Supreme Court Rules State-Created Corporations Are Not Always Entitled to Sovereign Immunity

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***Galette v. New Jersey Transit Corp.*, 607 U.S. 509 (Mar. 4, 2026)**

In *Galette v. New Jersey Transit Corp*., the U.S. Supreme Court unanimously held that the New Jersey Transit Corporation (NJ Transit) is not an "arm of the State" of New Jersey and therefore is not entitled to New Jersey's interstate sovereign immunity. In a decision authored by Justice Sotomayor, the Supreme Court established a framework for determining when state-created corporations qualify as arms of the state government.

Background

In 1979, the New Jersey Legislature created NJ Transit as a "body corporate and politic with corporate succession" constituted as an "instrumentality of the State exercising public and essential governmental functions" but "independent of any supervision or control" by the New Jersey Department of Transportation. The Legislature granted NJ Transit significant corporate powers, including the ability to make bylaws, to sue and be sued, to make and enter into contracts, to acquire and hold property, to raise funds, to own corporate entities, to adopt regulations, and to exercise eminent domain. Importantly, no debt or liability of NJ Transit constitutes a debt or liability of the state. NJ Transit is now the nation's third largest provider of bus, rail, and light rail transit, operating across New Jersey, New York City, and Philadelphia.

In 2017, Jeffrey Colt was struck by an NJ Transit bus in Midtown Manhattan. In 2018, Cedric Galette was injured when an NJ Transit bus crashed into a car in Philadelphia. Both individuals sued NJ Transit for negligence in their respective forums, New York and Pennsylvania. In each case, NJ Transit moved to dismiss, arguing it was an arm of New Jersey entitled to sovereign immunity from suit in another state's courts.

The lower courts reached conflicting outcomes on this issue. The New York Court of Appeals held that NJ Transit was not an arm of New Jersey, but the Pennsylvania Supreme Court held otherwise. To resolve this conflict, the U.S. Supreme Court consolidated the cases.

Supreme Court's Opinion

The Supreme Court began its opinion by explaining that sovereign immunity extends only to arms of the state government itself, not to legally independent entities created by the state. Whether an entity qualifies as an arm of the state is a question of federal law, answered by considering provisions of state law. The court traced its arm-of-the-state jurisprudence from early cases through mid-twentieth century cases and concluded that the corporate form has consistently been a key marker of separate legal personhood for purposes of this question.

In reaching its decision, the U.S. Supreme Court first considered legal separateness. The clearest evidence that an entity is not an arm of the state is when the state has created a corporation with traditional corporate powers. When a state creates such a corporation, courts should presume it enjoys all advantages and disadvantages of a separate legal status, including that it is no longer part of the state itself.

Courts should next focus on whether the entity is liable for its own judgments or whether the state is formally liable. In this regard, practical financial relationships have less relevance than formal legal responsibility for debts and liabilities. Courts may also consider the degree of state control, but should do so with caution. Control is not especially probative because ultimate control of every state-created entity resides with the state. The Supreme Court emphasized that it has never found a corporation liable for its own judgments to be an arm of the state, even in the face of significant state control.

Applying its framework, the Supreme Court found each factor weighed against arm-of-the-state status for NJ Transit. For example, NJ Transit is structured with all the hallmarks of a separate legal entity, and New Jersey is not formally liable for NJ Transit's debts or liabilities.

The Supreme Court thus affirmed the judgment of the New York Court of Appeals, reversed the judgment of the Pennsylvania Supreme Court, and remanded both cases for further proceedings consistent with its opinion.

Key Takeaways

- **Corporate form is important.** The Supreme Court reaffirmed that when a state creates a corporation with traditional corporate powers, there is a strong presumption that the entity is *not* an arm of the state.
- **The "instrumentality" label does not hold sufficient weight.** Simply labeling an entity an "instrumentality of the State" in its enabling legislation does not make it an arm of the state entitled to sovereign immunity.
- **State control is not dispositive.** Even substantial state control does not make a corporation an arm of the state when it is otherwise structured as a legally separate entity liable for its own judgments.

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