



From Challenge to Resilience: The Evolution of NJ TRANSIT Funding and a Roadmap to a Reliable Future



Tracing NJ TRANSIT's funding history and
strategies for sustainable transit investment

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EXECUTIVE SUMMARY

Funding History

Since its inception in the Public Transportation Act of 1979, NJ TRANSIT has provided transportation to millions of New Jersey residents through its bus, rail, and light rail services. This history includes periods of ridership growth, service expansion, funding downturns, and shifts in performance.

Early History (1980s): NJ TRANSIT launches a major capital program to renew its aged fleet. From 1979 to 1989, the average bus fleet age falls from 13.5 to 4.5 years, and rail ridership rises 40 percent between FY 1983 and FY 1988 alongside improved on-time performance.

Funding Challenges and Ridership Increases (1990s): Total ridership increases by 22.8 percent throughout the decade. Insufficient operating funds—partially due to TEA-21—lead to significant capital fund diversions and debt accumulation. By 2001, the agency commits \$125 million of annual Section 5307 capital funds to debt service through 2016.

Service Expansion and Debt Accumulation (2000s): NJ TRANSIT expands service through three major light rail projects: the Hudson–Bergen Light Rail (HBLR), the River LINE, and the Newark Light Rail Extension. Between FY 1999 and FY 2009, operating expenses rise from \$903 million to \$1.83 billion, while fare revenue increases from \$441 million to \$828 million, producing a 145.7 percent rise in the operating deficit. During the same period, NJ TRANSIT's debt grows from \$351 million in FY 1996 to \$1.65 billion in FY 1999 and reaches \$3.57 billion by FY 2009.

Debt Management and Asset Deterioration (2010s): New Jersey reduces capital and operating assistance as debt service absorbs a rising share of available funds. From FY 2010 to FY 2017, NJ TRANSIT reduces its debt by \$2.09 billion (62%), and annual interest payments fall from roughly \$100 million to \$46 million. However, capital assets decline from over \$10 billion to approximately \$7.3 billion. Between

2010 and 2014, NJ TRANSIT commuter rail averages 200.6 major mechanical failures per year, rising nearly 29 percent to 258 from 2015 to 2019.

COVID-19 and Revitalized Funding (2020s): Ridership declines following the COVID-19 pandemic while operating expenses continue to rise. Using federal and state capital and operating assistance, NJ TRANSIT withstands revenue losses and advances projects such as Gateway, along with upgrades to Hoboken Terminal through the Hoboken Connect project and the Walter Rand Transportation Center. After federal COVID funding ended in FY 2025, New Jersey approves a Corporate Transit Fee to keep NJ TRANSIT solvent and avoid drastic service cuts and significantly larger fare increases.

Funding Models

To ensure long-term stability, New Jersey and NJ TRANSIT must secure reliable internal and external funding to sustain operations and support future projects, including the Glassboro–Camden Line, the HBLR extension, new BRT routes, and upgrades to existing facilities.

Development-Based Value Capture: Transit agencies such as WMATA, MARTA, and Maryland DOT have pursued joint development projects that leverage agency properties for lease revenue through transit-oriented developments. These approaches have generated marginal direct revenue to date but have produced significant value creation for municipalities and private developers. Strategies to increase agency revenue include profit sharing, streamlined local regulations, and more cost-efficient TOD policies. NJ TRANSIT has advanced this strategy with the release of their LAND Plan, which identifies the potential to leverage 8,000 acres of transit-owned properties to generate up to \$1.9 billion over the next 30 years.

Tax-Based Value Capture: Transit agencies have also relied on tax-based value capture strategies, such as Tax-Increment Financing

(TIF) and Special Improvement Districts (SIDs), to raise capital funds for service expansion or improvement projects. These approaches have generated up to 50 percent of capital funds for transit projects in Illinois, Washington D.C., and Oregon. As of 2025, New Jersey lacks TIF-enabling legislation and transit-specific SID legislation.

Stable Funding Sources: To fully fund operations, transit agencies require stable, reliable revenue streams. Common major funding sources in the U.S. include sales taxes, property taxes, income taxes, and corporate taxes. Each source varies in stability, regressiveness, and political support. NJ TRANSIT currently utilizes corporate taxes, NJTA funds, diverted clean energy funds, casino revenue taxes, and gas taxes.

Recommendations

Drawing on NJ TRANSIT's history, academic research, national case studies, and New Jersey's current legislative landscape, several actions could help stabilize the agency and support long-term growth:

1. Constitutionally guarantee or extend the 2.5 percent Corporate Transit Tax.
2. Pass legislation that enables expanded tax-based value capture opportunities for NJ TRANSIT projects.
3. Create an independent clean energy funding source for NJ TRANSIT.
4. Expand the Transit Village Initiative through a tiered approach with additional investment opportunities for Transit Villages that meet defined benchmarks.
5. Design and expand profit-sharing opportunities for NJ TRANSIT's future joint developments.
6. Publicize the value NJ TRANSIT creates beyond fare revenue generation and emphasize its role as a vital public service.

FUNDING HISTORY

Formation and Consolidation (1979–1983)

Throughout the 19th and early 20th centuries, private companies operated New Jersey's rail, trolley, and bus services, including Penn Central, Erie Lackawanna, and Public Service Coordinated Transport. By the mid-20th century, ridership and investment declined as deindustrialization, suburbanization, and federal highway expansion—including the 1956 Interstate Highway Act—shifted travel towards automobiles. Private operators consolidated or failed, leaving Conrail, a federally created corporation, to handle most passenger rail service in 1978, while the private Transport of New Jersey operated multiple bus networks. To stabilize and rebuild transit, New Jersey enacted the Public Transportation Act of 1979, creating the New Jersey Transit Corporation.

Immediately after its creation, NJ TRANSIT began assuming control of transit operations statewide. In 1980, the agency purchased Transport of New Jersey and its Maplewood Equipment Company, the largest private bus company in the U.S., using federal funds. In 1983, NJ TRANSIT took over passenger rail operations from Conrail under the Northeast Service Act of 1981.

Early Capital Investments (1980s)

NJ TRANSIT launched a \$772 million capital program to renew transit service, funded by federal and

state grants. The program included purchasing over 500 new buses, rehabilitating more than 500 existing buses, electrifying the North Jersey Coast Line, and re-electrifying the Morris and Essex Lines. Consistent federal support through the Urban Mass Transportation Act and state support through the Transportation Trust Fund (established in 1984) enabled gradual service improvements. From 1979 to 1989, the average bus fleet age fell from 13.5 to 4.5 years, and rail ridership rose 40 percent between FY 1983 and FY 1988 alongside improved on-time performance.

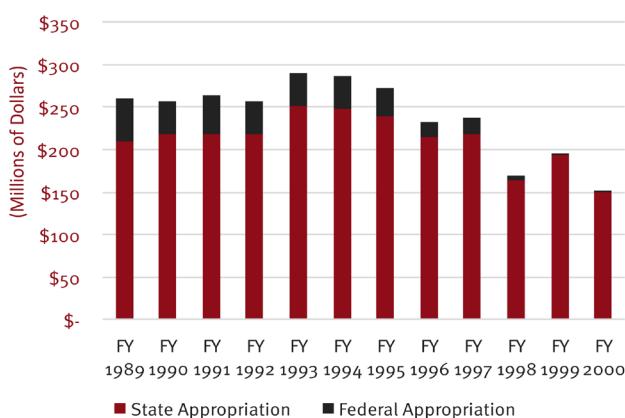
Funding Challenges and Alternative Revenue (1990s)

By the 1990s, NJ TRANSIT faced its first major funding challenge as operating expenses outpaced revenue. Federal and state operational assistance declined, falling from \$289 million in FY 1993 to under \$150 million in FY 2000. The Transportation Equity Act for the 21st Century (TEA-21) eliminated federal operating assistance for public transit agencies in urbanized areas with populations of 200,000 or more, which included NJ TRANSIT, in 1998. At the same time, the State froze fares for much of the decade. Adjusted for inflation, fares fell roughly 19 percent, offsetting the benefit of a nearly 30 percent increase in ridership during the 1990s.

To cover the funding gap, NJ TRANSIT relied on alternative revenue sources. Parking fees, station retail leases, and leveraged lease agreements—selling buses and railcars to foreign companies for depreciation tax benefits and leasing them back—peaked for the decade at \$69 million in FY 1997, or 14.5 percent of non-state or federal assistance operating revenue. Despite these efforts, the agency needed to draw on capital funds to cover capital-eligible operating expenses. In FY 2000, NJ TRANSIT ranked first nationally in the diversion of Section 5309 Fixed Guideway formula funds and second in the diversion of Section 5307 capital funds.

During its first 15 years, new rolling stock was purchased using pay-as-you-go grant funds included in each annual budget. However, by the late 1990s, the shortage of available capital forced NJ TRANSIT to finance fleet purchases with Certificates of Participation (COPs), pledging future federal grants.

State and Federal Appropriations from FY 1989 to FY 2000



By 2001, the agency had committed \$125 million of annual Section 5307 capital funds to debt service through 2016 (Robins and Denno 2001).

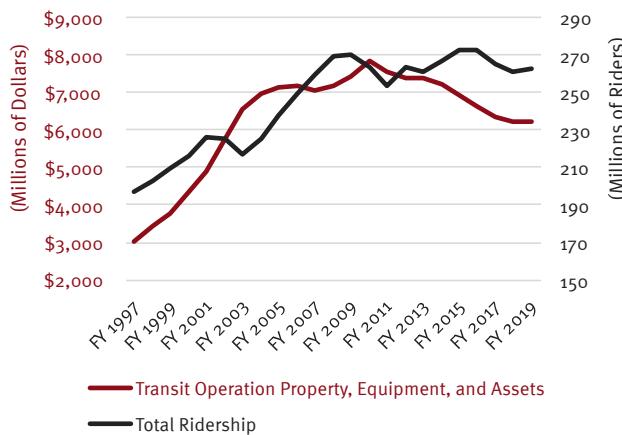
Light Rail Expansion and Fiscal Pressures (2000s)

Even amid ongoing fiscal constraints, NJ TRANSIT expanded service through three major light rail projects: the Hudson–Bergen Light Rail (HBLR), the River LINE, and the Newark Light Rail Extension. Additionally, the agency launched Midtown Direct service on the Morris & Essex Line in 1996, and expanded it to the Montclair-Boonton Line in 2002. These investments advanced regional mobility goals, strengthened redevelopment around stations, and extended transit access to areas previously without direct rail service.

The projects required complex financing and long-term capital commitments. Approved by NJ TRANSIT in 1993, the HBLR was the nation's, first design-build-operate-maintain (DBOM) contract. In 1996, the FTA approved a full federal funding agreement for the \$2 billion project. NJ TRANSIT awarded a \$412.6 million, 15-year operations contract to the 21st Century Rail Corporation, with repayment supported by system revenue and FTA formula funds. The first HBLR segment opened in 2000. The River LINE, a 34-mile diesel light rail service between Camden and Trenton, opened in 2004 at a cost of \$1.1 billion, funded entirely by the New Jersey Transportation Trust Fund. The Newark Light Rail Extension, a one-mile link between Penn Station and Broad Street Station, opened in 2006. The \$207 million project was financed with \$141 million in FTA New Starts funds and \$66 million from the Transportation Trust Fund.

The three light rail projects intensified existing fiscal pressures on NJ TRANSIT, accelerating operating gaps, capital fund diversions, and rising debt that began in the late 1990s. Between FY 1999 and FY 2009, operating expenses rose from \$903 million to \$1.83 billion, while passenger fare revenue increased from \$441 million to \$828 million, producing a 145.7 percent rise in the operating deficit. Higher labor expenses, rising fringe benefits, and increased maintenance costs from expanded service were the primary drivers. During the same period, NJ TRANSIT's debt—notes payable and capital lease obligations—grew from \$351 million in FY 1996 to \$1.65 billion in FY 1999 and reached \$3.57 billion

Transit Property and Ridership from FY 1997 to FY 2019

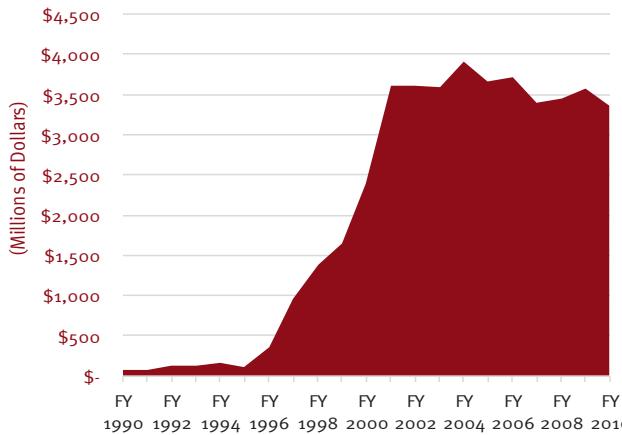


by FY 2009. Annual interest payments climbed from \$6.4 million in FY 1999 to a record \$116 million in FY 2009.

These outcomes did not reflect project failure but the absence of mechanisms to capture the value they generated. Because each passenger trip operates with a subsidy, service growth widened the operating gap. Even if fare revenue had matched expense growth between 1999 and 2009, the deficit still would have risen by 111 percent. NJ TRANSIT's reliance on fare revenue without sufficient external funds means that every service expansion worsens its financial position. The true benefits of the light rail investments were external—rising land values, local economic gains, time and cost savings for riders, and reduced congestion for drivers.

A 2008 study from the Alan M. Voorhees Transportation Center found that development near

NJ TRANSIT Debt from FY 1990 to FY 2010



five HBLR stations in Jersey City, Bayonne, and Hoboken generated over \$5.3 billion in economic growth (Robins and Wells 2008). Kim and Lahr (2014) analyzed property sales data from 1991 to 2009 and found that properties within a quarter mile of HBLR stations appreciated 18.4 percent more than others, with the premium declining about one percentage point for every 50 feet farther from a station.

The positive impact on land values extended beyond new service expansions. A 2010 report by the Regional Plan Association found that rail upgrades on the Morris & Essex Line, the Secaucus Junction transfer, and the Montclair Connection significantly boosted nearby property values. Homes within

- Lower transportation costs for low-and middle-income households by 24-34 percent
- Prevent an estimated \$632 million in car crash-related costs and 15 deaths annually
- Generate \$5 billion in economic activity annually (Carnegie et al. 2021).

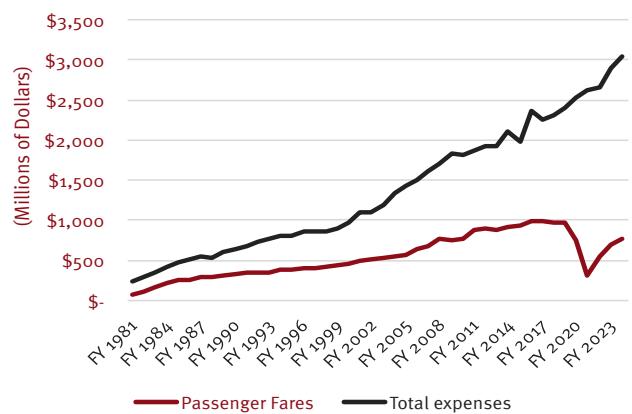
Debt Management and Asset Deterioration (2010s)

Despite these benefits, NJ TRANSIT's widening operating gap and growing debt shifted the State's perception of the agency. By 2010, \$845 million of the \$1.6 billion Transportation Trust Fund was devoted to debt payments, leaving only \$350 million for operating expenses and \$405 million for capital programs. Amid the economic recession, concerns over NJ TRANSIT's efficiency, and the fund's potential insolvency, the State imposed austerity measures.

Fares increased by 25 percent, state funding was reduced, and an emergency hiring and salary freeze was implemented, collectively reducing the operating gap by slightly over 7 percent between FY 2009 and FY 2011. The State also cancelled the Access to the Region's Core (ARC) project that would have doubled NJ TRANSIT's rail capacity to Manhattan through new tracks and a Hudson River tunnel. Funds were redirected to the New Jersey Turnpike for road repairs and the Transportation Trust Fund. As construction had already begun, NJ TRANSIT had to repay \$95 million to the FTA.

With growing portions of state and federal funds diverted to debt and operations, NJ TRANSIT faced declining state support and could no longer finance new rolling stock through debt. By FY 2016, operational support from the New Jersey General Fund had fallen over 90 percent from FY 2009 levels. Overleveraged, the agency entered a cycle in which its capital assets depreciated faster than they could be renewed. From FY 2010 to FY 2017, NJ TRANSIT reduced its debt by \$2.09 billion (62%), and annual interest payments fell from roughly \$100 million to \$46 million. However, capital assets declined from over \$10 billion to around \$7.3 billion, primarily due to \$500 million in annual rolling stock depreciation without sufficient replacement. In FY 2017, NJ TRANSIT had only \$60 million in active, fully funded capital contracts. In 2012, Superstorm Sandy compounded these challenges, damaging more than

Operating Expenses and Passenger Fare Revenue from FY 1981 to FY 2024



walking distance of stations increased in value by an average of \$34,000, generating an additional \$250 million in property taxes each year. Implementing value capture strategies could have leveraged this growth to offset the rise in operational expenses and provide a stable internal funding source for NJ TRANSIT.

Beyond land value gains, public transportation generates broader economic, environmental, and social benefits. A 2021 NJDOT-commissioned study by the Alan M. Voorhees Transportation Center found that NJ TRANSIT services:

- Eliminate 150 million vehicle trips per year, reducing congestion
- Prevent 644,000 metric tons of greenhouse gas emissions, and avoid 1,000-2,000 acres of parking

300 railcars and locomotives, as well as railroad rights-of-way, bridges, signal controls, and other assets. In FY 2013 and 2014, NJ TRANSIT incurred \$213 million in additional recovery expenses.

Deteriorating transit assets contributed to declining service performance and ridership. From FY 2010 to FY 2013, rail on-time performance averaged 95.25 percent, but by FY 2019 it fell to 90 percent—the lowest level in decades—coinciding with the agency's smallest total asset value since 2000. FTA National Transit Database data show NJ TRANSIT's commuter rail led the nation in mechanical failures in 2018 and 2019, with 375 and 352 failures, respectively. Between 2010 and 2014, commuter rail averaged 200.6 major mechanical failures per year, rising nearly 29 percent to 258 from 2015 to 2019.

The 2010s marked the first decade in NJ TRANSIT's history with declining ridership. After total ridership increased 22.8 percent in the 1990s and 29.1 percent in the 2000s, ridership fell 2.7 percent in the 2010s. This decline coincided with stabilizing fare revenue amid rising operational expenses. Fare revenue increased during the first half of the decade following the 2010 fare increase, but fell in the latter half, peaking at \$995 million in FY 2016 and declining to \$978 million by FY 2019.

Reinvestment and Recovery Efforts (2018–2020s)

By 2018, New Jersey began reinvesting in NJ TRANSIT to reverse years of asset deterioration. Legislation in 2017 increased the annual transportation capital program from \$1.3 billion to \$2 billion, and the State

provided additional operational support through the New Jersey General Fund. Federal stimulus funds during the COVID-19 pandemic enabled NJ TRANSIT to accelerate and expand ongoing capital projects. Between 2018 and 2020, the agency had \$2.3 billion in capital projects underway or in procurement, compared with only \$60 million in 2017.

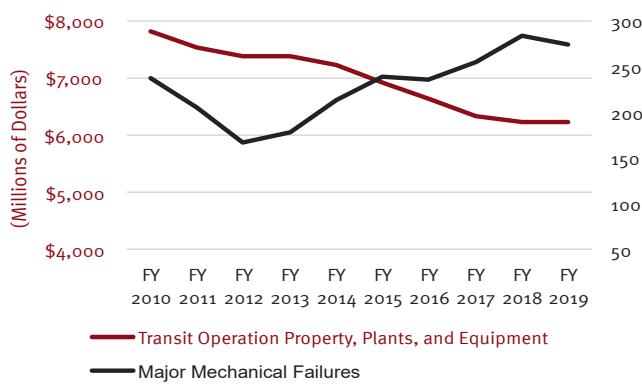
COVID-19 caused a dramatic reduction in ridership and fare revenue. Total ridership fell from 263 million in FY 2019 to 204.2 million in FY 2020 and 108.1 million in FY 2021, reducing fare revenue from \$978 million to \$742 million, then \$301 million, respectively. The operating gap increased \$940 million (71%) over the period. Federal relief funds helped offset losses, including \$1.2 billion from the Coronavirus Aid, Relief, and Economic Security (CARES) Act (2020–2021) and nearly \$1.9 billion from the American Rescue Plan (ARP) Act (2022–2024), all directed to the operating budget.

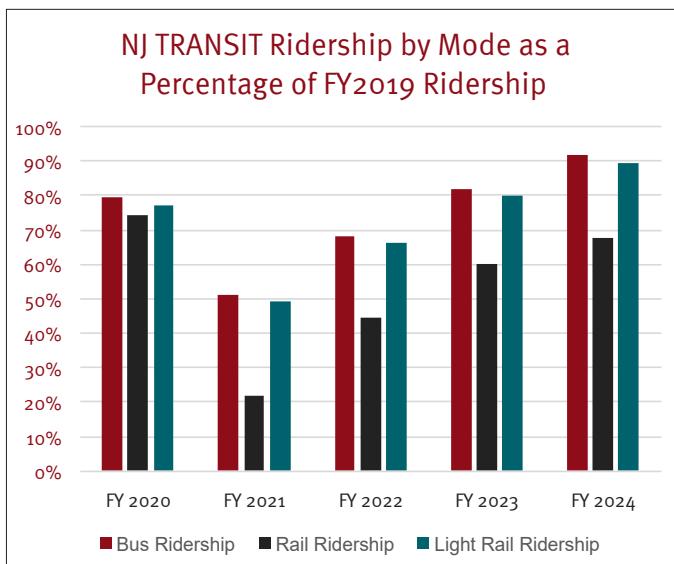
Simultaneously, NJ TRANSIT advanced its \$17 billion Five-Year Capital Plan (2020). Projects include acquiring and rehabilitating railcars, buses, and vans, and upgrading facilities such as the Walter Rand Transportation Center, Hoboken Terminal, Newark Penn Station, and Metropark Station. Grants from federal and state sources will fund these investments.

NJ TRANSIT has invested \$3 billion into its bus and rail fleets, placing the agency on the path to a fully modernized fleet by 2031.

NJ TRANSIT, in partnership with Amtrak, the Port Authority of New York and New Jersey, and state and local agencies, also began construction on the Gateway Program, a comprehensive effort to modernize the Northeast Corridor between New York and New Jersey. The program's projects will repair aging infrastructure and double rail capacity through new tunnels and bridges, advancing many improvements envisioned under the canceled ARC project. NJ TRANSIT is the project sponsor for the Portal North Bridge Replacement Project, a key Gateway initiative that broke ground in 2022 and remains on time and on budget, with the first track scheduled to open in 2026. A 2025 Regional Plan Association report estimates that Gateway could generate up to \$445 billion in economic benefits from 2023 to 2060. These and other capital investments contributed to NJ TRANSIT's total assets reaching a record \$10.2 billion in FY 2024, a 42 percent increase from 2019.

Property, Plants, and Equipment Assets Compared to Major Mechanical Failures from FY 2010 to FY 2019



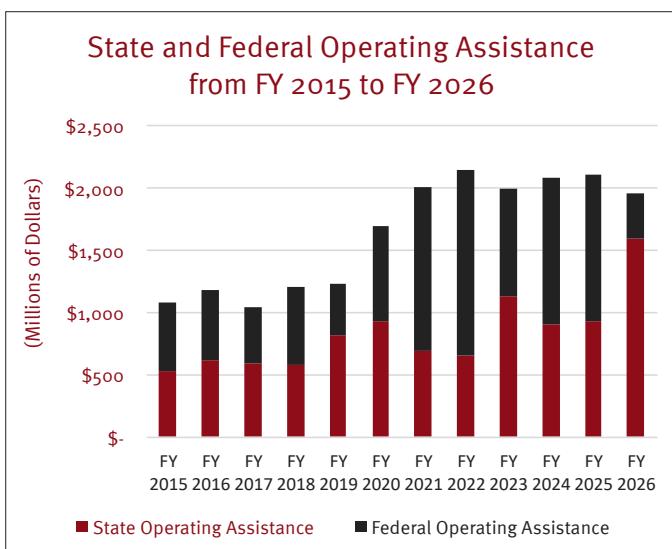


Since 2021, ridership has gradually recovered, reaching 219.6 million passenger trips in FY 2024, generating \$758 million in fare revenue. Despite this recovery, rising labor and materials costs have kept the operating gap slightly above \$2 billion, with losses of \$2.05 billion (FY 2022), \$2.13 billion (FY 2023), and \$2.21 billion (FY 2024). Ridership patterns have shifted since the COVID-19 pandemic: bus ridership recovered to 92 percent of its 2019 level, while rail ridership—costlier for riders—reached only 67 percent overall, with weekends and mid-week peak travel periods at or above pre-COVID levels. With federal relief funds no longer available and fare revenue still below pre-pandemic levels, NJ TRANSIT will need new strategies to boost revenue and secure additional state support.

NJ TRANSIT gained a major new source of state support in 2024, when New Jersey approved a 2.5 percent non-marginal surtax on corporations with a net income over \$10 million to fund the transit

agency. For FY 2026, the surtax is projected to generate \$789 million, nearly 25 percent of the agency's operating budget. Passenger fares are expected to contribute 31 percent, with 15 percent coming from the New Jersey Turnpike Authority and the remainder from commercial revenue and other state and federal sources. The surtax is scheduled to remain in effect through 2028.

In addition, NJ TRANSIT plans to leverage its real estate and other assets to increase non-fare revenue. In 2025, the agency released The Land Plan: Leveraging Assets for Non-Farebox Dollars, which estimates that land-based developments—including transit-oriented projects, industrial hubs, retail concessions, and solar projects—could generate \$1.9 billion over 30 years. If fully implemented, annual non-farebox revenue could rise from the \$100 million in FY 2025 to \$163.3 million, an increase of nearly 64 percent, while also supporting up to 20,000 new homes and generating \$1.6 billion in municipal revenue.



MODELS FOR FUTURE FUNDING

The Need for Stable, Reliable Funding

NJ TRANSIT's history demonstrates that reliable funding is essential to sustaining service and meeting demand. Past periods of unstable funding forced reliance on debt financing, asset deterioration, service declines, and fare increases, which in turn drove ridership drops and performance failures. Service expansions further increased operating and capital costs, underscoring the need for reliable cost-recovery mechanisms.

As of 2025, NJ TRANSIT is funded through the corporate business tax, clean energy funds, gas tax revenue, the New Jersey Turnpike Authority, general fund subsidy, fares, and non-farebox revenue. Many of these sources, however, remain uncertain—most notably the corporate business tax, which is set to expire in 2028. To ensure long-term stability, New Jersey and NJ TRANSIT must secure reliable internal and external funding to sustain operations and support future projects, including the Glassboro–Camden Line, the HBLR extension, new BRT routes, and upgrades to existing facilities.

To fully fund operations, transit agencies require stable, reliable revenue sources. Unstable operational funding often forces agencies to dip into capital funds or cut service, which can trigger a vicious cycle of declining ridership, reduced revenue, and further service reductions. A diverse funding portfolio is ideal, anchored by a major, dedicated source that cannot be easily diverted, supplemented by minor sources such as highway fund transfers, green energy funds, or vehicle miles traveled (VMT) taxes. During the COVID-19 pandemic, transit agencies with more diverse revenue sources were the most resilient to service disruptions (Kustar 2024).

The most common major funding sources in the U.S. are sales taxes, property taxes, income taxes, and corporate taxes, each with distinct advantages and drawbacks (Freemark 2023). Another increasingly popular transit funding source internationally is congestion pricing.

Major Stable Revenue Sources

Sales Taxes: Widely used due to strong voter support. In November 2025, Mecklenburg County, NC voters approved a 1-cent sales tax to fund

transportation improvements, including the Red Line Commuter Rail and the Silver Line light rail extension (City of Charlotte 2025). However, sales taxes are regressive, charging all residents at the same rate, and they are unstable, with revenues potentially dropping up to 15 percent during economic downturns (Freemark 2023).

Property Taxes: Provide stable, inflation-adjusted revenue, as seen with Oakland's AC Transit and Hillsborough Area Regional Transit in Tampa, Florida (Freemark 2023), but remain politically unpopular and are typically limited to local or regional agencies.

Corporate/Business Taxes: Offer a reliable and progressive funding source, as demonstrated by the Utah Transit Authority and NJ TRANSIT, but may be limited by administrative capacity and business relocation risks (Steadman Hill 2021).

Congestion Pricing: Used internationally in Stockholm, Paris, London, and New York City, congestion pricing reduces congestion and emissions while generating revenues. Its main drawback is that it faces low public support; however, post-implementation acceptability is consistently high (Veitch and Rhodes 2024; Singichetti et al. 2021; Yu et al. 2019).

In 2025, NYC launched a congestion pricing program in its Manhattan Central Business District. To date, the program has increased driving speed by 11 percent, reduced traffic injuries by 15 percent, and raised transit ridership across all modes, while generating an estimated \$500 million in revenue for the MTA (Cook et al. 2025; and MTA 2025).

Other sources include gas taxes, income taxes, VMT taxes, and green energy funds. These mechanisms vary in revenue potential, equity implications, and public acceptability. Income taxes offer the greatest revenue potential but the lowest public support. Gas taxes are widely used by transit agencies, yet they link increases in driving to increases in transit funding. VMT taxes were designed to offset declining gas-tax revenue from electric vehicles but ultimately face the same structural challenge. Green energy funds from societal benefits charges or other carbon taxes are generally equitable, but their revenue capacity is limited (Litman 2025).

Development-Based Value Capture

Development-based value capture strategies leverage rising land values around transit to help fund infrastructure and operations, primarily through partnerships with private developers.

International Models

Globally, the most financially successful transit agencies integrate transportation and land use planning. Hong Kong's MTR Corporation applies a Rail + Property (R+P) model, receiving development rights around stations rather than relying on government subsidies. Through joint ventures, MTR retains partial ownership, participates in planning and construction, and shares in the returns. Real estate earnings account for over 30 percent of MTR's total revenue (Jauregui-Fung 2022), far exceeding U.S. agencies, which typically receive around 0.5 percent from real estate properties.

U.S. Experience

In the United States, regulatory and policy constraints limit transit agencies' direct development roles (Prakasa and Zhang 2019). Nonetheless, joint development and TOD programs have grown:

Washington Metropolitan Area Transit Authority (WMATA): Since 1975, WMATA has participated in 59 joint development projects, producing 10,800 housing units, 5.7 million square feet of office space, and 1.3 million square feet of retail. These projects add to local tax revenue and private-sector profits but generate only about 1 percent of WMATA's operating revenue due to limited profit-sharing (Suzuki et al. 2015; WMATA 2025).

Metropolitan Atlanta Rapid Transit Authority (MARTA): MARTA's TOD program held \$133 million in portfolio value in 2020, with 2024 ground leases generating nearly \$6 million (0.7% of total revenue). The program focuses on expanding housing, increasing land values, and promoting economic growth (Vallo et al. 2020; MARTA 2024).

Maryland Department of Transportation (MDOT): TOD joint development projects are structured to advance state and local objectives—housing, economic activity, and property values—rather than generate revenue for transit (MDOT 2025).

In the D.C. Metro Area, Maryland, and Atlanta, real estate programs primarily create value for private developers and municipalities and advance state

objectives, while generating only marginal revenue for transit agencies.

Additional Development-Based Strategies

Air Rights Sales/Leases: In New York City, zoning allows developers to boost density by purchasing air rights. The MTA leased the Eastern Rail Yard transferable development rights (TDR) for \$375 million as part of the Hudson Yards project (Appleseed 2016), though demand is limited to high-value locations (Litman 2025).

Sale of Transit-Owned Land: Provides immediate revenue, requires minimal administrative overhead, and offers developers lower lending rates, eliminates opportunities for long-term, recurring revenue (Reconnecting America 2009).

Constraints on Effectiveness

Factors that weaken TOD and development-based value capture include one-to-one parking replacement, prevailing wages mandates, higher lending rates for leased land, restrictive zoning, inefficient sites such as brownfields, and state-level limits on transit agencies' development authority (Mathur and Gatdula 2021; Reconnecting America 2009; Cervero et al. 2004).

Some states have passed legislation to bypass local restrictions. Massachusetts' MBTA Communities Law (2021) requires municipalities served by the Massachusetts Bay Transportation Authority (MBTA) to establish zoning districts that allow multifamily housing near transit, giving municipality flexibility while ensuring new transit-oriented housing opportunities. In October 2025, California signed SB 79 into law, upzoning properties within a half-mile of mass transit stations and granting transit agencies broader development authority.

Benefits of TOD

TOD expands housing supply while mitigating negative effects of conventional growth, including sprawl, congestion, and rising municipal costs. Residents of TODs use private vehicles at about half the rate projected by the Institute of Traffic Engineers (Arrington & Cervero 2008). Infill developments can preserve up to 57 percent more land than typical growth patterns (Thorne et al. 2017) and reduce municipal infrastructure costs for water, sewer, roads, and utilities by as much as two-thirds compared to greenfield development (Hamilton & Kellett 2017).

States and transit agencies increasingly adopt joint development and TOD strategies to maximize transit access benefits. Policies such as Massachusetts's MBTA Communities Law help remove a primary barrier—restrictive local zoning—while enabling municipalities to craft zoning suited to local conditions. However, development-based value capture in the U.S. has produced only limited revenue for transit agencies, largely due to minimal agency involvement in development and policy frameworks that prioritize private and municipal gains over agency returns.

Current New Jersey Policy

NJ TRANSIT's enabling statute (Section 27:25-5) outlines its authority to develop and manage its real estate assets. Subsection j allows it to:

Purchase, lease as lessee, or otherwise acquire, own, hold, improve, use and otherwise deal in and with real or personal property, or any interest therein, from any public or private entity, wherever situated;

while subsection k permits NJ TRANSIT to:

Lease as lessor, sell or otherwise dispose of on terms which the corporation may prescribe, real and personal property, including tangible or intangible property and consumable goods, or any interest therein, to any public or private entity, in the exercise of its powers and the performance of its duties under this act. In order to provide or encourage adequate and efficient public transportation service, the corporation may lease or otherwise permit the use or occupancy of property without cost or at a nominal rental;

NJ TRANSIT interprets these provisions as enabling it to partner with private firms to construct mixed-use developments on agency-owned properties.

Additional legislation has sought to expand or clarify these developmental powers. In 2009, the New Jersey Legislature introduced S2972, which would have explicitly allowed NJ TRANSIT to, directly or through partnerships, revitalize and maximize the value of its properties with transit-oriented developments. The bill failed to advance.

In 2024, the Legislature approved S3519, authorizing the New Jersey Economic Development Authority (NJEDA) to purchase NJ TRANSIT properties and



redevelop, lease, or sell them to private developers. The law requires NJEDA to purchase properties at their highest assessed value, mandates NJ TRANSIT retain a participation interest in each property, and guarantees the agency access to at least 33 percent of profits when properties are sold or leased.

Other active legislation, including S4037, would establish an enhanced Transit Village program, administered by the Office of Planning Advocacy to supplement the existing Transit Village Initiative. The program would provide targeted TOD funding and impose stricter requirements on selected municipalities, including higher densities and a 30 percent affordability mandate.

NJ TRANSIT also released a TOD Policy Statement in 2024 establishing goals, objectives, actions, and policies related to transit-oriented development. The agency complies with the New Jersey Fair Housing Act and requires 20 percent of all units on its properties be reserved for low- and moderate-income households. It prefers unsubordinated ground leases, allowing it to collect ground rent while maintaining control in event of foreclosure. Additional requirements include payment of prevailing wages, prioritization of disadvantaged businesses, and reinvestment of a portion of TOD revenue into improvements within the station area. In FY 2024, NJ TRANSIT earned \$22.9 million from leases and permits on its properties, representing 0.77 percent of its total operating revenue.

Tax-Based Value Capture

While development-based value capture leverages transit-owned land, tax-based value capture enables transit agencies to recover infrastructure costs by tapping into rising property values. The

most common mechanisms used in transit projects are Tax-Increment Financing (TIF) and Special Assessment / Improvement Districts (SAD/SID).

In **TIF Districts**, property tax revenue is capped at a pre-project baseline, and any growth above that level is diverted into the TIF fund. Research consistently shows that public transit investments increase nearby residential and commercial property values, with heavy and commuter rail generating the greatest gains, followed by light rail (Wardrip 2011). Bus service produces marginal gains unless paired with fixed infrastructure and rapid service, such as Bus Rapid Transit (Beaudoin and Tyndall 2023).

Although typically used for smaller-scale initiatives, TIF districts have also financed major projects exceeding \$1 billion in states including Illinois, Georgia, and California (Haider and Donaldson 2016). In Chicago, a TIF district partially funded the City's share of a nearly \$2.1 billion modernization of the Red and Purple Lines, with \$602.26 million expected from the TIF, \$384.40 million from sales bonds, and the remainder from federal sources (FTA 2020). As of August 2025, the district remains on track to retire the \$602 million bond by 2028–24 years ahead of schedule (Quig 2025).

However, other TIF efforts have faced significant challenges. Because TIF projections depend on uncertain future property values, they may underestimate long-term costs and overestimate revenues (Flyvbjerg 2007). In Manhattan's Hudson Yards, TIF-style financing captured some value, but tax abatements, relocations, recession-driven shortfalls, and value destruction in surrounding neighborhoods undermined the self-financing model, shifting fiscal risk back onto the City of New York while enabling substantial private profits. Independent fiscal impact analyses, limits on appeals and abatements, and the inclusion of profit-sharing mechanisms can strengthen outcomes



and better protect the public interest (Fisher, Leite and Weber 2023).

Special Assessment/Improvement Districts (SAD/SID) impose additional fees on properties located near transit infrastructure improvements and have been used since the 19th century to fund sewer, water, transportation, and utility projects. SADs typically require approval through a vote among property owners in the designated area.

In Washington D.C., a SAD helped finance the NoMa-Gallaudet U Metro Station in the early 2000s, with property owners contributing fees, donating land, and granting temporary construction access in anticipation of rising property values. A 2014 study found the station generated \$4.7 billion in economic output, \$330 million in municipal revenue, and millions of square feet of development, benefiting both property owners and the city (RKG Associates 2014).

SADs were also used to finance roughly 40 percent of the Portland Streetcar and over 50 percent of the Seattle Streetcar. Strategies to maximize their effectiveness include minimizing exemptions, ensuring full fee collection, avoiding risks to local real estate stability, and leveraging SAD revenues to attract federal investment (Mathur 2014).

Implementing a **Land Value Tax (LVT)** is another form of tax-based value capture that can generate revenue while encouraging higher development intensity in desirable locations, including transit-accessible areas. Unlike traditional property taxes that apply to both land and structures, a LVT taxes only the value of land. In theory, this approach incentivizes development in high-value areas, increases urban density, and more fully captures the value created by transit infrastructure (Foldvary and Minola 2017). A tract-level analysis of LVT implementation in WMATA tax jurisdictions found that the tax would be more progressive for low- and middle-income households while capturing higher revenues from areas with greater land values (Allen 2025).

Although LVTs are used internationally in countries such as Denmark, Hong Kong, and Singapore, Altoona, Pennsylvania remains the only U.S. city to adopt one in the 21st century. Altoona implemented its LVT in 2002, phased it in over eight years, and ultimately discontinued the system in 2017 due to resident confusion (FHWA 2017). Overall, LVTs have produced inconclusive results in practice (Dye and England 2010).

Current New Jersey Policy

Because NJ TRANSIT lacks independent taxing authority, it must rely on municipalities, counties, or state agencies to implement tax-based value capture mechanisms such as TIF or SAD/SID, unless future legislation explicitly grants this power. While there are pathways for NJ TRANSIT to participate in such agreements, these mechanisms have not historically been applied to support transit.

As of 2025, New Jersey does not have active TIF-enabling legislation. Municipalities previously used Revenue Allocation Districts and the Economic Redevelopment and Growth (ERG) program to pursue tax-increment financing. However, ERG expired in 2019, and was replaced by the Aspire program under the New Jersey Economic Recovery Act of 2020. Aspire does not enable TIF, instead providing tax credits to support mixed-use developments in “Incentive Areas,” including transit zones, reinforcing a development-based rather than tax-based value capture model.

While TIF is currently unavailable, New Jersey does authorize SID under the Pedestrian Mall and Special Improvement District Act (N.J.S.A. 40:56-65 et seq. 2024). Municipalities may establish SIDs to levy assessments on commercial properties to fund services or downtown improvements, with revenues managed by a District Management Corporation (DMC) governed by local property and business owners. Although SIDs have not historically been used to fund NJ TRANSIT projects, the statute does not prohibit such use. While large-scale application would present challenges, SIDs could feasibly support station upgrades and station extension projects on a case-by-case basis.

State Revenue Structure

Because tax-based value capture is limited, NJ TRANSIT remains heavily dependent on state-controlled revenue sources. Its largest current source is the corporate transit fee established by P.L. 2024, c.020 (A4704), with revenue deposited into the General Fund and appropriated annually for operating needs through 2028. After that date, the

fee must be renewed or replaced. Alternatively, the Legislature could make the fee permanent through constitutional amendment referendum, requiring either a three-fifths supermajority in one session or majority approval in two consecutive years.

NJ TRANSIT’s second-largest source of state support comes from direct transfers from the New Jersey Turnpike Authority (NJTA). These transfers have occurred annually since FY 2012, peaking at \$721 million for operating revenue in FY 2023 and stabilizing at just over \$440 million in FY 2024, FY 2025, and FY 2026. Under a 2021 agreement, NJTA will continue quarterly payments for operating and capital expenses through 2028, with funding rising to \$525 million in FY 2028, unless NJ TRANSIT eliminates its Capital-to-Operating Budget transfers. After 2028, the agreement must be renewed.

Another significant revenue source is the Clean Energy Trust Fund, established in 1999 under the Electric Discount and Energy Competition Act (N.J.S.A. 48:3-49) and financed through a societal benefits charge (SBC) on electric and gas utilities. Although the fund was designed to support statewide energy-efficiency and emissions-reduction programs through the NJ Clean Energy Program (NJCEP), lawmakers frequently redirect a portion to NJ TRANSIT on the basis that transit promotes energy efficiency and emissions reduction. NJ TRANSIT received \$140 million from this fund in FY 2026 and has received allocations annually since FY 2015, though these transfers are discretionary and subject to yearly budget decisions.

Lastly, NJ TRANSIT receives annual allocations from the Casino Revenue Fund, which accounts for ~8.5 percent of its state subsidy. State law restricts these funds to services benefiting senior citizens and disabled residents (NJ Rev Stat § 5:12-145). For NJ TRANSIT, this revenue supports the Senior Citizen and Disabled Resident Transportation Assistance Program (SCDRTAP), including Access Link services and accessibility improvements (NJ Rev Stat § 27:25-28). This funding is guaranteed, with more than \$31 million allocated in FY 2025.

RECOMMENDATIONS

Drawing on NJ TRANSIT’s history, academic research, national case studies, and New Jersey’s current legislative landscape, several actions could help stabilize the agency today and support long-term growth. These recommendations span legislative reforms, internal NJ TRANSIT initiatives, and steps that require close coordination between the two. While the actions below are ordered by their potential to generate revenue, no single strategy will be sufficient to meet the state’s long-term transportation goals.

1. Constitutionally guarantee or extend the 2.5 percent Corporate Transit Tax.

NJ TRANSIT’s reliance on government subsidies for operating costs has stabilized at more than \$2 billion annually, and farebox and non-farebox revenues cannot close this gap. Additionally, costs continue to rise by roughly 7 percent year-over-year due to non-discretionary increases in contractual wages, healthcare expenses, and material costs. When state or federal subsidies have fallen short in the past, the agency accumulated debt, allowed assets to deteriorate, and experienced service disruptions. To sustain reliable service, NJ TRANSIT needs a stable, high-yield revenue source capable of covering the \$2 billion shortfall. Alternatives such as income, sales, and property taxes either carry greater public opposition or are more regressive than the corporate tax. Extending the Corporate Transit Tax beyond 2028 would help stabilize and improve operations. Guaranteeing this source by a constitutional amendment approved through legislation and a statewide referendum would provide the strongest long-term funding security.

Potential Revenue: \$800 million annually, rises with inflation

2. Pass legislation that enables greater tax-based value capture opportunities for NJ TRANSIT projects.

Past NJ TRANSIT service expansions, such as the HBLR, Secaucus Junction Transfer, MidTOWN Direct, and Montclair Connection, generated significant increases in nearby property values but lacked value-capture tools, leaving gains privatized while NJ TRANSIT absorbed the resulting debt. To avoid

repeating this pattern on future projects like the HBLR extension, Glassboro–Camden Line, and new BRT routes, New Jersey should enact legislation authorizing tax-based value-capture mechanisms, including tax increment financing or transit-specific Special Improvement Districts.

Potential Revenue: 28 percent to 50 percent of a project’s capital costs, if successful

3. Create an independent clean energy funding source for NJ TRANSIT.

NJ TRANSIT has received roughly \$950 million in diverted Clean Energy Funds since FY 2015, increasing to \$140 million in FY 2026. As New Jersey’s energy prices rise, the state must both sustain clean energy investments and ensure predictable funding for NJ TRANSIT, which reduces overall energy use by limiting driving. Potential options include raising the SBC and designating the additional revenue for NJ TRANSIT or creating a new revenue source, such as a VMT tax or urban congestion toll.

Potential Revenue: \$140 million, more if paired with new revenue source like congestion pricing

4. Expand the Transit Village Initiative through a tiered approach, with additional investment opportunities for Transit Villages that meet certain benchmarks.

Established in 1999, the Transit Village Initiative provides annual grants for station-area improvements in designated Transit Villages. Expanding the program could support more station-area upgrades and transit-oriented development, increasing fare revenue, reducing NJ TRANSIT’s station capital costs, and creating new value-capture opportunities. Potential strategies include helping Transit Villages establish Special Improvement Districts to levy funds for projects that benefit both NJ TRANSIT and local property owners, and allocating funds for NJ TRANSIT to build mixed-use developments in Transit Villages that agree to expanded zoning or affordability requirements.

Potential Revenue: \$25 million annually, more if paired with Special Improvement Districts

5. Design and expand profit-sharing opportunities for NJ TRANSIT's future joint developments.

According to NJ TRANSIT's LAND Plan, the agency intends to leverage its 8,000-acre real estate portfolio to generate revenue through multiple channels, especially transit-oriented development. To maximize these returns, NJ TRANSIT could expand its Real Estate and Economic Development Department and increase participation in joint-development projects to secure profit-sharing and revenue beyond ground leases. Additionally, the State could enact legislation that strengthens NJ TRANSIT's land-use authority to permit higher densities and mixed-use construction on its property, and authorize capital funding for NJ TRANSIT development projects to secure more favorable lending rates.

Potential Revenue: \$26 million to \$36.7 million annually, according to NJ TRANSIT LAND Plan

6. Publicize the value NJ TRANSIT creates beyond fare revenue generation and reinforce its role as a public service.

Throughout NJ TRANSIT's history, expectations that it operate like a business rather than a public service have contributed to reductions in state subsidies when service improvements increased operating needs. Yet research shows that NJ TRANSIT generates substantial external value, from boosting property values and reducing congestion to cutting greenhouse gas emissions, lowering transportation costs for low- and middle-income households, and contributing billions of dollars in economic activity. To reflect this broader impact, NJ TRANSIT's Annual Financial Report should include a section documenting its annual "external" value creation. The agency should also highlight in official documents its role as a vital public service for New Jersey.

Estimated Economic Benefits: \$12.7 to \$13.8 billion annually (Regional Plan Association 2025)



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