

## **The Biggest Issues to Watch in 2023**

State coffers are overflowing, but inflation could put a pinch on spending plans and tax cuts. The labor market remains tight just when the demand for more teachers is skyrocketing. And then there are the ongoing culture wars. Welcome to 2023.

Regardless of any policy preferences lawmakers may have, they will face challenges in terms of achieving them in 2023 in two key ways — figuring out how much to pay and finding enough workers to implement their ideas.

Last year, state lawmakers were able to have their cake and eat it too, vigorously cutting taxes and substantially increasing spending, while still able to rack up record savings in their rainy-day funds. The good times are still around — most states are seeing surpluses — but there are reasons to be nervous. Inflation may have slowed a bit, but it's still eating into real revenue growth. And the prospect of a struggling economy — what economist Mark Zandi is calling a “slowcession,” if not a full-blown recession — is also making some legislators wary.

Even as the desire to cut taxes continues, spending is also going up. State lawmakers are enjoying not only their own healthy revenues but lots of extra money from Washington in areas such as infrastructure, clean energy and public health. While they continue to spend money on big-ticket items such as broadband, they're also having to increase salaries to remain competitive in tight labor markets.

The challenges of finding enough workers to do the job are nearly universal, in every state and seemingly every government function. It's an issue that pervades and colors every other issue, says Tim Storey, CEO of the National Conference of State Legislatures, whether you're thinking about education, health, mental health, transportation, policing or corrections. And the concerns certainly extend into the private sector.

States face a welter of other challenges, including housing affordability and homelessness, faltering education performance since the pandemic, mental health challenges and fentanyl and other drugs. Complaints about federal management of the border are not only continuing from states that neighbor Mexico but are increasingly heard from others much further north.

Regardless of the issue, states are starting to recognize that they'll have to adjust their expectations about Washington. Democrats have lost their hold on the House, but not the Senate, which will lead at least to nasty disagreements on Capitol Hill, if not utter and complete gridlock. “I don't think there's going to be a lot President

Biden can get from Congress,” says Roy Cooper, the Democratic governor of North Carolina. “My advice directly to the president was to focus on implementation.”

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