incomes, and more state revenue.

FIGURE 14.

Five-Year Economic Impacts of Closing the Childcare Gap

By potentially allowing for parents currently out of the labor force to enter, closing the childcare gap could induce the creation of up to 233,600 jobs across the state, and significantly boost the local economy.

	Direct Jobs	Indirect & Induced Jobs	Total Employment Gains	State GDP	Personal Income	New State Income Tax Revenues	All Other New State Revenues
High Estimate	87,800	145,800	233,600	\$31.0B	\$24.1B	\$333.2M	\$335.8M
			+5.1%	+5.0%	+3.9%	+6.4%	+3.0%
Mid-Point Estimate	50,000	81,700	131,700	\$17.5B	\$13.5B	\$187.9M	\$187.1M
			+2.9%	+2.8%	+2.2%	+3.6%	+1.7%
Low Estimate	15,500	25,100	40,600	\$5.4B	\$4.1B	\$57.9M	\$57.1M
			+0.9%	+0.9%	+0.7%	+1.1%	+0.5%

Source: Bureau of Labor Statistics, 2026 Appropriations Report • NOTE: New Income Tax revenues assumes average hourly earnings of \$34.64, and 2080 hours for all new workers (full-time). New income tax revenues compared to FY 2025 estimates; all other new state revenues compared to total State General Fund revenues less revenues from individual income taxes.

BOTTOM LINE

Arizona has a child care gap. Especially over the last two decades, the number of licensed child care providers in the state has failed to keep up with demand – leading to a gap of up to 87,000 licensed child care slots. The problem is most acute in rural Arizona – while Maricopa County has enough slots for 13% of its infants, rural Santa Cruz county has enough for just 1% of its infants. As a result, the cost of care has grown, and today many parents – especially younger and lower-income parents – are priced out of the labor market.

The traditional policy solution has been State child care subsidies. But this tool is expensive – given the size of the problem – and needs its own reform (often imposing additional red tape on participating providers). On the other hand, allowing it to persist is costly – reducing the size of the state's economy by up to 5% and costing our citizens up to \$13 billion per year in lost income. Policy solutions that lower regulations, encourage home-based and alternative solutions, and encourage more providers to enter the market would be an economic boon, especially for rural Arizona.

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