SPACE AND OCCUPANCY
The HBS campus includes 33 buildings encompassing more than 1.5 million square feet of occupied space. The School is solely responsible for managing these physical facilities; campus maintenance and construction are not centralized University responsibilities as they are at many other large academic institutions. Space and occupancy expense includes costs related to maintaining and operating the School’s buildings and associated campus infrastructure.

In addition, facilities improvement and renovation costs that do not qualify as capital expenses are generally categorized as space and occupancy costs. Also included are expenses related to dining facilities and other campus services, as well as costs associated with leased space that houses HBP’s operations. Residence expenses for executive program participants—equivalent to cost of goods sold in Executive Education—also are reported under space and occupancy.

In the past five years, space and occupancy expenses have risen at a compound annual rate of 6.2 percent. The increase in fiscal 2008 was $2 million, or 5 percent, driven primarily by higher campus-wide dining, parking, and security costs, as well as the aforementioned HBP and Executive Education expenses.

SUPPLIES AND EQUIPMENT
The School maintains rigorous control over expenses for supplies and equipment. Spending in this area increased by $2 million, or 22.2 percent, in fiscal 2008, primarily reflecting variable costs incurred by HBP and Executive Education.

PROFESSIONAL SERVICES
Professional services expenses increased by 16 percent to $29 million in fiscal 2008, from $25 million in fiscal 2007. Harvard Business Publishing is engaged in a multiyear project to reconstruct its IT infrastructure. After focusing on deployment of a new platform to support its migration toward digital product offerings last year, in fiscal 2008 HBP invested in new IT systems to support internal processes ranging from customer relationship management at the front end of the business to general ledger at the back end. The School also made a significant investment in upgrading the MBA prematriculation platform. As in fiscal 2007, much of the increase in professional services expense this year reflected greater use of outsourcing to supplement the School’s internal capabilities in these IT deployments.

UNIVERSITY ASSESSMENTS
Expenses for University assessments are primarily calculated as a percent of the School’s total expenses on a two-year lagged basis. These assessments cover essential services provided to HBS by the University, including payroll and benefits administration, processing of accounts receivable and payable, and legal services. University assessments increased by $1 million in fiscal 2008 to $12 million.

DEBT SERVICE
The School’s debt service, which consists of interest payments to the University on building and other University debt, remained level in fiscal 2008 at $7 million. In fiscal 2007, debt service increased by 75 percent from the prior year because of the accounting transfer of large amounts of debt from construction-in-progress to placed-in-service. This transfer reflected the completion of three of the School’s largest recent capital projects: the restoration and renovation of Baker Library | Bloomberg Center and the renovation of Hamilton and Aldrich Halls. Debt service expense remained level in fiscal 2008 because of an increase in new borrowings to finance the renovation of MBA residence space in Gallatin Hall.