

# SECURITIES AND EXCHANGE COMMISSION

## FORM 497

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### FILER

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**WITTER DEAN NEW YORK TAX FREE INCOME FUND**

CIK: **763062** | State of Incorporation: **MD** | Fiscal Year End: **1231**  
Type: **497** | Act: **33** | File No.: **002-95664** | Film No.: **94514242**

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Dean Witter New York Tax-Free Income Fund (the "Fund") is an open-end diversified management investment company whose investment objective is to provide a high level of current income exempt from federal, New York State and New York City income tax, consistent with the preservation of capital. The Fund invests principally in New York tax-exempt fixed-income securities which are rated in the four highest categories by Moody's Investors Service, Inc. or Standard & Poor's Corporation. (See "Investment Objective and Policies.")

Shares of the Fund are continuously offered at net asset value without the imposition of a sales charge. However, redemptions and/or repurchases are subject in most cases to a contingent deferred sales charge, scaled down from 5% to 1% of the amount redeemed, if made within six years of purchase, which charge will be paid to the Fund's Distributor, Dean Witter Distributors Inc. See "Redemptions and Repurchases--Contingent Deferred Sales Charge." In addition, the Fund pays the Distributor a distribution fee pursuant to a Plan of Distribution pursuant to Rule 12b-1 under the Investment Company Act of 1940 at the annual rate of 0.75% of the lesser of the (i) average daily aggregate net sales or (ii) average daily net assets of the Fund. See "Purchases of Fund Shares--Plan of Distribution."

This prospectus sets forth concisely the information you should know before investing in the Fund. It should be read and retained for future reference. Additional information about the Fund is contained in the Statement of Additional Information, dated February 28, 1994, which has been filed with the Securities and Exchange Commission, and which is available at no charge upon request of the Fund at the address or telephone number listed below. The Statement of Additional Information is incorporated herein by reference.

Dean Witter  
New York Tax-Free  
Income Fund  
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SHARES OF THE FUND ARE NOT DEPOSITS OR OBLIGATIONS OF, OR GUARANTEED OR ENDORSED BY, ANY BANK, AND THE SHARES ARE NOT FEDERALLY INSURED BY THE FEDERAL DEPOSIT INSURANCE CORPORATION, THE FEDERAL RESERVE BOARD, OR ANY OTHER AGENCY. THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION NOR HAS THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

DEAN WITTER DISTRIBUTORS INC.  
DISTRIBUTOR

<TABLE>  
<CAPTION>  
PROSPECTUS SUMMARY  
<S> <C>

The Fund The Fund is organized as a Trust, commonly known as a Massachusetts business trust, and is an open-end diversified management investment company investing principally in New York tax-exempt fixed-income securities which are rated in the four highest categories by Moody's Investors Service Inc. or Standard and Poor's Corporation (see page 5).

Shares Offered Shares of beneficial interest with \$0.01 par value (see page 21).

Offering Price At net asset value without sales charge (see page 12). Shares redeemed within six years of purchase are subject to a contingent deferred sales charge under most circumstances (see page 16).

Minimum Purchase Minimum initial investment, \$1,000; minimum subsequent investment, \$100 (see page 13).

Investment Objective The investment objective of the Fund is to provide a high level of current income exempt from federal, New York State and New York City income tax, consistent with preservation of capital.

Investment Policies The Fund will invest principally in New York tax-exempt fixed-income securities. However, it may also invest in taxable money market instruments, non-New York tax-exempt securities, futures and options.

Investment Manager Dean Witter InterCapital Inc., the Investment Manager of the Fund, and its wholly-owned subsidiary, Dean Witter Services Company Inc., serve in various investment management, advisory, management and administrative capacities to eighty-one investment companies and other portfolios with assets of approximately \$71.2 billion at December 31, 1993 (see page 5).

Management Fee The Investment Manager receives a monthly fee at the annual rate of .55 of 1% of daily net assets scaled down on assets over \$500 million. The fee should not be compared with fees paid by other investment companies without also considering applicable sales loads and distribution fees, including those noted below.

Dividends Dividends are declared daily, and either paid monthly as additional shares of the Fund or, at the shareholder's option, paid monthly in cash (see page 19).

Distributor and Distribution Fee Dean Witter Distributors Inc. (the "Distributor"). The Distributor receives from the Fund, pursuant to a Rule 12b-1 Plan of Distribution, a distribution fee accrued daily and payable monthly at the rate of .75% per annum of the lesser of (i) the Fund's average daily aggregate net sales or (ii) the Fund's average daily net assets. This fee compensates the Distributor for the services provided in distributing shares of the Fund and for its sales-related expenses. The Distributor also receives the proceeds of any contingent deferred sales charges (see pages 13-19).

Redemption At net asset value; redeemable involuntarily if total value of the account is less than \$100. Redemptions within six years of purchase are subject to a contingent deferred sales charge under most circumstances (see page 17).

Contingent Deferred Sales Charge Although no commission or sales charge is imposed upon the purchase of shares, a contingent deferred sales charge (scaled down from 5% to 1%) is imposed on any redemption of shares if after such redemption the aggregate current value of an account with the Fund falls below the aggregate amount of the investor's purchase payments made during the six years preceding the redemption. However, there is no charge imposed on redemption of shares purchased through reinvestment of dividends or distributions (see pages 17-19).

Risks The value of the Fund's portfolio securities, and therefore the Fund's net asset value per share, may increase or decrease due to various factors, principally changes in prevailing interest rates and the ability of the issuers of the Fund's portfolio securities to pay interest and principal on such obligations. The Fund also may invest in futures and options for portfolio hedging purposes. Futures and options may be considered speculative in nature and may involve greater risks than those customarily assumed by certain other investment companies which do not invest in such instruments. Since the Fund concentrates its investments in New York tax-exempt securities, the Fund is affected by any political, economic or regulatory developments affecting the ability of New York issuers to pay interest or repay principal (see pages 10-11).

THE ABOVE IS QUALIFIED IN ITS ENTIRETY BY THE DETAILED INFORMATION APPEARING ELSEWHERE IN THIS PROSPECTUS AND IN THE STATEMENT OF ADDITIONAL INFORMATION.

</TABLE>

SUMMARY OF FUND EXPENSES

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The following table illustrates all expenses that a shareholder of the Fund will incur. The expenses and fees set forth in the table are for the fiscal year ended December 31, 1993.

<TABLE>  
<CAPTION>  
SHAREHOLDER TRANSACTION EXPENSES

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<S>	<C>
Maximum Sales Charge Imposed on Purchases.....	None
Maximum Sales Charge Imposed on Reinvested Dividends.....	None
Deferred Sales Charge	
(as a percentage of the lesser of original purchase price or redemption proceeds).....	5.0%

A contingent deferred sales charge is imposed at the following declining rates:

</TABLE>

<TABLE>  
<CAPTION>  
YEAR SINCE PURCHASE PAYMENT MADE PERCENTAGE

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<S>	<C>
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First.....	5.0%
Second.....	4.0%
Third.....	3.0%
Fourth.....	2.0%
Fifth.....	2.0%
Sixth.....	1.0%
Seventh and thereafter.....	None
Redemption Fees.....	None
Exchange Fee.....	None

<TABLE>  
<CAPTION>  
ANNUAL FUND OPERATING EXPENSES (AS A PERCENTAGE OF AVERAGE NET ASSETS)

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<S>	<C>
Management Fee.....	0.55%
12b-1 Fees.....	0.62%
Other Expenses.....	0.10%
Total Fund Operating Expenses.....	1.27%

<FN>  
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\* A PORTION OF THE 12B-1 FEE EQUAL TO 0.20% OF THE FUND'S AVERAGE DAILY NET ASSETS IS CHARACTERIZED AS A SERVICE FEE WITHIN THE MEANING OF THE NATIONAL ASSOCIATION OF SECURITIES DEALERS, INC. ("NASD") GUIDELINES.

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<TABLE>				
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EXAMPLE	1 YEAR	3 YEARS	5 YEARS	10 YEARS
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<S>	<C>	<C>	<C>	<C>
You would pay the following expenses on a \$1,000 investment, assuming (1) 5% annual return and (2) redemption at the end of each time period.....	\$ 63	\$ 70	\$ 90	\$ 154
You would pay the following expenses on the same investment, assuming no redemption.....	\$ 13	\$ 40	\$ 70	\$ 154

THE ABOVE EXAMPLE SHOULD NOT BE CONSIDERED A REPRESENTATION OF PAST OR FUTURE EXPENSES OR PERFORMANCE. ACTUAL EXPENSES OF THE FUND MAY BE GREATER OR LESS THAN THOSE SHOWN.

The purpose of this table is to assist the investor in understanding the various costs and expenses that an investor in the Fund will bear directly or indirectly. For a more complete description of these costs and expenses, see "The Fund and its Management", "Plan of Distribution" and "Redemption and Repurchases."

LONG-TERM SHAREHOLDERS OF THE FUND MAY PAY MORE IN SALES CHARGES AND DISTRIBUTION FEES THAN THE ECONOMIC EQUIVALENT OF THE MAXIMUM FRONT-END SALES CHARGE PERMITTED BY THE NASD.

FINANCIAL HIGHLIGHTS

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The following ratios and per share data for a share of beneficial interest outstanding throughout each period have been audited by Price Waterhouse, independent accountants. The financial highlights should be read in conjunction with the financial statements, notes thereto and the unqualified report of independent accountants which are contained in the Statement of Additional Information. Further information about the performance of the Fund is contained in the Fund's Annual Report to Shareholders, which may be obtained without charge upon request from the Fund.

<TABLE>									
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FOR THE YEAR ENDED DECEMBER 31,									
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	1993	1992	1991	1990	1989	1988	1987	1986	FOR THE PERIOD APRIL 25, 1985* THROUGH DECEMBER 31, 1985
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Per Share Operating Performance:									
Net asset value, beginning of period.....	\$ 11.98	\$ 11.68	\$ 11.00	\$ 11.25	\$ 10.94	\$ 10.50	\$ 11.57	\$ 10.57	\$ 10.00
Investment income-net.....	0.65	0.65	0.68	0.68	0.68	0.68	0.70	0.72	0.51
Realized and unrealized gain (loss) on									

investments-net...	0.72	0.34	0.70	(0.25)	0.31	0.44	(0.93)	1.09	0.57
Total from investment operations.....	1.37	0.99	1.38	0.43	0.99	1.12	(0.23)	1.81	1.08
Less dividends and distributions:									
Dividends from net investment income.....	(0.65)	(0.65)	(0.68)	(0.68)	(0.68)	(0.67)	(0.70)	(0.72)	(0.51)
Distributions from realized gain on investments.....	(0.20)	(0.04)	(0.02)	-0-	-0-	(0.01)	(0.14)	(0.09)	-0-
Total dividends and distributions.....	(0.85)	(0.69)	(0.70)	(0.68)	(0.68)	(0.68)	(0.84)	(0.81)	(0.51)
Net asset value, end of period.....	\$ 12.50	\$ 11.98	\$ 11.68	\$ 11.00	\$ 11.25	\$ 10.94	\$ 10.50	\$ 11.57	\$ 10.57
Total Investment Return+.....	11.72%	8.70%	12.94%	4.01%	9.34%	10.91%	(1.89%)	17.62%	11.04% (1)
Ratios/Supplemental Data:									
Net assets, end of period (in thousands).....	\$246,461	\$208,516	\$181,714	\$158,075	\$147,363	\$128,600	\$112,795	\$113,321	\$ 73,408
Ratio of expenses to average net assets.....	1.27%	1.40%	1.32%	1.37%	1.37%	1.41%	1.40%	1.41%	1.16% (2) (3)
Ratio of net investment income to average net assets.....	5.20%	5.48%	6.00%	6.13%	6.09%	6.28%	6.44%	6.36%	7.02% (2) (3)
Portfolio turnover rate.....	25%	16%	17%	23%	4%	18%	40%	23%	24%

<FN>

- \* COMMENCEMENT OF OPERATIONS.  
+ DOES NOT REFLECT THE DEDUCTION OF SALES LOAD.  
(1) NOT ANNUALIZED.  
(2) ANNUALIZED.  
(3) IF THE FUND HAD BORNE ALL ITS EXPENSES THAT WERE ASSUMED OR WAIVED BY THE INVESTMENT MANAGER AND THE DISTRIBUTOR, THE EXPENSE RATIO WOULD HAVE BEEN 1.58% AND THE NET INVESTMENT INCOME RATIO WOULD HAVE BEEN 6.60%.

</TABLE>

SEE NOTES TO FINANCIAL STATEMENTS

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#### THE FUND AND ITS MANAGEMENT

Dean Witter New York Tax-Free Income Fund (the "Fund") is an open-end diversified management investment company. The Fund is a trust of the type commonly known as a "Massachusetts business trust" and was organized under the laws of Massachusetts on January 17, 1985.

Dean Witter InterCapital Inc. ("InterCapital" or the "Investment Manager"), whose address is Two World Trade Center, New York, New York 10048, is the Fund's Investment Manager. The Investment Manager, which was incorporated in July, 1992, is a wholly-owned subsidiary of Dean Witter, Discover & Co. ("DWDC"), a balanced financial services organization providing a broad range of nationally marketed credit and investment products.

InterCapital and its wholly-owned subsidiary, Dean Witter Services Company Inc., serve in various investment management, advisory, management and administrative capacities to a total of eighty-one investment companies, twenty-nine of which are listed on the New York Stock Exchange, with combined total assets including this Fund of approximately \$69.2 billion as of December 31, 1993. The Investment Manager also manages portfolios of pension plans, other institutions and individuals which aggregated approximately \$2.0 billion at such date.

The Fund has retained the Investment Manager to provide administrative services, manage its business affairs and manage the investment of the Fund's assets, including the placing of orders for the purchase and sale of portfolio securities. InterCapital has retained Dean Witter Services Company Inc. to perform the aforementioned administrative services for the Fund. The Fund's Board of Trustees reviews the various services provided by or under the direction of the Investment Manager to ensure that the Fund's general investment policies and programs are being properly carried out and that administrative

services are being provided to the Fund in a satisfactory manner.

As full compensation for the services and facilities furnished to the Fund and for expenses of the Fund assumed by the Investment Manager, the Fund pays the Investment Manager monthly compensation calculated daily by applying the following annual rates to the net assets of the Fund determined as of the close of each business day: 0.55% of the portion of the daily net assets not exceeding \$500 million and 0.525% of the portion of the daily net assets exceeding \$500 million. For the fiscal year ended December 31, 1993, the Fund accrued total compensation to the Investment Manager amounting to 0.55% of the Fund's average daily net assets and the Fund's total expenses amounted to 1.27% of the Fund's average daily net assets.

#### INVESTMENT OBJECTIVE AND POLICIES

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The investment objective of the Fund is to provide a high level of current income which is exempt from federal, New York State and New York City income tax, consistent with the preservation of capital. There is no assurance that this objective will be achieved. The Fund seeks to achieve its investment objective by investing its assets in accordance with the following policies:

1. As a fundamental policy the Fund must have at least 80% of its total assets invested in New York tax-exempt securities, except as stated in paragraph (3) below. New York tax-exempt securities consist of obligations of New York State, its political subdivisions, authorities and corporations, as well as any debt obligations (certain governmental entities and territories such as Puerto Rico, Guam and the Virgin Islands) that generate interest income which is exempt from federal, New York State and New York City income taxes. New York tax-exempt securities

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consist of Municipal Bonds and Municipal Notes ("Municipal Obligations") and Municipal Commercial Paper. Only New York tax-exempt securities which satisfy the following standards may be purchased by the Fund: (a) Municipal Bonds which are rated at the time of purchase within the four highest grades by Moody's Investors Service, Inc. ("Moody's") or Standard & Poor's Corporation ("S&P"); (b) Municipal Notes of issuers which at the time of purchase are rated in the two highest grades by Moody's or S&P, or, if not rated, have outstanding one or more issues of Municipal Bonds rated as set forth in clause (a) of this paragraph; (c) Municipal Commercial Paper which at the time of purchase is rated P-1 by Moody's and A-1 by S&P; and (d) unrated securities which at the time of purchase are judged by the Investment Manager to be of comparable quality to the securities described above. For a description of Moody's and S&P's ratings, see the Appendix to the Statement of Additional Information.

2. In accordance with the current position of the staff of the Securities and Exchange Commission, tax-exempt securities which are subject to the federal alternative minimum tax for individual shareholders ("AMT") will not be included in the 80% total described in paragraph 1 above. (See "Dividends, Distributions and Taxes," page 20.) As such, the remaining portion of the Fund's total assets may be invested in tax-exempt securities subject to the AMT.

3. Up to 20% of the Fund's total assets may be invested in taxable money market instruments, non-New York tax-exempt securities, futures and options and tax-exempt securities subject to the AMT. However, the Fund may temporarily invest more than 20% of its total assets in taxable money market instruments, non-New York tax-exempt securities and tax-exempt securities subject to the AMT, in order to maintain a "defensive" posture when, in the opinion of the Investment Manager, it is advisable to do so because of market conditions. Only those non-New York tax-exempt securities which satisfy the standards set forth in paragraph (1) for New York tax-exempt securities may be purchased by the Fund. The types of taxable money market instruments in which the Fund may invest are limited to the following short-term fixed income securities (maturing in one year or less from the time of purchase): (i) obligations of the United States Government, its agencies, instrumentalities or authorities; (ii) commercial paper rated P-1 or higher by Moody's or A-1 or higher by S&P; (iii) certificates of deposit of domestic banks with assets of \$1 billion or more; and (iv) repurchase agreements with respect to portfolio securities.

Municipal Obligations are debt obligations of a state, its cities, municipalities and municipal agencies which generally have maturities, at the time of their issuance, of either one year or more (Bonds) or from six months to three years (Notes). Municipal Commercial Paper is a short-term obligation of a municipality. Any Municipal Obligation which depends directly or indirectly on the credit of the Federal Government, its agencies or instrumentalities shall be considered to have a rating of Aaa/AAA. An obligation shall be considered a New York tax-exempt security only if, in the opinion of bond counsel, the interest payable thereon is exempt from federal, New York State and New York City income tax.

Investments in municipal bonds rated either Baa by Moody's or BBB by S&P (investment grade bonds--the lowest rated permissible investments by the Fund) may have speculative characteristics and, therefore, changes in economic conditions or other circumstances are more likely to weaken their capacity to make principal and interest payments than would be the case with investments in securities with higher credit ratings.

The foregoing percentage and rating policies apply at the time of acquisition of a security based upon the last previous determination of the Fund's net asset value. Any subsequent change in any

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rating or change in percentages resulting from market fluctuations or other changes in the Fund's total assets will not require elimination of any security from the Fund's portfolio until such time as the value of all such securities exceeds 5% of the Fund's total assets and, at such time, only when the Investment Manager determines that it is practicable to sell the security without undue market or tax consequences to the Fund. As such, the Fund may hold Municipal Bonds rated below investment grade by Moody's and/or S&P in its portfolio. Municipal Bonds rated below investment grade may not currently be paying any interest and may have extremely poor prospects of ever attaining any real investment standing.

The two principal classifications of Municipal Obligations and Commercial Paper are "general obligation" and "revenue" bonds, notes or commercial paper. General obligation bonds, notes or commercial paper are secured by the issuer's pledge of its faith, credit and taxing power for the payment of principal and interest. Issuers of general obligation bonds, notes or commercial paper include a state, its counties, cities, towns and other governmental units. Revenue bonds, notes or commercial paper are payable from the revenues derived from a particular facility or class of facilities or, in some cases, from specific revenue sources. Revenue bonds, notes or commercial paper are issued for a wide variety of purposes, including the financing of electric, gas, water and sewer systems and other public utilities; industrial development and pollution control facilities; single and multi-family housing units; public buildings and facilities; air and marine ports; transportation facilities such as toll roads, bridges and tunnels; and health and educational facilities such as hospitals and dormitories. They rely primarily on user fees to pay debt service, although the principal revenue source is often supplemented by additional security features which are intended to enhance the creditworthiness of the issuer's obligations. In some cases, particularly revenue bonds issued to finance housing and public buildings, a direct or implied "moral obligation" of a governmental unit may be pledged to the payment of debt service. In other cases, a special tax or other charge may augment user fees.

Included within the revenue category are participations in lease obligations or installment purchase contracts (hereinafter collectively called "lease obligations") of municipalities. State and local governments issue lease obligations to acquire equipment and facilities.

Lease obligations may have risks not normally associated with general obligation or other revenue bonds. Leases and installment purchase or conditional sale contracts (which may provide for title to the leased asset to pass eventually to the issuer) have developed as a means for governmental issuers to acquire property and equipment without the necessity of complying with the constitutional and statutory requirements generally applicable for the issuance of debt. Certain lease obligations contain "non-appropriation" clauses that provide that the governmental issuer has no obligation to make future payments under the lease or contract unless money is appropriated for such purpose by the appropriate legislative body on an annual or other periodic basis. Consequently, continued lease payments on those lease obligations containing "non-appropriation" clauses are dependent on future legislative actions. If such legislative actions do not occur, the holders of the lease obligation may experience difficulty in exercising their rights, including disposition of the property.

Lease obligations represent a relatively new type of financing that has not yet developed the depth of marketability associated with more conventional municipal obligations, and, as a result, certain of such lease obligations may be considered illiquid securities. To determine whether or not the Fund will consider such securities to be illiquid (the Fund may not invest more than ten percent of its net assets in illiquid securities), the Trustees of the Fund have established guidelines to be utilized by the Fund in determining the liquidity of a lease obligation. The factors to be considered in making the determination include: 1) the frequency of

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trades and quoted prices for the obligation; 2) the number of dealers willing to purchase or sell the security and the number of other potential purchasers; 3) the willingness of dealers to undertake to make a market in the security; and 4) the nature of the marketplace trades, including, the time needed to dispose of the security, the method of soliciting offers, and the mechanics of the transfer.

The value of the Fund's portfolio securities, and therefore the Fund's net asset value per share, may increase or decrease due to various factors, principally changes in prevailing interest rates and the ability of the issuers of the Fund's portfolio securities to pay interest and principal on such obligations on a timely basis. Generally a rise in interest rates will result in a decrease in the Fund's net asset value per share, while a drop in interest rates will result in an increase in the Fund's net asset value per share.

**VARIABLE RATE OBLIGATIONS.** The interest rates payable on certain securities in which the Fund may invest are not fixed and may fluctuate based upon changes in market rates. Obligations of this type are called "variable rate" obligations. The interest rate payable on a variable rate obligation is adjusted either at predesignated periodic intervals or whenever there is a change in the market rate of interest on which the interest rate payable is based.

**WHEN-ISSUED AND DELAYED DELIVERY SECURITIES.** The Fund may purchase securities on a when-issued or delayed delivery basis; i.e., delivery and payment can take place a month or more after the date of the transaction. These securities are subject to market fluctuation and no interest accrues to the purchaser prior to settlement. At the time the Fund makes the commitment to purchase such securities, it will record the transaction and thereafter reflect the value each day of such security in determining its net asset value. An increase in the percentage of the Fund's assets committed to the purchase of securities on a when-issued or delayed delivery basis may increase the volatility of the Fund's net asset value.

#### HEDGING ACTIVITIES

The Fund may enter into financial futures contracts, options on such futures and municipal bond index futures contracts for hedging purposes.

**FINANCIAL FUTURES CONTRACTS AND OPTIONS ON FUTURES.** The Fund may invest in financial futures contracts and related options thereon. The Fund may sell a financial futures contract, or purchase a put option on such futures contract, if the Investment Manager anticipates interest rates to rise, as a hedge against a decrease in the value of the Fund's portfolio securities. If the Investment Manager anticipates that interest rates will decline, the Fund may purchase a financial futures contract or a call option thereon to protect against an increase in the price of the securities the Fund intends to purchase. These futures contracts and related options thereon will be used only as a hedge against anticipated interest rate changes. A futures contract sale creates an obligation by the Fund, as seller, to deliver the specific type of instrument called for in the contract at a specified future time for a specified price. A futures contract purchase would create an obligation by the Fund, as purchaser, to take delivery of the specific type of financial instrument at a specified future time at a specified price. The specific securities delivered or taken, respectively, at settlement date, would not be determined until or near that date. The determination would be in accordance with the rules of the exchange on which the futures contract sale or purchase was effected.

Although the terms of financial futures contracts specify actual delivery or receipt of securities, in most instances the contracts are closed out before the settlement date without the making or taking of delivery of the securities. Closing out of a futures contract is effected by entering into an offsetting purchase or sale transaction.

Unlike a financial futures contract, which requires the parties to buy and sell a security on a set date, an option on such a futures contract entitles its holder to decide on or before a future

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date whether to enter into such a contract (a long position in the case of a call option and a short position in the case of a put option). If the holder decides not to enter into the contract, the premium paid for the option on the contract is lost. Since the value of the option is fixed at the point of sale, there are no daily payments of cash to reflect the change in the value of the underlying contract as there is by a purchaser or seller of a futures contract. The value of the option does change and is reflected in the net asset value of the Fund.

A risk in employing financial futures contracts to protect against the price volatility of portfolio securities is that the prices of securities subject to futures contracts may correlate imperfectly with the behavior of the cash prices of the Fund's portfolio securities. The risk of imperfect correlation will be increased by the fact that financial futures contracts in which the Fund may invest are on taxable securities rather than on tax-exempt securities, and there is no guarantee that the prices of taxable securities will move in a similar manner to the prices of tax-exempt securities. The correlation may be distorted by the fact that the futures market is dominated by short-term traders seeking to profit from the difference between a contract or security price objective and their cost of borrowed funds. Such distortions are generally minor and would diminish as the contract approached maturity.



Another risk is that the Fund's manager could be incorrect in his expectations as to the direction or extent of various interest rate movements or the time span within which the movements take place. For example, if the Fund sold financial futures contracts for the sale of securities in anticipation of an increase in interest rates, and then interest rates went down instead, causing bond prices to rise, the Fund would lose money on the sale.

In addition to the risks that apply to all options transactions (see the Statement of Additional Information for a description of the characteristics of, and the risks of investing in, options on debt securities), there are several special risks relating to options on futures; in particular, the ability to establish and close out positions on such options will be subject to the development and maintenance of a liquid secondary market. It is not certain that this market will develop or be maintained.

**MUNICIPAL BOND INDEX FUTURES.** The Fund may utilize municipal bond index futures contracts for hedging purposes. The Fund's strategies in employing such contracts will be similar to that discussed above with respect to financial futures and options thereon. A municipal bond index is a method of reflecting in a single number the market value of many different municipal bonds and is designed to be representative of the municipal bond market generally. The index fluctuates in response to changes in the market values of the bonds included within the index. Unlike futures contracts on particular financial instruments, transactions in futures on a municipal bond index will be settled in cash, if held until the close of trading in the contract. However, like any other futures contract, a position in the contract may be closed out by purchase or sale of an offsetting contract for the same delivery month prior to expiration of the contract.

The Fund may not enter into futures contracts or related options thereon if immediately thereafter the amount committed to margin plus the amount paid for option premiums exceeds 5% of the value of the Fund's total assets. The Fund may not purchase or sell futures contracts or related options if immediately thereafter more than one-third of its net assets would be hedged.

#### PORTFOLIO MANAGEMENT

The Fund is managed by the Investment Manager with a view to achieving its investment objective. In determining which securities to purchase for the Fund or hold in the Fund's portfolio, the Investment Manager will rely on information from various sources, including research, analysis and appraisals of brokers and dealers, including Dean Witter Reynolds Inc. ("DWR"), a broker-dealer affiliate of InterCapital; the views of Trustees of the Fund and others regarding economic developments and interest rate trends; and the Investment Manager's own analysis of

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factors it deems relevant. The Fund is managed within InterCapital's Municipal Fixed Income Group, which manages 36 tax-exempt municipal funds and fund portfolios, with approximately \$12 billion in assets as of December 31, 1993. James F. Willison, Senior Vice President of InterCapital and Manager of InterCapital's Municipal Fixed Income Group, has been the primary portfolio manager of the Fund since its inception and has been a portfolio manager at InterCapital for over five years.

Securities are purchased and sold principally in response to the Investment Manager's current evaluation of an issuer's ability to meet its debt obligations in the future, and the Investment Manager's current assessment of future changes in the levels of interest rates on tax-exempt securities of varying maturities, qualities and purpose. Securities purchased by the Fund are, generally, sold by dealers acting as principal for their own accounts.

Pursuant to an order issued by the Securities and Exchange Commission, the Fund may effect principal transactions in certain taxable money market instruments with DWR. In addition, the Fund may incur brokerage commissions on transactions conducted through DWR.

Except as specified, the investment policies noted above are not fundamental policies and may be changed without shareholder approval.

#### SPECIAL CONSIDERATIONS RELATING TO NEW YORK TAX-EXEMPT SECURITIES

Since the Fund concentrates its investments in New York tax-exempt securities, the Fund is affected by any political, economic or regulatory developments affecting the ability of New York tax-exempt issuers to pay interest or repay principal. Investors should be aware that certain issuers of New York tax-exempt securities have experienced serious financial difficulties in recent years. A recurrence of these difficulties may impair the ability of certain New York issuers to maintain debt service on their obligations.

The fiscal stability of New York State (the "State") is related to the fiscal stability of the State's municipalities, its Agencies and Authorities (which generally finance, construct and operate revenue-producing public benefit

facilities). This is due in part to the fact that Agencies, Authorities and local governments in financial trouble often seek State financial assistance. The experience has been that if New York City (the "City") or any of the Agencies or Authorities suffers serious financial difficulty, both the ability of the State, the City, the State's political subdivisions, the Agencies and the Authorities to obtain financing in the public credit markets and the market price of outstanding New York tax-exempt securities are adversely affected.

#### NEW YORK CITY

GENERAL. More than any other municipality, the fiscal health of New York City (the "City") has a significant effect on the fiscal health of the State. Over the past three years, the rate of economic growth in the City has slowed substantially. During the 1990 and 1991 fiscal years, the City experienced significant shortfalls in almost all of its major tax sources and increases in services costs. Beginning in 1992, the improvement in the national economy helped stabilize conditions in the City. The City now projects, and its current four-year financial plan assumes, that the City's economy will continue to improve during calendar year 1993 and that a modest employment recovery will begin during the second half of the 1993 calendar year.

As of August 12, 1993, Moody's rated the City's general obligation bonds Baal and S&P rated such bonds A-. Such ratings reflect only the views of Moody's and S&P, from which an explanation of the significance of such ratings may be obtained. There is no assurance that such ratings will continue for any given period of time or that they will be revised downward or withdrawn entirely. Any such downward revision or withdrawal could have an adverse effect on the market prices of bonds.

As of June 30, 1993, the City and the Municipal Assistance Corporation for the City of New York had, respectively, \$19.624 billion and \$4.470 billion

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of outstanding net long-term debt. The City depends on the State for State aid both to enable the City to balance its budget and to meet its cash requirements. If the State experiences revenue shortfalls or spending increases beyond its projections during its 1994 fiscal year or subsequent years, such developments could result in reductions in anticipated State aid to the City. In addition, there can be no assurance that State budgets in future fiscal years will be adopted by the April 1 statutory deadline and that there will not be adverse effects on the City's cash flow and additional City expenditures as a result of such delays.

#### NEW YORK STATE

RECENT DEVELOPMENTS. The State has faced serious financial difficulties in recent years. The effect of the national recession has been more severe in the State than in other parts of the nation, and the 1993-94 New York State Financial Plan (the "State Plan") is based on an economic projection that the State will perform more poorly than the nation as a whole. Although real gross domestic product grew modestly during calendar year 1992 and is expected to show increased growth in calendar year 1993, preliminary data indicate that the State's economy, as measured by employment, began to grow during the first part of calendar year 1993. Many uncertainties exist in forecasts of both the national and State economies, including consumer attitudes toward spending, Federal financial and monetary policies, the availability of credit and the condition of the world economy, which could have an adverse effect on the State. There can be no assurance that the State economy will not experience worse-than-predicted results in the 1993-94 fiscal year, with corresponding material and adverse effects on the State's projections of receipts and disbursements.

1993-94 FISCAL YEAR. The State completed its 1993 fiscal year with a cash-basis positive balance of \$67.1 million in the State's General Fund (the major operating fund of the State). The State's 1994 fiscal year budget, as enacted, projects a balanced General Fund.

The State Plan projects General Fund receipts and transfers from other funds at \$32.367 billion and disbursements and transfers to other funds at \$32.300 billion. Excess receipts of \$67 million will be used for a required repayment to the State's Tax Stabilization Reserve Fund. In comparison to the recommended 1993-94 Executive Budget, released by the Governor in early 1993, the 1993-94 State budget, as enacted, reflects increases in both receipts and disbursements in the General Fund of \$811 million. The \$811 million increase in projected receipts reflects many factors and assumptions, including (i) improving economic conditions and higher-than-expected tax collections, (ii) improved 1992-93 results, (iii) additional payments from the Federal government to reimburse the State for the cost of providing indigent medical care, (iv) the payment of additional personal income tax refunds in the 1992-93 fiscal year which would otherwise have been paid in fiscal year 1993-94; offset by revenue-raising recommendations in the Executive Budget that were not enacted and thus are not included in the State Plan. The \$811 million increase in projected disbursements reflects (i) an increase in projected school-aid payments, (ii) an increase in projected payments for Medicaid assistance and other social service programs,

(iii) additional spending on the judiciary and criminal justice, (iv) a net increase in projected disbursements for all other programs and purposes, and (v) establishment of a new contingency reserve.

There can be no assurance that the State will not face substantial potential budget gaps resulting from a significant disparity between tax revenues projected from a lower recurring receipts base and the spending required to maintain State programs at current levels. To address any potential budgetary imbalance, the State may need to take significant actions to align recurring receipts and disbursements in future fiscal years.

RATINGS. On June 6, 1990, Moody's changed its ratings on all the State's outstanding general

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obligation bonds from A1 to A. On March 26, 1990, Standard & Poor's changed its ratings of all of the State's outstanding general obligation bonds from AA- to A. On January 13, 1992, Standard & Poor's changed its ratings of all of the State's outstanding general obligation bonds from A to A-. Ratings reflect only the respective views of such organizations, and an explanation of the significance of such ratings must be obtained from the rating agency furnishing the same. There is no assurance that a particular rating will continue for any given period of time or that any such rating will not be revised downward or withdrawn entirely if, in the judgment of the agency originally establishing the rating, circumstances so warrant. A downward revision or withdrawal of such ratings, or either of them, may have an effect on the market price of the State Municipal Securities in which the New York Fund invests.

GENERAL OBLIGATION DEBT. As of March 31, 1993, the State had approximately \$5.132 billion in general obligation bonds, excluding refunding bonds, and \$294 million in bond anticipation notes outstanding. On May 4, 1993, the State issued \$850 million in tax and revenue anticipation notes which will mature on December 31, 1993. Principal and interest due on general obligation bonds and interest due on bond anticipation notes and on tax and revenue anticipation notes were \$890.0 million and \$818.8 million for the 1991-92 and 1992-93 fiscal years, respectively, and are estimated to be \$799.1 million for the State's 1993-94 fiscal year, not including interest on refunding bonds, issued in July 1992, to the extent that such interest is to be paid from escrowed funds.

For a more detailed discussion of the risks of investing in New York tax-exempt securities, see the Statement of Additional Information.

The summary information furnished above and in the Statement of Additional Information is based on official statements prepared by the State of New York and the City of New York and their authorities in connection with their borrowings and contains such information as the Fund deems relevant in considering an investment in the Fund. It does not purport to be a complete description of the considerations contained therein.

#### INVESTMENT RESTRICTIONS

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The investment restrictions listed below are among the restrictions that have been adopted by the Fund as fundamental policies. Under the Investment Company Act of 1940, as amended (the "Act"), a fundamental policy may not be changed without the vote of a majority of the outstanding voting securities of the Fund, as defined in the Act.

The Fund may not:

1. With respect to 75% of its total assets, purchase securities of any issuer if immediately thereafter more than 5% of the Fund's total assets would be invested in securities of such issuer (other than obligations issued or guaranteed by the United States Government, its agencies or instrumentalities or by the State of New York or its political subdivisions).

2. Purchase more than 10% of all outstanding taxable debt securities of any one issuer (other than obligations issued, or guaranteed as to principal and interest, by the United States Government, its agencies or instrumentalities).

3. Invest more than 25% of the value of its total assets in securities of issuers in any one industry. This restriction does not apply to obligations issued or guaranteed by the United States Government, its agencies or instrumentalities, or issued by the State of New York or its political subdivisions (industrial development and pollution control bonds are grouped into industries based upon the business in which the issuers of such obligations are engaged).

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If a percentage restriction is adhered to at the time of investment, a later increase or decrease in percentage resulting from a change in values of

portfolio securities or amount of total or net assets will not be considered a violation of any of the foregoing restrictions.

#### PURCHASE OF FUND SHARES

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The Fund offers its shares for sale to the public on a continuous basis. Shares of the Fund are distributed by Dean Witter Distributors Inc. (the "Distributor"), an affiliate of the Investment Manager, pursuant to a Distribution Agreement between the Fund and the Distributor and are offered by DWR and other dealers who have entered into agreements with the Distributor ("Selected Broker-Dealers"). The principal executive office of the Distributor is located at Two World Trade Center, New York, New York 10048.

The minimum initial purchase is \$1,000. Subsequent purchases of \$100 or more may be made by sending a check, payable to Dean Witter New York Tax-Free Income Fund, directly to Dean Witter Trust Company ("Transfer Agent") at P.O. Box 1040, Jersey City, New Jersey 07303 or by contacting a DWR or another Selected Broker-Dealer account executive. Certificates for shares purchased will not be issued unless a request is made by the shareholder in writing to the Transfer Agent. Shares are sold through the Distributor or a Selected Broker-Dealer on a normal five business day settlement basis; that is, payment generally is due on or before the fifth business day (settlement date) after the order is placed with the Distributor or a Selected Broker-Dealer. Shares of the Fund purchased through the Distributor or a Selected Broker-Dealer are entitled to dividends beginning on the next business day following settlement date. Since DWR and other Selected Broker-Dealers forward investors' funds on settlement date, they will benefit from the temporary use of the funds when payment is made prior thereto. Shares purchased through the Transfer Agent are entitled to dividends beginning on the next business day following receipt of an order. As noted above, orders placed directly with the Transfer Agent must be accompanied by payment. Investors will be entitled to receive capital gains distributions if their order is received by the close of business on the day prior to the record date for such distributions. The offering price will be the net asset value per share next determined following receipt of an order (see "Determination of Net Asset Value" below). While no sales charge is imposed at the time shares are repurchased, a contingent deferred sales charge may be imposed at the time of redemption (see "Redemptions and Repurchases"). The Fund and the Distributor reserve the right to reject any purchase orders.

#### PLAN OF DISTRIBUTION

The Fund has adopted a Plan of Distribution, pursuant to Rule 12b-1 of the Act (the "Plan"), under which the Fund pays the Distributor a fee, which is accrued daily and payable monthly, at an annual rate of 0.75% of the lesser of: (a) the average daily aggregate gross sales of the Fund's shares since the inception of the Fund (not including reinvestments of dividends or capital gains distributions), less the average daily aggregate net asset value of the Fund's shares redeemed since the Fund's inception upon which a contingent deferred sales charge has been imposed or waived, or (b) the Fund's average daily net assets. Of the amount accrued under the Plan, 0.20% of the Fund's average net assets is characterized as a service fee within the meaning of the NASD guidelines. The 12b-1 fee is treated by the Fund as an expense in the year it is accrued. Amounts paid under the Plan are paid to the Distributor to compensate it for the services provided and the expenses borne by the Distributor and others in the distribution of the Fund's shares, including the payment of commissions for sales of the Fund's shares and incentive compensation to and expenses of DWR and its affiliates and other Selected Broker-Dealers account executives and

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other employees who engage in or support distribution of shares or who service shareholder accounts, including overhead and telephone expenses; printing and distribution of prospectuses and reports used in connection with the offering of the Fund's shares to other than current shareholders; and preparation, printing and distribution of sales literature and advertising materials. For the fiscal year ended December 31, 1993, the Fund accrued payments under the Plan amounting to \$1,425,215, which amount is equal to 0.62% of the Fund's average daily net assets for the fiscal year. The payments accrued under the Plan were calculated pursuant to clause (a) of the compensation formula under the Plan.

At any given time, the expenses of distributing shares of the Fund may be in excess of the total of (i) the payments made by the Fund pursuant to the Plan and (ii) the proceeds of contingent deferred sales charges paid by investors upon redemption of shares (see "Redemptions and Repurchases-- Contingent Deferred Sales Charge"). For example, if the Distributor incurred \$1 million in expenses in distributing shares of the Fund and \$750,000 had been received as described in (i) and (ii) above, the excess expense would amount to \$250,000. The Distributor has advised the Fund that the excess amounts, including the carrying charge described above, totalled \$4,739,785 at December 31, 1993, which was equal to 1.92% of the Fund's net assets on such date. Because there is no requirement under the Plan that the Distributor be reimbursed for all its expenses or any requirement that the Plan be continued from year to year, this excess amount does not constitute a liability of the Fund. Although there is no

legal obligation for the Fund to pay expenses incurred in excess of payments made under the Plan, if for any reason the Plan is terminated the Trustees will consider at that time the manner in which to treat such expenses. Any cumulative expenses incurred but not yet recovered through distribution fees or contingent deferred sales charges, may or may not be recovered through future distribution fees or contingent deferred sales charges.

#### DETERMINATION OF NET ASSET VALUE

The net asset value per share of the Fund is determined once daily at 4:00 p.m. New York time on each day that the New York Stock Exchange is open by taking the value of all assets of the Fund, subtracting its liabilities, dividing by the number of shares outstanding and adjusting to the nearest cent. The net asset value per share will not be determined on Good Friday and on such other federal and non-federal holidays as are observed by the New York Stock Exchange.

Certain of the Fund's portfolio securities may be valued for the Fund by an outside independent pricing service approved by the Fund's Trustees. The service utilizes a computerized grid matrix of tax-exempt securities and evaluations by its staff in determining what it believes is the fair value of the Fund's portfolio securities. The Board believes that timely and reliable market quotations are generally not readily available to the Fund for purposes of valuing tax-exempt securities and that the valuations supplied by the pricing service are more likely to approximate the fair value of such securities.

Short-term taxable debt securities with remaining maturities of 60 days or less to maturity at time of purchase are valued at amortized cost, unless the Board determines such does not reflect the securities' fair value, in which case these securities will be valued at their fair market value as determined by the Board of Trustees. The value of other assets will be determined in good faith under procedures established by and under the supervision of the Trustees.

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#### SHAREHOLDER SERVICES

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**AUTOMATIC INVESTMENT OF DIVIDENDS AND DISTRIBUTIONS.** All income dividends and capital gains distributions are automatically paid in full and fractional shares of the Fund, (or, if specified by the shareholder, any other open-end investment company for which InterCapital serves as investment manager (collectively, with the Fund, the "Dean Witter Funds")), unless the shareholder requests they be paid in cash. Shares so acquired are not subject to the imposition of a contingent deferred sales charge upon their redemption (see "Redemptions and Repurchases"). Such dividends and distributions will be paid in shares of the Fund at net asset value per share (or in cash if the shareholder so requests) on the monthly payment date, which will be no later than the last business day of the month for which the dividend or distribution is payable. Processing of dividend checks begins immediately following the monthly payment date. Shareholders who have requested to receive dividends in cash will normally receive their monthly dividend check during the first ten days of the following month.

**EASYINVEST-SM-** Shareholders may subscribe to EasyInvest, an automatic purchase plan which provides for any amount from \$100 to \$5,000 to be transferred automatically from a checking or savings account, on a semi-monthly, monthly or quarterly basis, to the Transfer Agent for investment in shares of the Fund.

**SYSTEMATIC WITHDRAWAL PLAN.** A systematic withdrawal plan (the "Withdrawal Plan") is available for shareholders who own or purchase shares of the Fund having a minimum value of \$10,000 based upon the then current net asset value. The Withdrawal Plan provides for monthly or quarterly (March, June, September and December) checks in any dollar amount, not less than \$25 or in any whole percentage of the account balances on an annualized basis. Any applicable contingent deferred sales charge will be imposed on shares redeemed under the Withdrawal Plan (See "Redemptions and Repurchases--Contingent Deferred Sales Charge"). Therefore, any shareholder participating in the Withdrawal Plan will have sufficient shares redeemed from his or her account so that the proceeds (net of any applicable contingent deferred sales charge) to the shareholder will be the designated monthly or quarterly dollar amount.

Shareholders should contact their DWR or Selected Broker-Dealer Account Executive or the Transfer Agent for further information about any of the above services.

**EXCHANGE PRIVILEGE.** The Fund makes available to its shareholders an "Exchange Privilege" allowing the exchange of shares of the Fund for shares of other Dean Witter Funds sold with a contingent deferred sales charge ("CDSC funds"), and for shares of Dean Witter Short-Term U.S. Treasury Trust, Dean Witter Limited Term Municipal Trust and Dean Witter Short-Term Bond Fund and for five Dean Witter Funds which are money market funds (the foregoing eight non-CDSC or FESC funds are hereinafter collectively referred to in this section as the "Exchange Funds"). Exchanges may be made after the shares of the Fund

acquired by purchase (not by exchange or dividend reinvestment) have been held for thirty days. There is no waiting period for exchanges of shares acquired by exchange or dividend reinvestment.

An exchange to another CDSC fund or any Exchange Fund that is not a money market fund is on the basis of the next calculated net asset value per share of each fund after the exchange order is received. When exchanging into a money market fund from the Fund, shares of the Fund are redeemed out of the Fund at their next calculated net asset value and the proceeds of the redemption are used to purchase shares of the money market fund at their net asset value determined the following business day. Subsequent exchanges between any of the money market funds and any of the CDSC funds can be effected on the same basis.

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No contingent deferred sales charge ("CDSC") is imposed at the time of any exchange, although any applicable CDSC will be imposed upon ultimate redemption. Shares of the Fund acquired in exchange for shares of another CDSC fund having a different CDSC schedule than that of this Fund will be subject to the CDSC schedule of this Fund, even if such shares are subsequently re-exchanged for shares of the CDSC fund originally purchased. During the period of time the shareholder remains in the Exchange Funds (calculated from the last day of the month in which the shares were acquired), the holding period (for the purpose of determining the rate of the CDSC) is frozen. If those shares are subsequently reexchanged for shares of a CDSC fund, the holding period previously frozen when the first exchange was made resumes on the last day of the month in which shares of the CDSC fund are reacquired. Thus, the CDSC is based upon the time (calculated as described above) the shareholder was invested in a CDSC fund (see "Redemptions and Repurchases--Contingent Deferred Sales Charge"). However, in the case of shares of the Fund exchanged into the Exchange Funds on or after April 23, 1990, upon a redemption of shares which results in a CDSC being imposed, a credit (not to exceed the amount of the CDSC) will be given in an amount equal to the Exchange Funds 12b-1 distribution fees incurred on or after that date which are attributable to those shares. (Exchange Funds' 12b-1 distribution fees are described in the prospectus for those funds).

In addition, shares of the Fund may be acquired in exchange for shares of Dean Witter Funds sold with a front-end sales charge ("FESC funds"), but shares of the Fund, however acquired, may not be exchanged for shares of FESC funds. Shares of a CDSC fund acquired in exchange for shares of a FESC Fund (or in exchange for shares of other Dean Witter Funds for which shares of a FESC fund have been exchanged) are not subject to any CDSC upon their redemption.

Purchases and exchanges should be made for investment purposes only. A pattern of frequent exchanges may be deemed by the Investment Manager to be abusive and contrary to the best interests of the Fund's other shareholders and, at the Investment Manager's discretion, may be limited by the Fund's refusal to accept additional purchases and/or exchanges from the investor. Although the Fund does not have any specific definition of what constitutes a pattern of frequent exchanges, and will consider all relevant factors in determining whether a particular situation is abusive and contrary to the best interests of the Fund and its other shareholders, investors should be aware that the Fund and each of the other Dean Witter Funds may in their discretion limit or otherwise restrict the number of times this Exchange Privilege may be exercised by any investor. Any such restriction will be made by the Fund on a prospective basis only, upon notice to the shareholder not later than ten days following such shareholder's most recent exchange.

Also, the Exchange Privilege may be terminated or revised at any time by the Fund and/or any of such Dean Witter Funds for which shares of the Fund may be exchanged, upon such notice as may be required by applicable regulatory agencies. Shareholders maintaining margin accounts with DWR or another Selected Broker-Dealer are referred to their account executive regarding restrictions on exchange of shares of the Fund pledged in their margin account.

The current prospectus for each fund describes its investment objective(s) and policies, and shareholders should obtain one and read it carefully before investing. Exchanges are subject to the minimum investment requirement and any other conditions imposed by each fund. An exchange will be treated for federal income tax purposes the same as a repurchase or redemption of shares on which the shareholder has realized a capital gain or loss. However, the ability to deduct capital losses on an exchange may be limited in situations where there is an exchange of shares within ninety days after the shares are purchased. The Exchange Privilege is only available in states where an exchange may legally be made.

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If DWR or another Selected Broker-Dealer is the current dealer of record and its account numbers are part of the account information, shareholders may initiate an exchange of shares of the Fund for shares of any of the Dean Witter Funds (for which the Exchange Privilege is available) pursuant to this Exchange Privilege by contacting their DWR or other Selected Broker-Dealer account executive (no Exchange Privilege Authorization Form is required). Other shareholders (and those shareholders who are clients of DWR or another Selected

Broker-Dealer but who wish to make exchanges directly by writing or telephoning the Transfer Agent) must complete and forward to the Transfer Agent an Exchange Privilege Authorization Form, copies of which may be obtained from the Transfer Agent, to initiate an exchange. If the Authorization Form is used, exchanges may be made in writing or by contacting the Transfer Agent at (800) 526-3143 (toll free). The Fund will employ reasonable procedures to confirm that exchange instructions communicated over the telephone are genuine. Such procedures may include requiring various forms of personal identification such as name, mailing address, social security or other tax identification number and DWR or other Selected Dealer account number (if any). Telephone instructions may also be recorded. If such procedures are not employed, the Fund may be liable for any losses due to unauthorized or fraudulent instructions.

Telephone exchange instructions will be accepted if received by the Transfer Agent between 9:00 a.m. and 4:00 p.m. New York time, on any day the New York Stock Exchange is open. Any shareholder wishing to make an exchange who is unable to reach the Fund by telephone should contact his or her DWR or other Selected Broker-Dealer account executive, if appropriate, or make a written exchange request. Shareholders are advised that during periods of drastic economic or market changes, it is possible that the telephone exchange procedures may be difficult to implement, although this has not been the case with the Dean Witter Funds in the past.

Additional information concerning the Exchange Privilege is available from a DWR or other Selected Dealer account executive or the Transfer Agent.

REDEMPTIONS AND REPURCHASES

REDEMPTION. Shares of the Fund can be redeemed for cash at any time at the net asset value per share next determined; however, such redemption proceeds may be reduced by the amount of any applicable contingent deferred sales charges (see below). If shares are held in a shareholder's account without a share certificate, a written request for redemption to the Fund's Transfer Agent at P.O. Box 983, Jersey City, N.J. 07303 is required. If certificates are held by the shareholder(s), the shares may be redeemed by surrendering the certificate(s) with a written request of redemption, along with any additional information required by the Transfer Agent.

CONTINGENT DEFERRED SALES CHARGE. Shares of the Fund which are held for six years or more after purchase (calculated from the last day of the month in which the shares were purchased) will not be subject to any charge upon redemption. Shares redeemed sooner than six years after purchase may, however, be subject to a charge upon redemption. This charge is called a "contingent deferred sales charge" ("CDSC"), which will be a percentage of the dollar amount of shares redeemed and will be assessed on an amount equal to the lesser of the current market value or the cost of the shares being redeemed. The size of this

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percentage will depend upon how long the shares have been held, and is set forth in the table below:

<TABLE>  
<CAPTION>

Year Since Purchase Payment Made	Contingent Deferred Sales Charge on a Percentage of Amount Redeemed
First.....	5.0%
Second.....	4.0
Third.....	3.0%
Fourth.....	2.0%
Fifth.....	2.0%
Sixth.....	1.0%
Seventh and thereafter.....	None

</TABLE>

A CDSC will not be imposed on: (i) any amount which represents an increase in value of shares purchased within the six years preceding the redemption; (ii) the current net asset value of shares purchased more than six years prior to the redemption; and (iii) the current net asset value of shares purchased through reinvestment of dividends or distributions and/or shares acquired in exchange for shares of Dean Witter Funds sold with a front-end sales charge or of other Dean Witter Funds acquired in exchange for such shares. Moreover, in determining whether a CDSC is applicable it will be assumed that amounts described in (i), (ii), and (iii) above (in that order) are redeemed first. In addition, no CDSC will be imposed on redemptions which were purchased by certain Unit Investment Trusts (on which a sales charge has been paid) or which are attributable to reinvestment of dividends or distributions from, or the proceeds of, such Unit Investment Trusts.

In addition, the CDSC, if otherwise applicable, will be waived in the case

of (i) redemptions of shares held at the time a shareholder dies or becomes disabled, only if the shares are (a) registered either in the name of an individual shareholder (not a trust), or in the names of such shareholder and his or her spouse as joint tenants with right of survivorship, or (b) held in a qualified corporate or self-employed retirement plan, Individual Retirement Account or Custodial Account under Section 403(b)(7) of the Internal Revenue Code, provided in either case that the redemption is requested within one year of the death or initial determination of disability, and (ii) redemptions in connection with the following retirement plan distributions: (a) lump-sum or other distributions from a qualified corporate or self-employed retirement plan following retirement (or in the case of a "key employee" of a "top heavy" plan, following attainment of age 59 1/2); (b) distributions from an Individual Retirement Account or Custodial Account under Section 403(b)(7) of the Internal Revenue Code following attainment of age 59 1/2; and (c) a tax-free return of an excess contribution to an IRA. For the purpose of determining disability, the Distributor utilizes the definition of disability contained in Section 72(m)(7) of the Internal Revenue Code, which relates to the inability to engage in gainful employment. All waivers will be granted subject to receipt by the Distributor of confirmation of the investor's entitlement.

REPURCHASE. DWR or other Selected Broker-Dealers are authorized to repurchase shares, represented by a share certificate which is delivered to any of their offices. Shares held in a shareholder's account without a share certificate may also be repurchased by DWR or other Selected Broker-Dealers upon the telephonic request of the shareholder. The repurchase price is the net asset value next computed (see "Purchase of Fund Shares") after such repurchase order is received by DWR or other Selected Broker-Dealers are, reduced by any applicable CDSC.

The CDSC, if any, will be the only fee imposed upon repurchase by either the Fund, the Distributor or DWR. The offer by DWR or other Selected Broker-Dealers to repurchase shares may be suspended without notice by them at any time. In that event, shareholders may redeem their shares through the Fund's Transfer Agent as set forth above under "Redemption."

PAYMENT FOR SHARES REDEEMED OR REPURCHASED. Payment for shares presented for repurchase or redemption will be made by check within seven days after receipt by the Transfer Agent of the certificate and/or written request in good order.

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Such payment may be postponed or the right of redemption suspended under unusual circumstances. If the shares to be redeemed have recently been purchased by check, payment of the redemption proceeds may be delayed for the minimum time needed to verify that the check used for investment has been honored (not more than fifteen days from the time of receipt of the check by the Transfer Agent). Shareholders maintaining margin accounts with DWR or other Selected Broker-Dealers are referred to their account executive regarding restrictions on redemption of shares of the Fund pledged in the margin account.

REINSTATEMENT PRIVILEGE. A shareholder who has had his or her shares redeemed or repurchased and has not previously exercised this reinstatement privilege may, within 30 days after the date of the redemption or repurchase, reinstate any portion or all of the proceeds of such redemption or repurchase in shares of the Fund at the net asset value next determined after a reinstatement request, together with the proceeds, is received by the Transfer Agent and receive a pro-rata credit for any CDSC paid in connection with such redemption or repurchase.

INVOLUNTARY REDEMPTION. The Fund reserves the right to redeem, on 60 days notice and at net asset value, the shares of any shareholder (other than shares held in an Individual Retirement Account or custodial account under Section 403(b)(7) of the Internal Revenue Code) whose shares have a value of less than \$100 as a result of redemptions or repurchases, or such lesser amount as may be fixed by the Board of Trustees. However, before the Fund redeems such shares and sends the proceeds to the shareholder, it will notify the shareholder that the value of the shares is less than \$100 and allow him or her 60 days to make an additional investment in an amount which will increase the value of his or her account to \$100 or more before the redemption is processed. No CDSC will be imposed on any involuntary redemption.

#### DIVIDENDS, DISTRIBUTIONS AND TAXES

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DIVIDENDS AND DISTRIBUTIONS. The Fund declares dividends from net investment income on each day the New York Stock Exchange is open for business (see "Purchase of Fund Shares"). Such dividends are payable monthly. The Fund intends to distribute substantially all of the Fund's net investment income on an annual basis.

The Fund will distribute at least once each year all net short-term capital gains, if there are any. The Fund may, however, determine either to distribute or to retain all or part of any net long-term capital gains in any year for reinvestment. All dividends and capital gains distributions will be paid in



additional Fund shares (without sales charge) and automatically credited to the shareholder's account without issuance of a share certificate unless the shareholder requests in writing that they be paid in cash. (See "Shareholder Services--Automatic Investment of Dividends and Distributions".) Taxable capital gains may be generated by transactions in options and futures contracts engaged in by the Fund. Any dividends or distributions declared in the last quarter of any calendar year which are paid in the following year prior to February 1, will be deemed received by shareholders of record in the prior year.

**TAXES.** Because the Fund currently intends to distribute substantially all of its net investment income and capital gains to shareholders and intends to otherwise comply with all the provisions of Subchapter M of the Internal Revenue Code (the "Code") to qualify as a regulated investment company, it is not expected that the Fund will be required to pay any federal income tax.

The Fund intends to continue to qualify to pay "exempt-interest dividends" to its shareholders by maintaining, as of the close of each quarter of its taxable year, at least 50% of the value of its total assets in tax-exempt securities. If the Fund satisfies such requirement, distributions from net investment

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income to shareholders, whether taken in cash or reinvested in additional shares, will be excludable from gross income for federal income tax purposes to the extent net investment income is represented by interest on tax-exempt securities.

Individual shareholders who are New York residents will not incur any federal, New York State or New York City income tax on the amount of exempt-interest dividends received by them from the Fund which represents a distribution of income from New York tax-exempt securities whether taken in cash or reinvested in additional shares. Exempt-interest dividends are included, however, in determining what portion, if any, of a person's Social Security benefits are subject to federal income tax. Within 60 days after the end of its taxable year, the Fund will mail to shareholders a statement indicating the percentage of the dividend distributions for such taxable year which constitutes exempt-interest dividends and the percentage, if any, that is taxable.

The Code may subject interest received on certain otherwise tax-exempt securities to an alternative minimum tax. This alternative minimum tax may be incurred due to interest received on "private activity bonds" (in general, bonds that benefit non-government entities) issued after August 7, 1986 which, although tax-exempt, are used for purposes other than those generally performed by governmental units (e.g., bonds used for commercial or housing purposes). Income received on such bonds is classified as a "tax preference item", under the alternative minimum tax, for both individual and corporate investors. A portion of the Fund's investments may be made in such "private activity bonds," with the result that a portion of the exempt-interest dividends paid by the Fund will be an item of tax preference to shareholders subject to the alternative minimum tax. In addition, certain corporations which are subject to the alternative minimum tax may have to include a portion of exempt-interest dividends in calculating their alternative minimum taxable income in situations where the "adjusted current earnings" of the corporation exceeds its alternative minimum taxable income.

Under the Revenue Reconciliation Act of 1993, all or a portion of the Fund's gain from the sale or redemption of tax-exempt obligations purchased at a market discount after April 30, 1993 will be treated as ordinary income rather than capital gain. This rule may increase the amount of ordinary income dividends received by shareholders.

Shareholders will normally be subject to federal, New York State or New York City income tax on dividends paid from interest income derived from taxable securities and on distributions of net capital gains. For federal and New York State or New York City income tax purposes, distributions of net long-term capital gains, if any, are taxable to shareholders as long-term capital gains, regardless of how long the shareholder has held the Fund shares and regardless of whether the distribution is received in additional shares or in cash. Distributions from investment income and capital gains, including exempt-interest dividends, may be subject to New York franchise taxes if received by a corporation doing business in New York, to state taxes in states other than New York and to local taxes. To avoid being subject to a 31% backup withholding tax on taxable dividends and capital gains distributions and the proceeds of redemptions and repurchases, shareholders' taxpayer identification numbers must be furnished and certified as to accuracy.

Any loss on the sale or exchange of shares of the Fund which are held for six months or less is disallowed to the extent of the amount of any exempt-interest dividend paid with respect to such shares. Treasury Regulations may provide for a reduction in such required holding periods. If a shareholder receives a distribution that is taxed as a long-term capital gain on shares held for six months or less and sells those shares at a loss, the loss will be treated as a long-term capital loss.

Interest on indebtedness incurred by shareholders or related parties to purchase or carry shares of an investment company paying exempt-interest dividends, such as the Fund, will not be deductible by the investor for federal or state or city personal income tax purposes.

The foregoing relates to federal income taxation and to New York State and New York City personal income taxation as in effect as of the date of this prospectus. Shareholders should consult their tax advisors as to the applicability of the above to their own tax situation.

PERFORMANCE INFORMATION

From time to time the Fund may quote its "yield" and/or its "total return" in advertisements and sales literature. Both the yield and the total return of the Fund are based on historical earnings and are not intended to indicate future performance. The yield of the Fund will be computed by dividing the Fund's net investment income over a 30-day period by an average value (using the average number of shares entitled to receive dividends and the net asset value per share at the end of the period), all in accordance with applicable regulatory requirements. Such amount is compounded for six months and then annualized for a twelve-month period to derive the Fund's yield. The Fund may also quote its tax-equivalent yield, which is calculated by determining the pre-tax yield which, after being taxed at a stated rate, would be equivalent to the yield determined as described above.

The "average annual total return" of the Fund refers to a figure reflecting the average annualized percentage increase (or decrease) in the value of an initial investment in the Fund of \$1,000 over a period of one and five years, as well as over the life of the Fund. Average annual total return reflects all income earned by the Fund, any appreciation or depreciation of the Fund's assets, all expenses incurred by the Fund and all sales charges which would be incurred by redeeming shareholders, for the stated periods. It also assumes reinvestment of all dividends and distributions paid by the Fund.

In addition to the foregoing, the Fund may advertise its total return over different periods of time by means of aggregate, average, year-by-year or other types of total return figures. Such calculations may or may not reflect the deduction of the contingent deferred sales charge which, if reflected, would reduce the performance quoted. The Fund may also advertise the growth of hypothetical investments of \$10,000, \$50,000 and \$100,000 in shares of the Fund. The Fund from time to time may also advertise its performance relative to certain performance rankings and indexes compiled by independent organizations (such as mutual fund performance rankings of Lipper Analytical Services, Inc.).

ADDITIONAL INFORMATION

VOTING RIGHTS. All shares of beneficial interest of the Fund are of \$0.01 par value and are equal as to earnings, assets and voting privileges.

The Fund is not required to hold Annual Meetings of Shareholders and in ordinary circumstances the Fund does not intend to hold such meetings. The Trustees may call Special Meetings of Shareholders for action by shareholder vote as may be required by the Act or the Declaration of Trust. Under certain circumstances the Trustees may be removed by action of the Trustees or by the Shareholders.

Under Massachusetts law, shareholders of a business trust may, under certain circumstances, be held personally liable as partners for the obligations of the Fund. However, the Declaration of Trust contains an express disclaimer of shareholder liability for acts or obligations of the Fund, requires that notice of such disclaimer be given in each instrument entered into or executed by the Fund and provides for indemnification and reimbursement of expenses out of the Fund's property for any shareholder held personally liable for the obligations of the Fund. Thus, the risk of a shareholder incurring financial loss on account of shareholder liability is

limited to circumstances in which the Fund itself would be unable to meet its obligations. Given the above limitations on shareholder personal liability and the nature of the Fund's assets and operations, the possibility of the Fund's being unable to meet its obligations is remote and, in the opinion of Massachusetts counsel to the Fund, the risk to Fund shareholders of personal liability is remote.

SHAREHOLDER INQUIRIES. All inquiries regarding the Fund should be directed to the Fund at the telephone numbers or address set forth on the front cover of this prospectus.

MONEY MARKET FUNDS

Dean Witter Liquid Asset Fund Inc.  
 Dean Witter U.S. Government Money  
 Market Trust  
 Dean Witter Tax-Free Daily Income Trust  
 Dean Witter California Tax-Free Daily  
 Income Trust  
 Dean Witter New York Municipal Money  
 Market Trust

EQUITY FUNDS

Dean Witter American Value Fund  
 Dean Witter Natural Resource Development  
 Securities Inc.  
 Dean Witter Dividend Growth Securities Inc.  
 Dean Witter Developing Growth Securities Trust  
 Dean Witter World Wide Investment Trust  
 Dean Witter Equity Income Trust  
 Dean Witter Value-Added Market Series  
 Dean Witter Utilities Fund  
 Dean Witter Capital Growth Securities  
 Dean Witter European Growth Fund Inc.  
 Dean Witter Precious Metals and Minerals Trust  
 Dean Witter Pacific Growth Fund Inc.  
 Dean Witter Health Sciences Trust  
 Dean Witter Global Dividend Growth Securities

FIXED-INCOME FUNDS

Dean Witter High Yield Securities Inc.  
 Dean Witter Tax-Exempt Securities Trust  
 Dean Witter U.S. Government Securities Trust  
 Dean Witter Federal Securities Trust  
 Dean Witter Convertible Securities Trust  
 Dean Witter California Tax-Free Income Fund  
 Dean Witter New York Tax-Free Income Fund  
 Dean Witter World Wide Income Trust  
 Dean Witter Intermediate Income Securities  
 Dean Witter Global Short-Term Income Fund Inc.  
 Dean Witter Multi-State Municipal Series Trust  
 Dean Witter Premier Income Trust  
 Dean Witter Short-Term U.S. Treasury Trust  
 Dean Witter Diversified Income Trust  
 Dean Witter Limited Term Municipal Trust  
 Dean Witter Short-Term Bond Fund

DEAN WITTER RETIREMENT SERIES

Liquid Asset Series  
 U.S. Government Money Market Series  
 U.S. Government Securities Series  
 Intermediate Income Securities Series  
 American Value Series  
 Capital Growth Series  
 Dividend Growth Series  
 Strategist Series  
 Utilities Series  
 Value-Added Market Series  
 Global Equity Series

ASSET ALLOCATION FUNDS

Dean Witter Managed Assets Trust  
 Dean Witter Strategist Fund

ACTIVE ASSETS ACCOUNT PROGRAM

Active Assets Money Trust  
 Active Assets Tax-Free Trust  
 Active Assets California Tax-Free Trust  
 Active Assets Government Securities Trust

Dean Witter  
 New York Tax-Free Income Fund  
 Two World Trade Center  
 New York, New York 10048

TRUSTEES

Jack F. Bennett  
 Charles A. Fiumefreddo  
 Edwin J. Garn

Dean Witter  
 New York

John R. Haire  
 Dr. John E. Jeuck  
 Dr. Manuel H. Johnson  
 Paul Kolton  
 Michael E. Nugent  
 Edward R. Telling  
 OFFICERS  
 Charles A. Fiumefreddo  
 Chairman and Chief Executive  
 Officer  
 Sheldon Curtis  
 Vice President, Secretary and  
 General Counsel  
 James F. Willison  
 Vice President  
 Thomas F. Caloia  
 Treasurer  
 CUSTODIAN  
 The Bank of New York  
 110 Washington Street  
 New York, New York 10286  
 TRANSFER AGENT AND DIVIDEND  
 DISBURSING AGENT  
 Dean Witter Trust Company  
 Harborside Financial Center  
 Plaza Two  
 Jersey City, New Jersey 07311  
 INDEPENDENT ACCOUNTANTS  
 Price Waterhouse  
 1177 Avenue of the Americas  
 New York, New York 10036  
 INVESTMENT MANAGER  
 Dean Witter InterCapital Inc.

Tax-Free  
 Income Fund

Prospectus  
 February 28, 1994

STATEMENT OF ADDITIONAL INFORMATION

FEBRUARY 28, 1994

DEAN WITTER  
 NEW YORK TAX-FREE  
 INCOME FUND

Dean Witter New York Tax-Free Income Fund (the "Fund") is an open-end diversified management investment company whose investment objective is to provide a high level of current income exempt from federal, New York State and New York City income tax, consistent with preservation of capital. The Fund invests principally in New York tax-exempt fixed-income securities which are rated in the four highest categories by Moody's Investors Service, Inc. or Standard & Poor's Corporation. (See "Investment Practices and Policies".)

A Prospectus for the Fund dated February 28, 1994, which provides the basic information you should know before investing in the Fund, may be obtained without charge from the Fund at the address or phone number listed below or from the Fund's Distributor, Dean Witter Distributors Inc., or from Dean Witter Reynolds Inc., at any of its branch offices. This Statement of Additional Information is not a Prospectus. It contains information in addition to and more detailed than that set forth in the Prospectus. It is intended to provide you additional information regarding the activities and operations of the Fund, and should be read in conjunction with the Prospectus.

Dean Witter  
 New York Tax-Free Income Fund  
 Two World Trade Center  
 New York, New York 10048  
 (212) 392-2550

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THE FUND AND ITS MANAGEMENT

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THE FUND

The Fund is a Fund of the type commonly known as a "Massachusetts business trust" and was organized under the laws of the Commonwealth of Massachusetts on January 17, 1985.

THE INVESTMENT MANAGER

Dean Witter InterCapital Inc., a Delaware corporation (the "Investment Manager" or "InterCapital"), whose address is Two World Trade Center, New York, New York 10048, is the Fund's Investment Manager. InterCapital is a wholly-owned subsidiary of Dean Witter, Discover & Co. ("DWDC"), a Delaware Corporation. In an internal reorganization which took place in January, 1993, InterCapital assumed the investment advisory, administrative and management activities previously performed by the InterCapital Division of Dean Witter Reynolds Inc. ("DWR"), a broker-dealer affiliate of InterCapital. (As hereinafter used in this Statement of Additional Information, the terms "InterCapital" and "Investment Manager" refer to DWR's InterCapital Division prior to the internal reorganization and Dean Witter InterCapital Inc. thereafter.) The daily management of the Fund and research relating to the Fund's portfolio is conducted by or under the direction of officers of the Fund and of the Investment Manager, subject to periodic review by the Fund's Board of Trustees. In addition, Trustees of the Fund provide guidance on economic factors and interest rate trends. Information as to these trustees and officers is contained under the caption, "Trustees and Officers."

InterCapital is also the investment manager or investment adviser of the following management investment companies: Active Assets Money Trust, Active Assets Tax-Free Trust, Active Assets Government Securities Trust, Active Assets California Tax-Free Trust, Dean Witter Liquid Asset Fund Inc., InterCapital Income Securities Inc., Dean Witter High Yield Securities Inc., Dean Witter Tax-Free Daily Income Trust, Dean Witter Developing Growth Securities Trust, Dean Witter American Value Fund, Dean Witter Dividend Growth Securities Inc., Dean Witter Natural Resource Development Securities Inc., Dean Witter U.S. Government Money Market Trust, Dean Witter Tax-Exempt Securities Trust, Dean Witter Variable Investment Series, Dean Witter World Wide Investment Trust, Dean Witter Select Municipal Reinvestment Fund, Dean Witter U.S. Government Securities Trust, Dean Witter Equity Income Trust, Dean Witter California Tax-Free Income Fund, Dean Witter Convertible Securities Trust, Dean Witter Federal Securities Trust, Dean Witter Value-Added Market Series, High Income Advantage Trust, Dean Witter Government Income Trust, Dean Witter Utilities Fund, Dean Witter Managed Assets Trust, Dean Witter Strategist Fund, Dean Witter California Tax-Free Daily Income Trust, High Income Advantage Trust II, Dean Witter World Wide Income Trust, Dean Witter Intermediate Income Securities, Dean Witter Capital Growth Securities, Dean Witter European Growth Fund Inc., Dean Witter Pacific Growth Fund Inc., Dean Witter Precious Metals and Minerals Trust, Dean Witter Global Short-Term Income Fund Inc., Dean Witter Multi-State Municipal Series Trust, Dean Witter New York Municipal Money Market Trust, InterCapital Insured Municipal Bond Trust, InterCapital Quality Municipal Investment Trust, Dean Witter Premier Income Trust, Dean Witter Short-Term U.S. Treasury Trust, InterCapital Insured Municipal Trust, InterCapital Quality Municipal Income Trust, InterCapital California Insured Municipal Income Trust, Dean Witter Diversified Income Trust, Dean Witter Health Sciences Trust, Dean Witter Retirement Series, InterCapital Quality Municipal Securities, InterCapital California Quality Municipal Securities, InterCapital New York Quality Municipal Securities, Dean Witter Global Dividend Growth Securities, Dean Witter Limited Term Municipal Trust, Dean Witter Short-Term Bond Fund, InterCapital Insured Municipal Securities, InterCapital Insured California Municipal Securities, InterCapital Insured Municipal Income Trust, High Income Advantage Trust III, Municipal Income Trust, Municipal Income Trust II, Municipal Income Trust III, Municipal Income Opportunities Trust, Municipal Income Opportunities Trust II, Municipal Income Opportunities Trust III, Prime Income Trust and Municipal Premium Income Trust. The foregoing investment companies, together with the Fund, are collectively referred to as the Dean Witter Funds. In addition, Dean Witter Services Company Inc. ("DWSC"), a wholly-owned subsidiary of InterCapital, serves as manager for the following companies for which TCW Funds Management Inc. is the investment adviser: TCW/DW Core Equity Trust, TCW/DW North American Government Income Trust,

TCW/DW Latin American Growth Fund, TCW/DW Income and Growth Fund, TCW/DW Small Cap Growth Fund, TCW/DW Balanced Fund, TCW/DW Term Trust 2000, TCW/DW Term Trust 2002 and TCW/DW Term Trust 2003 (the "TCW/DW Funds"). InterCapital also serves as: (i) sub-adviser to Templeton Global Opportunities Trust, an open-end investment company; (ii) administrator of The BlackRock Strategic Term Trust Inc., a closed-end investment company; and (iii) sub-administrator of MassMutual Participation Investors and Templeton Global Governments Income Trust, closed-end investment companies.

The Investment Manager also serves as an investment adviser for Dean Witter World Wide Investment Fund, an investment company organized under the laws of Luxembourg, shares of which may not be offered in the United States or purchased by American citizens outside of the United States.

Pursuant to an Investment Management Agreement (the "Agreement") with the Investment Manager, the Fund has retained the Investment Manager to manage the investment of the Fund's assets, including the placing of orders for the purchase and sale of portfolio securities. The Investment Manager obtains and evaluates such information and advice relating to the economy, securities markets, and specific securities as it considers necessary or useful to continuously manage the assets of the Fund in a manner consistent with its investment objective and policies.

Under the terms of the Agreement, in addition to managing the Fund's investments, the Investment Manager maintains certain of the Fund's books and records and furnishes, at its own expense, such office space, facilities, equipment, clerical help, bookkeeping and certain legal services as the Fund may reasonably require in the conduct of its business, including the preparation of prospectuses, proxy statements and reports required to be filed with federal and state securities commissions (except insofar as the participation or assistance of independent accountants and attorneys is, in the opinion of the Investment Manager, necessary or desirable). In addition, the Investment Manager pays the salaries of all personnel, including officers of the Fund, who are employees of the Investment Manager. The Investment Manager also bears the cost of telephone service, heat, light, power and other utilities provided to the Fund.

Effective December 31, 1993, pursuant to a Services Agreement between InterCapital and DWSC, DWSC began to provide the administrative services to the Fund which were previously performed directly by InterCapital. The foregoing internal reorganization did not result in any change in the nature or scope of the administrative services being provided to the Fund or any of the fees being paid by the Fund for the overall services being performed under the terms of the existing Management Agreement.

Expenses not expressly assumed by the Investment Manager under the Agreement or by the Distributor of the Fund's shares, Dean Witter Distributors Inc. ("Distributors" or the "Distributor") (see "The Distributor") will be paid by the Fund. The expenses borne by the Fund include, but are not limited to: fees pursuant to any plan of distribution, charges and expenses of any registrar, custodian, stock transfer and dividend disbursing agent; brokerage commissions; taxes; engraving and printing stock certificates; registration costs of the Fund and its shares under federal and state securities laws; the cost and expense of printing, including typesetting, and distributing prospectuses and statements of additional information of the Fund and supplements thereto to the Fund's shareholders; all expenses of shareholders' and Trustees' meetings and of preparing, printing and mailing of proxy statements and reports to shareholders; fees and travel expenses of Trustees or members of any advisory board or committee who are not employees of the Investment Manager or any corporate affiliate of the Investment Manager; all expenses incident to any dividend, withdrawal or redemption options; charges and expenses of any outside service used for pricing of the Fund's shares; fees and expenses of legal counsel, including counsel to the Trustees who are not interested persons of the Fund or of the Investment Manager (not including compensation or expenses of attorneys who are employees of the Investment Manager) and independent accountants; membership dues of industry associations; interest on Fund borrowings; postage; insurance premiums on property or personnel (including officers and trustees) of the Fund which inure to its benefit; extraordinary expenses (including, but not limited to, legal claims and liabilities and litigation costs and any indemnification relating thereto); and all other costs of the Fund's operation.

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As full compensation for the services and facilities furnished to the Fund and expenses of the Fund assumed by the Investment Manager, the Fund pays the Investment Manager monthly compensation calculated daily by applying the annual rate of 0.55% to the Fund's net assets not exceeding \$500 million and the annual rate of 0.525% to the Fund's net assets exceeding \$500 million. For the fiscal years ended December 31, 1991, 1992 and 1993, the Fund accrued to the Investment Manager total compensation under the Agreements in the amounts of \$920,044, \$1,070,437 and \$1,268,826, respectively. The Investment Manager has voluntarily undertaken that, if in any fiscal year the Fund's total operating expenses, exclusive of taxes, interest, distribution fees, brokerage fees and extraordinary expenses, exceed 1 1/2%, of average daily net assets, the Investment Manager will reimburse the Fund for the amount of such excess. Such amount, if any, will be calculated daily and credited on a monthly basis. This

undertaking can be revoked by the Investment Manager at any time. For the fiscal year ended December 31, 1993, the Fund's expenses did not exceed such limitation.

The Agreement provides that in the absence of willful misfeasance, bad faith, gross negligence or reckless disregard of its obligations thereunder, the Investment Manager is not liable to the Fund or any of its investors for any act or omission by the Investment Manager or for any losses sustained by the Fund or its investors. The Agreement does not restrict the Investment Manager from acting as investment manager or adviser to others.

The Agreement was initially approved by the Trustees on October 22, 1992 and by the Shareholders on January 12, 1993. The Agreement is substantially identical to the prior investment management agreement which was initially approved by the Board of Trustees on February 13, 1985 and by DWR as the sole shareholder of the Fund on March 20, 1985. The Agreement took effect on June 30, 1993, upon the spin-off by Sears, Roebuck and Co. of its remaining shares of DWDC. The Agreement may be terminated at any time, without penalty, on thirty days' notice, by the Board of Trustees of the Fund, by the holders of a majority, as defined in the Investment Company Act of 1940, as amended (the "Act"), of the outstanding shares of the Fund, or by the Investment Manager. The Agreement will automatically terminate in the event of its assignment (as defined in the Act). The Agreement may be terminated at any time, without penalty, on thirty days' notice by the Board of Trustees of the Fund, by the holders of a majority, as defined in the Act, of the outstanding shares of the Fund, or by the Investment Manager. The Agreement will automatically terminate in the event of its assignment, as such is defined in the Investment Company Act of 1940, as amended (the "Act"). Under its terms, the Agreement will continue in effect until April 30, 1994 and will continue from year to year thereafter, provided continuance of the Agreement is approved at least annually by the vote of the holders of a majority, as defined in the Act, of the outstanding shares of the Fund, or by the Board of Trustees of the Fund; provided that in either event such continuance is approved annually by the vote of a majority of the Trustees of the Fund who are not parties to the Agreement or "interested persons" (as defined in the Act) of any such party, which vote must be cast in person at a meeting called for the purpose of voting on such approval.

The Fund has acknowledged that the name "Dean Witter" is a property right of DWR. The Fund has agreed that DWR or its parent company may use or, at any time, permit others to use, the name "Dean Witter". The Fund has also agreed that in the event the investment management contract between the Investment Manager and the Fund is terminated, or if the affiliation between InterCapital and its parent is terminated, the Fund will eliminate the name "Dean Witter" from its name DWR or its parent shall so request.

TRUSTEES AND OFFICERS

The Trustees and Executive Officers of the Fund, their principal business occupations during the last five years and their affiliations, if any, with InterCapital, and with the Dean Witter Funds and the TCW/DW Funds, are shown below.

<TABLE>

<CAPTION>

NAME, POSITION WITH FUND  
AND ADDRESS

PRINCIPAL OCCUPATIONS DURING LAST FIVE YEARS

<S>

Jack F. Bennett  
Trustee  
141 Taconic Road  
Greenwich, Connecticut

<C>

Retired; Director or Trustee of the Dean Witter Funds; formerly Senior Vice President and Director of Exxon Corporation (1975-January, 1989) and Under Secretary of the U.S. Treasury for Monetary Affairs (1974-1975); Director of Phillips Electronics N.V. (electronics), Tandem Computers Inc. and Massachusetts Mutual Insurance Company; director or trustee of various not-for-profit and business organizations.

Charles A. Fiumefreddo\*  
Trustee, Chairman, President and  
Chief Executive Officer  
Two World Trade Center  
New York, New York

Chairman, Director and Chief Executive Officer of InterCapital, Distributors and DWSC; Executive Vice President and Director of DWR; Trustee or Director, Chairman, President and Chief Executive Officer of the Dean Witter Funds; Chairman, Chief Executive Officer and Trustee of the TCW/DW Funds; Chairman and Director of Dean Witter Trust Company; Director and/or officer of various DWDC subsidiaries and affiliates; formerly Executive Vice President and Director of DWDC (until February, 1993).

Edwin J. Garn  
Trustee  
2000 Eagle Gate Tower  
Salt Lake City, Utah 84111

Director or Trustee of the Dean Witter Funds; formerly United States Senator (R-Utah) (1974-1992) and Chairman, Senate Banking Committee (1980-1986); formerly Mayor of Salt Lake City, Utah (1971-1974); formerly Astronaut, Space Shuttle Discovery (April 12-19, 1985); Vice Chairman, Huntsman Chemical Corporation (since January, 1993); Member of the board of various civic and charitable organizations.

John R. Haire  
Trustee  
439 East 51st Street

Chairman of the Audit Committee and Chairman of the Committee of Independent Directors or Trustees of each of the Dean Witter Funds; Director or Trustee of the Dean Witter Funds; Trustee of the TCW/DW

New York, New York

Funds; formerly President, Council for Aid to Education (1978-October, 1989); formerly Chairman and Chief Executive Officer of Anchor Corporation, an Investment Adviser (1964-1978); Director of Washington National Corporation (insurance) and Bowne & Co., Inc. (printing). Retired; Director or Trustee of the Dean Witter Funds; formerly Robert Law Professor of Business Administration, Graduate School of Business, University of Chicago (until July, 1989); Director of Midway Airlines; Business Consultant.

Dr. John E. Jeuck  
Trustee  
70 East Cedar Street  
Chicago, Illinois  
</TABLE>

<TABLE>

<CAPTION>

NAME, POSITION WITH FUND  
AND ADDRESS

PRINCIPAL OCCUPATIONS DURING LAST FIVE YEARS

<S>

Dr. Manuel H. Johnson  
Trustee  
7521 Old Dominion Drive  
McLean, Virginia

<C>

Senior Partner, Johnson Smick International, Inc., a consulting firm; Koch Professor of International Economics and Director of the Center for Global Market Studies at George Mason University (since September, 1990); Co-Chairman and a founder of the Group of Seven Council (G7C), an international economic commission (since September, 1990); Director or Trustee of the Dean Witter Funds; Trustee of the TCW/DW Funds; Director of Greenwich Capital Markets Inc. (broker-dealer); formerly Vice Chairman of the Board of Governors of the Federal Reserve System (February, 1986-August, 1990) and Assistant Secretary of the U.S. Treasury (1982-1986).

Paul Kolton  
Trustee  
9 Hunting Ridge Road  
Stamford, Connecticut

Director or Trustee of the Dean Witter Funds; Chairman of the Audit Committee and Chairman of the Committee of the Independent Trustees and Trustee of the TCW/DW Funds; formerly Chairman of the Financial Accounting Standards Advisory Council; formerly Chairman and Chief Executive Officer of the American Stock Exchange; Director of UNUM Corporation (insurance) and UCC Investors Holding Inc. (Uniroyal Chemical Company, Inc.); director or trustee of various charitable organizations.

Michael E. Nugent  
Trustee  
237 Park Avenue  
New York, New York

General Partner, Triumph Capital, L.P., a private investment partnership (since 1988); Director or Trustee of the Dean Witter Funds and Trustee of the TCW/DW Funds; formerly Vice President, Bankers Trust Company and BT Capital Corporation (1984-1988); Director of various business organizations.

Edward R. Telling\*  
Trustee  
Sears Tower  
Chicago, Illinois  
Sheldon Curtis  
Vice President, Secretary and  
General Counsel  
Two World Trade Center  
New York, New York

Retired; Director or Trustee of the Dean Witter Funds; formerly Chairman of the Board of Directors and Chief Executive Officer (until December 31, 1985) and President (from January, 1981-March, 1982 and from February, 1984-August, 1984) of Sears, Roebuck and Co.

James F. Willison  
Vice President  
Two World Trade Center  
New York, New York

Senior Vice President, General Counsel of InterCapital and DWSC; Senior Vice President and Secretary of Dean Witter Trust Company; Senior Vice President, Assistant Secretary and Assistant General Counsel of Distributors; Assistant Secretary of DWR, Vice President, Secretary and General Counsel of the Dean Witter Funds and TCW/DW Funds.

Thomas F. Caloia  
Treasurer  
Two World Trade Center  
New York, New York

Senior Vice President of InterCapital; Vice President of various Dean Witter Funds.  
  
First Vice President (since May, 1991) and Assistant Treasurer (since January, 1993) of InterCapital; First Vice President and Assistant Treasurer of DWSC; Treasurer Dean Witter Funds and TCW/DW Funds.

<FN>

\*Denotes Trustees who are "interested persons" of the Fund, as defined in the Act.

</TABLE>

In addition, Robert M. Scanlan, President and Chief Operating Officer of InterCapital, David A. Hughey, Executive Vice President of InterCapital and Jonathan R. Page and Peter M. Avelar, Senior Vice

Presidents of InterCapital are Vice Presidents of the Fund and Barry Fink, First Vice President and Assistant General Counsel of InterCapital and Marilyn K. Cranney, Lawrence S. Lafer, Lou Anne D. McInnis and Ruth Rossi, Vice Presidents and Assistant General Counsels of InterCapital, are Assistant Secretaries of the Fund.

The Fund pays each Trustee who is not an employee or retired employee of the Investment Manager or an affiliated company an annual fee of \$1,200 (\$1,600 prior to December 31, 1993) plus \$50 for each meeting of the Board of Trustees, the Audit Committee or the Committee of Independent Trustees attended by the Trustee (the Fund pays the Chairman of the Audit Committee an additional annual fee of \$1,000 (\$1,200 prior to December 31, 1993), and pays the Chairman of the Committee of Independent Trustees an additional annual fee of \$2,400, in each case inclusive of the Committee meeting fees). The Fund also reimburses such



trustees for travel and other out-of-pocket expenses incurred by them in connection with attending such meetings. Trustees and officers of the Fund who are or have been employed by the Investment Manager or an affiliated company receive no compensation or expense reimbursement from the Fund. The Fund has adopted a retirement program under which an Independent Trustee who is not an "interested person" of the Fund and who retires after a minimum required period of service would be entitled to retirement payments upon reaching the eligible retirement age (normally, after attaining age 72) based upon length of service and computed as a percentage of one-fifth of the total compensation earned by such Trustee for service to the Fund in the five-year period prior to the date of the Trustee's retirement. For the year ended December 31, 1993, the Fund accrued a total of \$36,064 for trustees' fees and expenses of which \$12,232 was for benefits under the above-described retirement program. As of the date of this Statement of Additional Information, the aggregate shares of beneficial interest of the Fund owned by the Fund's officers and trustees as a group was less than 1 percent of the Fund's shares outstanding.

#### INVESTMENT PRACTICES AND POLICIES

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#### PORTFOLIO SECURITIES

**TAXABLE SECURITIES.** As discussed in the Prospectus, the Fund may invest up to 20% of its total assets in taxable money market instruments, non-New York tax-exempt securities, futures and options. Investments in taxable money market instruments would generally be made under any one of the following circumstances: (a) pending investment of proceeds of sales of Fund shares or of portfolio securities, (b) pending settlement of purchases of portfolio securities and (c) to maintain liquidity for the purpose of meeting anticipated redemptions. Only those non-New York tax-exempt securities which satisfy the standards established for New York tax-exempt securities may be purchased by the Fund.

In addition, the Fund may temporarily invest more than 20% of its total assets in non-New York tax-exempt securities and taxable money market instruments, or in tax-exempt securities subject to the federal alternative minimum tax for individual shareholders, to maintain a "defensive" posture when, in the opinion of the Investment Manager, it is advisable to do so because of market conditions. The types of taxable money market instruments in which the Fund may invest are limited to the following short-term fixed-income securities (maturing in one year or less from the time of purchase): (i) obligations of the United States Government, its agencies, instrumentalities or authorities; (ii) commercial paper rated P-1 by Moody's Investors Service, Inc. ("Moody's") or A-1 by Standard & Poor's Corporation ("S&P"); (iii) certificates of deposit of domestic banks with assets of \$1 billion or more; and (iv) repurchase agreements with respect to portfolio securities.

**TAX-EXEMPT SECURITIES.** As discussed in the Prospectus, at least 80% of the Fund's total assets will be invested in New York tax-exempt securities (New York Municipal Bonds, New York Municipal Notes and New York Municipal Commercial Paper). In regard to the Moody's and S&P ratings discussed in the Prospectus, it should be noted that the ratings represent the organizations' opinions as to the quality of

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the securities which they undertake to rate and that the ratings are general and not absolute standards of quality. For a description of Municipal Bond, Municipal Note and Municipal Commercial Paper ratings by Moody's and S&P, see the Appendix to this Statement of Additional Information.

The Fund does not have any minimum quality rating standard for its downgraded investments. As such, the Fund may hold securities rated as low as Caa, Ca or C by Moody's or CCC, CC, C or CI by S&P. Bonds rated Caa or Ca by Moody's may already be in default on payment of interest or principal, while bonds rated C by Moody's, their lowest bond rating, can be regarded as having extremely poor prospects of ever attaining any real investment standing. Bonds rated CI by S&P, their lowest bond rating, are no longer making interest payments.

The payment of principal and interest by issuers of certain Municipal Obligations purchased by the Fund may be guaranteed by letters of credit or other credit facilities offered by banks or other financial institutions. Such guarantees will be considered in determining whether a Municipal Obligation meets the Fund's investment quality requirements. In addition, some issues may contain provisions which permit the Fund to demand from the issuer repayment of principal at some specified period(s) prior to maturity.

**MUNICIPAL BONDS.** Municipal Bonds, as referred to in the Prospectus, are debt obligations of a United States territory or possession, state, its cities, municipalities and municipal agencies (all of which are generally referred to as "municipalities") which generally have a maturity at the time of issuance of one year or more, and the interest from which is, in the opinion of bond counsel, exempt from federal income tax. In addition to these requirements, the interest from New York Municipal Bonds must be, in the opinion of bond counsel, exempt

from New York personal income tax. They are issued to raise funds for various public purposes, such as construction of a wide range of public facilities, to refund outstanding obligations and to obtain funds for general operating expenses or to loan to other public institutions and facilities. In addition, certain types of industrial development bonds and pollution control bonds are issued by or on behalf of public authorities to provide funding for various privately operated facilities.

**MUNICIPAL NOTES.** Municipal Notes are short-term obligations of municipalities, generally with a maturity at the time of issuance ranging from six months to three years, the interest from which is, in the opinion of bond counsel, exempt from federal income tax. In addition to those requirements, the interest from New York Municipal Notes must be, in the opinion of bond counsel, exempt from New York personal income tax. The principal types of Municipal Notes include tax anticipation notes, bond anticipation notes, revenue anticipation notes and project notes, although there are other types of Municipal Notes in which the Fund may invest. Notes sold in anticipation of collection of taxes, a bond sale or receipt of other revenues are usually general obligations of the issuing municipality or agency.

**MUNICIPAL COMMERCIAL PAPER.** Municipal Commercial Paper refers to short-term obligations of municipalities the interest from which is, in the opinion of bond counsel, exempt from federal income tax. In addition to those requirements, the interest from New York Commercial Paper must be, in the opinion of bond counsel, exempt from New York personal income tax. They may be issued at a discount and are sometimes referred to as Short-Term Discount Notes. Municipal Commercial Paper is likely to be used to meet seasonal working capital needs of a municipality or interim construction financing and to be paid from general revenues of the municipality or refinanced with long-term debt. In most cases Municipal Commercial Paper is backed by letters of credit, lending agreements, note repurchase agreements or other credit facility agreements offered by banks or other institutions.

Issuers of these obligations are subject to the provisions of bankruptcy, insolvency and other laws affecting the rights and remedies of creditors, such as the Federal Bankruptcy Act, and laws, if any, which may be enacted by Congress or any state extending the time for payment of principal or interest, or both, or imposing other constraints upon enforcement of such obligations or upon municipalities to levy taxes. There is also the possibility that as a result of litigation or other conditions the power or ability of any one or more issuers to pay, when due, principal of and interest on its, or their, Municipal Bonds, Municipal Notes and Municipal Commercial Paper may be materially affected.

#### SPECIAL INVESTMENT CONSIDERATIONS

Because of the special nature of securities which are rated below investment grade by national credit rating agencies ("lower-rated securities"), the Investment Manager must take into account certain special considerations in assessing the risks associated with such investments. For example, as the lower-rated securities market is relatively new, its growth has paralleled a long economic expansion and it has not weathered a recession in its present size and form. Therefore, an economic downturn or increase in interest rates is likely to have a negative effect on this market and on the value of the lower-rated securities held by the Fund, as well as on the ability of the securities' issuers to repay principal and interest on their borrowings.

The prices of lower-rated securities have been found to be less sensitive to changes in prevailing interest rates than higher-rated investments, but are likely to be more sensitive to adverse economic changes or individual corporate developments. During an economic downturn or substantial period of rising interest rates, highly leveraged issuers may experience financial stress which would adversely affect their ability to service their principal and interest payment obligations, to meet their projected business goals or to obtain additional financing. If the issuer of a fixed-income security owned by the Fund defaults, the Fund may incur additional expenses to seek recovery. In addition, periods of economic uncertainty and change can be expected to result in an increased volatility of market prices of lower rated securities and a concomitant volatility in the net asset value of a share of the Fund. Moreover, the market prices of certain of the Fund's portfolio securities which are structured as zero coupon securities are affected to a greater extent by interest rate changes and thereby tend to be more volatile than securities which pay interest periodically and in cash (see "Dividends, Distributions and Taxes" for a discussion of the tax ramifications of investments in such securities).

The secondary market for lower-rated securities may be less liquid than the markets for higher quality securities and, as such, may have an adverse effect on the market prices of certain securities. The limited liquidity of the market may also adversely affect the ability of the Fund's Trustees to arrive at a fair value for certain lower-rated securities at certain times and should make it difficult for the Fund to sell certain securities.

New laws and proposed new laws may have a potentially negative impact on the

market for lower-rated securities. For example, recent legislation requires federally-insured savings and loan associations to divest their investments in lower-rated securities. This legislation and other proposed legislation may have an adverse effect upon the value of lower-rated securities and a concomitant negative impact upon the net asset value of a share of the Fund.

**VARIABLE RATE OBLIGATIONS.** As stated in the Prospectus, the Fund may invest in obligations of the type called "variable rate obligations". The interest rate payable on a variable rate obligation is adjusted either at predesignated periodic intervals or whenever there is a change in the market rate of interest on which the interest rate payable is based. Other features may include the right whereby the Fund may demand prepayment of the principal amount of the obligation prior to its stated maturity (a "demand feature") and the right of the issuer to prepay the principal amount prior to maturity. The principal benefit of a variable rate obligation is that the interest rate adjustment minimizes changes in the market value of the obligation. The principal benefit to the Fund of purchasing obligations with a demand feature is that liquidity, and the ability of the Fund to obtain repayment of the full principal amount of the obligation prior to maturity, is enhanced.

**LENDING OF PORTFOLIO SECURITIES.** The Fund may lend portfolio securities to brokers, dealers and financial institutions provided that cash equal to at least 100% of the market value of the securities loaned is deposited by the borrower with the Fund and is maintained each business day in a segregated account pursuant to applicable regulations. While such securities are on loan, the borrower will pay the Fund any income accruing thereon, and the Fund may invest the cash collateral in portfolio securities, thereby earning additional income. The Fund will not lend its portfolio securities if such loans are not permitted by the laws or regulations of any state in which its shares are qualified for sale and will not lend more than 25% of the value of its total assets. Loans will be subject to termination by the Fund in the

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normal settlement time, currently five business days after notice, or by the borrower on one day's notice. Borrowed securities must be returned when the loan is terminated. Any gain or loss in the market price of the borrowed securities which occurs during the term of the loan inures to the Fund and its shareholders. The Fund may pay reasonable finders, borrowers, administrative, and custodial fees in connection with a loan. The creditworthiness of firms to which the Fund lends its portfolio securities will be monitored on an ongoing basis. During the fiscal year ended December 31, 1993, the Fund did not loan its portfolio securities and it has no current intention to loan its portfolio securities in the foreseeable future.

**WHEN-ISSUED AND DELAYED DELIVERY SECURITIES.** As stated in the Prospectus, the Fund may purchase tax-exempt securities on a when-issued or delayed delivery basis. When such transactions are negotiated, the price is fixed at the time of the commitment, but delivery and payment can take place a month or more after the date of the commitment. While the Fund will only purchase securities on a when-issued or delayed delivery basis with the intention of acquiring the securities, the Fund may sell the securities before the settlement date, if it is deemed advisable. The securities so purchased or sold are subject to market fluctuation and no interest accrues to the purchaser during this period. At the time the Fund makes the commitment to purchase a Municipal Obligation on a when-issued or delayed delivery basis, it will record the transaction and thereafter reflect the value, each day, of the Municipal Obligation in determining its net asset value. The Fund will also establish a segregated account with its custodian bank in which it will maintain cash or cash equivalents or other high quality Municipal Obligations equal in value to commitments for such when-issued or delayed delivery securities. The Fund does not believe that its net asset value or income will be adversely affected by its purchase of Municipal Obligations on a when-issued or delayed delivery basis.

**REPURCHASE AGREEMENTS.** When cash may be available for only a few days, it may be invested by the Fund in repurchase agreements until such time as it may otherwise be invested or used for payments of obligations of the Fund. These agreements, which may be viewed as a type of secured lending by the Fund, typically involve the acquisition by the Fund of debt securities from a selling financial institution such as a bank, savings and loan association or broker-dealer. The agreement provides that the Fund will sell back to the institution, and that the institution will repurchase, the underlying security ("collateral"), which is held by the Fund's Custodian at a specified price and at a fixed time in the future which is usually not more than seven days from the date of purchase. The Fund will receive interest from the institution until the time when the repurchase is to occur. Although such date is deemed by the Fund to be the maturity date of a repurchase agreement, the maturities of securities subject to repurchase agreements are not subject to any limits and may exceed one year. While repurchase agreements involve certain risks not associated with direct investments in debt securities, the Fund follows procedures designed to minimize such risks. These procedures include effecting repurchase transactions only with large well-capitalized and well-established financial institutions, whose financial condition will be continually monitored. In addition, the value of the collateral underlying the repurchase agreement will always be at least equal to the repurchase price, including any accrued interest earned on the

repurchase agreement. In the event of a default or bankruptcy by a selling financial institution, the Fund will seek to liquidate such collateral. However, the exercising of the Fund's right to liquidate such collateral could involve certain costs or delays and, to the extent that proceeds from any sale upon a default of the obligation to repurchase were less than the repurchase price, the Fund could suffer a loss. It is the current policy of the Fund not to invest in repurchase agreements that do not mature within seven days if any such investment, together with any other illiquid assets held by the Fund, amounts to more than 10% of its total assets. During the fiscal year ended December 31, 1993, the Fund did not enter into repurchase agreements and it is the Fund's current intention not to invest in repurchase agreements in the foreseeable future.

#### HEDGING ACTIVITIES

The Fund may enter financial futures contracts, options on such futures and municipal bond index futures contracts for hedging purposes.

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#### FUTURES CONTRACTS AND OPTIONS ON FUTURES

As discussed in the Prospectus, the Fund may invest in financial futures contracts ("futures contracts") and related options thereon. These futures contracts and related options thereon will be used only as a hedge against anticipated interest rate changes. A futures contract sale creates an obligation by the Fund, as seller, to deliver the specific type of instrument called for in the contract at a specified future time for a specified price. A futures contract purchase would create an obligation by the Fund, as purchaser, to take delivery of the specific type of financial instrument at a specified future time at a specified price. The specific securities delivered or taken, respectively, at settlement date, would not be determined until or near that date. The determination would be in accordance with the rules of the exchange on which the futures contract sale or purchase was effected.

Although the terms of futures contracts specify actual delivery or receipt of securities, in most instances the contracts are closed out before the settlement date without the making or taking of delivery of the securities. Closing out of a futures contract is usually effected by entering into an offsetting transaction. An offsetting transaction for a futures contract sale is effected by the Fund entering into a futures contract purchase for the same aggregate amount of the specific type of financial instrument at the same delivery date. If the price in the sale exceeds the price in the offsetting purchase, the Fund is immediately paid the difference and thus realizes a gain. If the offsetting purchase price exceeds the sale price, the Fund pays the difference and realizes the loss. Similarly, the closing out of a futures contract purchase is effected by the Fund entering into a futures contract sale. If the offsetting sale price exceeds the purchase price the Fund realizes a gain, and if the offsetting sale price is less than the purchase price the Fund realizes a loss.

Unlike a futures contract, which requires the parties to buy and sell a security on a set date, an option on a futures contract entitles its holder to decide on or before a future date whether to enter into such a contract. If the holder decides not to enter into the contract, the premium paid for the option is lost. Since the value of the option is fixed at the point of sale, there are no daily payments of cash to reflect the change in the value of the underlying contract, as discussed below for futures contracts. The value of the option changes and is reflected in the net asset value of the Fund.

The Fund is required to maintain margin deposits with brokerage firms through which it effects futures contracts and options thereon. The initial margin requirements vary according to the type of the underlying security. In addition, due to current industry practice daily variations in gains and losses on open contracts are required to be reflected in cash in the form of variation margin payments. The Fund may be required to make additional margin payments during the term of the contract.

Currently, futures contracts can be purchased on debt securities such as U.S. Treasury Bills and Bonds, U.S. Treasury Notes with maturities between 6 1/2 and 10 years, Certificates of the Government National Mortgage Association and Bank Certificates of Deposit. The Fund may invest in interest rate futures contracts covering these types of financial instruments as well as in new types of contracts that become available in the future.

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Financial futures contracts are traded in an auction environment on the floors of several Exchanges -- principally the Chicago Board of Trade, the Chicago Mercantile Exchange and the New York Futures Exchange. Each exchange guarantees performance under contract provisions through a clearing corporation, a nonprofit organization managed by the exchange membership which is also responsible for handling daily accounting of deposits or withdrawals of margin.

A risk in employing futures contracts to protect against the price

volatility of portfolio securities is that the prices of securities subject to futures contracts may correlate imperfectly with the behavior of the cash prices of the Fund's portfolio securities. The correlation may be distorted by the fact that the futures market is dominated by short-term traders seeking to profit from the difference between a contract or security price objective and their cost of borrowed funds. This would reduce their value for hedging purposes over a short time period. The correlation may be further distorted since the futures contracts that are being used to hedge are not based on municipal obligations.

Another risk is that the Fund's manager could be incorrect in its expectations as to the direction or extent of various interest rate movements or the time span within which the movements take place. For example, if the Fund sold futures contracts for the sale of securities in anticipation of an increase in interest rates, and then interest rates went down instead, causing bond prices to rise, the Fund would lose money on the sale.

Put and call options on financial futures have similar characteristics as exchange-traded options. See below for a further description of options.

In addition to the risks associated with investing in options on securities, there are particular risks associated with investing in options on futures. In particular, the ability to establish and close out positions on such options will be subject to the development and maintenance of a liquid secondary market. It is not certain that this market will develop.

In order to assure that the Fund is entering into transactions in futures contracts for hedging purposes as such is defined by the Commodity Futures Trading Commission either: 1) a substantial majority (i.e., approximately 75%) of all anticipatory hedge transactions (transactions in which the Fund does not own at the time of the transaction, but expects to acquire, the securities underlying the relevant futures contract) involving the purchase of futures contracts will be completed by the purchase of securities which are the subject of the hedge or 2) the underlying value of all long positions in futures contracts will not exceed the total value of a) all short-term debt obligations held by the Fund; b) cash held by the Fund; c) cash proceeds due to the Fund on investments within thirty days; d) the margin deposited on the contracts; and e) any unrealized appreciation in the value of the contracts.

The Fund may not enter into futures contracts or related options thereon if immediately thereafter the amount committed to margin plus the amount paid for option premiums exceeds 5% of the value of the Fund's total assets. In instances involving the purchase of futures contracts by the Fund, the market value of the futures contract will be deposited in a segregated account of cash and cash equivalents to collateralize the position and thereby ensure that the use of such futures is unleveraged. The Fund may not purchase or sell futures contracts or related options if immediately thereafter more than one-third of its net assets would be hedged.

**MUNICIPAL BOND INDEX FUTURES.** The Fund may utilize municipal bond index futures contracts for hedging purposes. The Fund's strategies in employing such contracts will be similar to that discussed above with respect to financial futures and options thereon. A municipal bond index is a method of reflecting in a single number the market value of many different municipal bonds and is designed to be representative of the municipal bond market generally. The index fluctuates in response to changes in the market values of the bonds included within the index. Unlike futures contracts on particular financial instruments, transactions in futures on a municipal bond index will be settled in cash if held until the close of trading in the contract. However, like any other futures contract, a position in the contract may be closed out by purchase or sale of an offsetting contract for the same delivery month prior to expiration of the contract.

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**OPTIONS.** The Fund may purchase or sell (write) options on debt securities as a means of achieving additional return or hedging the value of the Fund's portfolio. The Fund would only buy options listed on national securities exchanges. The Fund will not purchase options if, as a result, the aggregate cost of all outstanding options exceeds 10% of the Fund's total assets.

Presently there are no options on New York tax-exempt securities traded on national securities exchanges and until such time as they become available, the Fund will not invest in options on debt securities. It is anticipated that such instruments will not become available during the next year.

A call option is a contract that gives the holder of the option the right to buy from the writer of the call option, in return for a premium, the security underlying the option at a specified exercise price at any time during the term of the option. The writer of the call option has the obligation upon exercise of the option to deliver the underlying security upon payment of the exercise price during the option period. A put option is a contract that gives the holder of the option the right to sell to the writer, in return for a premium, the underlying security at a specified price during the term of the option. The writer of the put has the obligation to buy the underlying security upon exercise, at the exercise price during the option period.

The Fund will only write covered call or covered put options. The Fund may not write covered options in an amount exceeding 20% of the value of its total assets. A call option is "covered" if the Fund owns the underlying security subject to the option or has an absolute and immediate right to acquire that security or futures contract without additional cash consideration (or for additional cash consideration held in a segregated account by its custodian) upon conversion or exchange of other securities held in its portfolio. A call option is also covered if the Fund holds a call on the same security or futures contract as the call written where the exercise price of the call held is (i) equal to or less than the exercise price of the call written or (ii) greater than the exercise price of the call written if the difference is maintained by the Fund in cash, Treasury bills or other high grade short-term obligations in a segregated account with its custodian. A put option is "covered" if the Fund maintains cash, Treasury bills or other high grade short-term obligations with a value equal to the exercise price in a segregated account with its custodian, or else holds a put on the same security or futures contract as the put written where the exercise price of the put held is equal to or greater than the exercise price of the put written.

If the Fund has written an option, it may terminate its obligation by effecting a closing purchase transaction. This is accomplished by purchasing an option of the same series as the option previously written. However, once the Fund has been assigned an exercise notice, the Fund will be unable to effect a closing purchase transaction. Similarly, if the Fund is the holder of an option it may liquidate its position by effecting a closing sale transaction. This is accomplished by selling an option of the same series as the option previously purchased. There can be no assurance that either a closing purchase or sale transaction can be effected when the Fund so desires.

The Fund will realize a profit from a closing transaction if the price of the transaction is less than the premium received from writing the option or is more than the premium paid to purchase the option; the Fund will realize a loss from a closing transaction if the price of the transaction is more than the premium received from writing the option or is less than the premium paid to purchase the option. Since call option prices generally reflect increases in the price of the underlying security, any loss resulting from the repurchase of a call option may also be wholly or partially offset by unrealized appreciation of the underlying security. Other principal factors affecting the market value of a put or a call option include supply and demand, interest rates, the current market price and price volatility of the underlying security and the time remaining until the expiration date.

An option position may be closed out only on an exchange which provides a secondary market for an option of the same series. Although the Fund will generally purchase or write only those options for which there appears to be an active secondary market, there is no assurance that a liquid secondary market on an exchange will exist for any particular option. In such event it might not be possible to effect closing transactions in particular options, so that the Fund would have to exercise its options in order to realize any profit and would incur brokerage commissions upon the exercise of call options and upon the subsequent disposition of underlying securities for the exercise of put options. If the Fund as a

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covered call option writer is unable to effect a closing purchase transaction in a secondary market, it will not be able to sell the underlying security until the option expires or it delivers the underlying security upon exercise.

#### PORTFOLIO MANAGEMENT

The Fund's portfolio turnover rate during the fiscal year ended December 31, 1993 was 25%. It is anticipated that the Fund's portfolio turnover rate will not exceed 50% during the fiscal year ending December 31, 1994. A 50% turnover rate would occur, for example, if 50% of the securities held in the Fund's portfolio (excluding all securities whose maturities at acquisition were one year or less) were sold and replaced within one year. However, the Fund may engage in short-term trading consistent with its investment objective. Securities may be sold in anticipation of a market decline (a rise in interest rates) or purchased in anticipation of a market rise (a decline in interest rates). In addition, a security may be sold and another security of comparable quality purchased at approximately the same time to take advantage of what the Investment Manager believes to be a temporary disparity in the normal yield relationship between the two securities. These yield disparities may occur for reasons not directly related to the investment quality of particular issues or the general movement of interest rates, such as changes in the overall demand for, or supply of, various types of tax-exempt securities.

In general, purchases and sales may also be made to restructure the portfolio in terms of average maturity, quality, coupon yield, or diversification for any one or more of the following purposes: (a) to increase income, (b) to improve portfolio quality, (c) to minimize capital depreciation, (d) to realize gains or losses, or for such other reasons as the Investment Manager deems relevant in light of economic and market conditions.

The Fund does not generally intend to invest more than 25% of its total assets in securities of any one governmental unit. Subject to investment restriction number 3 in the Prospectus, the Fund may invest more than 25% of its total assets in industrial development and pollution control bonds (two kinds of tax-exempt Municipal Bonds).

The Fund may invest in obligations customarily sold to institutional investors in private transactions with the issuers thereof and up to 5% of its total assets in securities for which a BONA FIDE market does not exist at the time of purchase. With respect to any securities as to which a BONA FIDE market does not exist, the Fund may be unable to dispose of such securities promptly at reasonable prices. It is the Fund's current intention not to invest in such obligations.

#### INVESTMENT RESTRICTIONS

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In addition to the investment restrictions enumerated in the Prospectus, the investment restrictions listed below have been adopted by the Fund as fundamental policies, which may not be changed without the vote of a majority of the outstanding voting securities of the Fund, as defined in the Act. Such a majority is defined as the lesser of (a) 67% of the shares present at a meeting of shareholders, if the holders of more than 50% of the outstanding shares of the Fund are present or represented by proxy or (b) more than 50% of the outstanding shares of the Fund. For purposes of the following restrictions and those recited in the Prospectus: (a) an "issuer" of a security is the entity whose assets and revenues are committed to the payment of interest and principal on that particular security, provided that securities guaranteed by separate entities will be considered separate securities; (b) a "taxable security" is any security the interest on which is subject to federal income tax; and (c) all percentage limitations apply immediately after a purchase or initial investment, and any subsequent change in any applicable percentage resulting from market fluctuations or other changes in total or net assets does not require elimination of any security from the portfolio.

The Fund may not:

1. Invest in common stock.

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2. Invest in securities of any issuer if, to the knowledge of the Fund, any officer or Trustee of the Fund or officer or director of the Investment Manager owns more than 1/2 of 1% of the outstanding securities of such issuer, and such officers and directors who own more than 1/2 of 1% own in the aggregate more than 5% of the outstanding securities of such issuer.

3. Purchase or sell real estate or interests therein, although it may purchase securities secured by real estate or interests therein.

4. Purchase or sell commodities except that the Fund may purchase financial futures contracts and related options in accordance with procedures adopted by the Trustees described in its Prospectus and Statement of Additional Information.

5. Purchase oil, gas or other mineral leases, rights or royalty contracts, or exploration or development programs.

6. Write, purchase or sell puts, calls, or combinations thereof except options on futures contracts or options on debt securities.

7. Purchase securities of other investment companies, except in connection with a merger, consolidation, reorganization or acquisition of assets.

8. Borrow money, except that the Fund may borrow from a bank for temporary or emergency purposes in amounts not exceeding 5% (taken at the lower of cost or current value) of the value of its total assets (not including the amount borrowed).

9. Pledge its assets or assign or otherwise encumber them except to secure permitted borrowings. (For the purpose of this restriction, collateral arrangements with respect to the writing of options and collateral arrangements with respect to initial margin for futures are not deemed to be pledges of assets and neither such arrangements nor the purchase or sale of futures are deemed to be the issuance of a senior security as set forth in restriction 10.)

10. Issue senior securities as defined in the Act except insofar as the Fund may be deemed to have issued a senior security by reason of: (a) entering into any repurchase agreement; (b) purchasing any securities on a when-issued or delayed delivery basis; or (c) borrowing money in accordance with restrictions described above.

11. Make loans of money or securities, except: (a) by the purchase of debt obligations in which the Fund may invest consistent with its investment objective and policies; (b) by investment in repurchase agreements; and (c) by lending its portfolio securities.

12. Make short sales of securities.

13. Purchase securities on margin, except for such short-term loans as are necessary for the clearance of purchases of portfolio securities. The deposit or payment by the Fund of initial or variation margin in connection with futures contracts or related options thereon is not considered the purchase of a security on margin.

14. Engage in the underwriting of securities, except insofar as the Fund may be deemed an underwriter under the Securities Act of 1933 in disposing of a portfolio security.

15. Invest for the purpose of exercising control or management of any other issuer.

#### PORTFOLIO TRANSACTIONS AND BROKERAGE

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The Investment Manager is responsible for decisions to buy and sell securities and commodities for the Fund, the selection of brokers and dealers to effect the transactions, and the negotiation of brokerage commissions, if any. The Fund expects that the primary market for the securities in which it intends to invest will generally be the over-the-counter market. Securities are generally traded in the over-the-counter market on a "net" basis with dealers acting as principal for their own accounts without charging

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a stated commission, although the price of the security usually includes a profit to the dealer. Options and futures transactions will usually be effected through a broker and a commission will be charged. The Fund also expects that securities will be purchased at times in underwritten offerings where the price includes a fixed amount of compensation, generally referred to as the underwriter's concession or discount. On occasion, the Fund may also purchase certain money market instruments directly from an issuer, in which case no commissions or discounts are paid. During the fiscal years ended December 31, 1991, 1992 and 1993, the Fund did not pay any brokerage commissions.

The Investment Manager currently serves as investment manager to a number of clients, including other investment companies, and may in the future act as investment manager or adviser to others. It is the practice of the Investment Manager to cause purchase and sale transactions to be allocated among the Fund and others whose assets it manages in such manner as it deems equitable. In making such allocations among the Fund and other client accounts, the main factors considered are the respective investment objectives, the relative size of portfolio holdings of the same or comparable securities, the availability of cash for investment, the size of investment commitments generally held and the opinions of the persons responsible for managing the portfolios of the Fund and other client accounts.

The policy of the Fund, regarding purchases and sales of securities for its portfolio, is that primary consideration be given to obtaining the most favorable prices and efficient execution of transactions. In seeking to implement the Fund's policies, the Investment Manager effects transactions with those brokers and dealers who the Investment Manager believes provide the most favorable prices and are capable of providing efficient executions. If the Investment Manager believes such price and executions are obtainable from more than one broker or dealer, it may give consideration to placing portfolio transactions with those brokers and dealers who also furnish research and other services to the Fund or the Investment Manager. Such services may include, but are not limited to, any one or more of the following: information as to the availability of securities for purchase or sale; statistical or factual information or opinions pertaining to investment; wire services; and appraisals or evaluations of portfolio securities.

The information and services received by the Investment Manager from brokers and dealers may be of benefit to the Investment Manager in the management of accounts of some of its other clients and may not, in every case, benefit the Fund directly. While the receipt of such information and services is useful in varying degrees and would generally reduce the amount of research or services otherwise performed by the Investment Manager and thereby reduce its expenses, it is of indeterminable value and the Fund will not reduce the management fee it pays to the Investment Manager by any amount that may be attributable to the value of such services.

Pursuant to an order of the Securities and Exchange Commission, the Fund may effect principal transactions in certain money market instruments with DWR. The Fund will limit its transactions with DWR to U.S. Government and Government Agency Securities, Bank Money Instruments (i.e. Certificates of Deposit and Bankers' Acceptances) and Commercial Paper. Such transactions will be effected



with DWR only when the price available from DWR is better than that available from other dealers.

Consistent with the policy described above, brokerage transactions in securities listed on exchanges or admitted to unlisted trading privileges may be effected through DWR. In order for DWR to effect portfolio transactions for the Fund, the commissions, fees or other remuneration received by DWR must be reasonable and fair compared to the commissions, fees or other remuneration paid to other brokers in connection with comparable transactions involving similar securities being purchased or sold on an exchange during a comparable period of time. This standard would allow DWR to receive no more than the remuneration which would be expected to be received by an unaffiliated broker in a commensurate arms-length transaction. Furthermore, the Trustees of the Fund, including a majority of the Trustees who are not "interested" Trustees, have adopted procedures which are reasonably designed to provide that any commissions, fees or other remuneration paid to DWR are consistent with the foregoing standard.

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#### SPECIAL CONSIDERATIONS RELATING TO NEW YORK TAX-EXEMPT SECURITIES

During the mid-1970's, New York State (the "State"), some of its agencies, instrumentalities and public benefit corporations (the "Authorities"), and certain of its municipalities faced serious financial difficulties. To address many of these financial problems, the State developed various programs, many of which were successful in ameliorating the financial crisis. Any further financial problems experienced by these Authorities or municipalities could have a direct adverse effect on the New York Municipal Obligations in which the Fund invests.

#### NEW YORK CITY

GENERAL. More than any other municipality, the fiscal health of New York City (the "City") has a significant effect on the fiscal health of the State. Over the past three years, the rate of economic growth in the City has slowed substantially. During the 1990 and 1991 fiscal years, the City experienced significant shortfalls in almost all of its major tax sources and increases in services costs. Beginning in 1992, the improvement in the national economy helped stabilize conditions in the City. The City now projects, and its current four-year financial plan assumes, that the City's economy will continue to improve during calendar year 1993 and that a modest employment recovery will begin during the second half of the 1993 calendar year.

For each of the 1981 through 1992 fiscal years, the City achieved balanced operating results as reported in accordance with generally accepted accounting principles ("GAAP") and the City's 1993 fiscal year results are projected to be balanced in accordance with GAAP. The City was required to close substantial budget gaps in its 1990, 1991 and 1992 fiscal years in order to maintain balanced operating results. In order to achieve a balanced budget for the 1992 fiscal year, the City implemented various actions, including tax increases, proposed service reductions and proposed productivity savings.

1994-1997 NEW YORK CITY FINANCIAL PLAN. The Mayor is responsible for preparing the City's four-year financial plan. The City Council adopted a budget for the City's 1994 fiscal year on June 14, 1993. On July 2, 1993 the Mayor announced additional expenditure reductions in the amount of approximately \$131 million for the City's 1994 fiscal year beyond those incorporated in the adopted budget. Based on the adopted budget and the additional reductions, the City has prepared a proposed financial plan for the 1994 through 1997 fiscal years (the "1994-1997 Financial Plan", "Financial Plan" or "City Plan"), and is in the process of preparing a more detailed financial plan, which will conform to the Financial Plan and which the City expects to submit to the Control Board during the first week of August, 1993. The 1994-1997 Financial Plan projects revenues and expenditures for the 1994 fiscal year balanced in accordance with GAAP.

The City Plan sets forth actions to close a projected gap of approximately \$2.0 billion in the 1994 fiscal year. The gap-closing actions for the 1994 fiscal year include agency actions, including productivity savings and savings from restructuring the delivery of City services; service reductions; the sale of delinquent real property tax receivables; discretionary transfers from the 1993 fiscal year; reduced debt service costs, resulting from refinancings and other actions; proposed increased Federal assistance; a proposed continuation of the personal income tax surcharge; proposed increased State aid; and various revenue actions.

The City Plan also sets forth projections for the 1995 through 1997 fiscal years and outlines a proposed gap-closing program to close projected budget gaps of \$1.3 billion, \$1.8 billion and \$2.0 billion for the 1995 through 1997 years, respectively. These projections take into account expected increases in Federal and State assistance. Various actions proposed in the City Plan, including the proposed continuation of the personal income tax surcharge and the proposed increase in State aid, are subject to approval by the Governor and the State Legislature, and the proposed increase in Federal aid is subject to approval by Congress and the President. The State Legislature has failed to approve the

similar proposals for State assistance in previous sessions, thereby increasing the uncertainty as to the

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receipt of the State assistance included in the City Plan. If these actions cannot be implemented, the City will be required to take other actions to decrease expenditures or increase revenues to maintain a balanced financial plan.

The City Plan reflects certain cost and expenditure increases including increases in salaries and benefits paid to City employees pursuant to certain collective bargaining agreements and the costs associated with various lawsuits in which the City has been named as a defendant. While the ultimate outcome and fiscal impact, if any, of the proceedings and claims are not currently predictable, adverse determination in certain of them might have a material adverse effect upon the City's ability to carry out the City Plan.

#### RATINGS

As of August 12, 1993, Moody's rated the City's general obligation bonds Baal and S&P rated such bonds A-. Such ratings reflect only the views of Moody's and S&P, from which an explanation of the significance of such ratings may be obtained. There is no assurance that such ratings will continue for any given period of time or that they will be revised downward or withdrawn entirely. Any such downward revision or withdrawal could have an adverse effect on the market prices of bonds.

#### OUTSTANDING INDEBTEDNESS

As of June 30, 1993, the City and the Municipal Assistance Corporation for the City of New York had, respectively, \$19.624 billion and \$4.470 billion of outstanding net long-term debt.

The City depends on the State for State aid both to enable the City to balance its budget and to meet its cash requirements. If the State experiences revenue shortfalls or spending increases beyond its projections during its 1994 fiscal year or subsequent years, such developments could result in reductions in anticipated State aid to the City. In addition, there can be no assurance that State budgets in future fiscal years will be adopted by the April 1 statutory deadline and that there will not be adverse effects on the City's cash flow and additional City expenditures as a result of such delays.

The City's projections set forth in the City Plan are based on various assumptions and contingencies which are uncertain and which may not materialize. Changes in major assumptions could significantly affect the City's ability to balance its budget as required by State law and to meet its annual cash flow and financing requirements. Such assumptions and contingencies include the timing of any regional and local economic recovery, the impact on real estate tax revenues of the current downturn in the real estate market, the absence of wage increases for City employees in excess of the increases assumed in the City Plan, employment growth, provision of State and Federal aid and mandate relief, State legislative approval of future State budgets, adoption of City budgets by the New York City Council, and approval by the Governor or the State Legislature of various other actions proposed in the City Plan.

Implementation of the City Plan is also dependent upon the City's ability to market its securities successfully in the public credit markets. The City's financing program for fiscal years 1994 through 1997 contemplates the issuance of \$10.8 billion of general obligation bonds primarily to reconstruct and rehabilitate the City's infrastructure and physical assets and to make capital investments. In addition, the City issues revenue and tax anticipation notes to finance its seasonal working capital requirements. The success of projected public sales of City bonds and notes will be subject to prevailing market conditions, and no assurance can be given that such sales will be completed. If the City were unable to sell its general obligation bonds and notes, it would be prevented from meeting its planned operating and capital expenditures.

The City Comptroller and other agencies and public officials have issued reports and made public statements which, among other things, state that projected revenues may be less and future expenditures may be greater than forecast in the City Plan. In addition, the Control Board staff and others have questioned whether the City has the capacity to generate sufficient revenues in the future to meet the costs of its expenditure increases and to provide necessary services. It is reasonable to expect that such reports and statements will continue to be issued and to engender public comment.

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LITIGATION. The City is a defendant in a significant number of lawsuits. Such litigation includes, but is not limited to, routine litigation incidental to the performance of its governmental and other functions, actions commenced and claims asserted against the City arising out of alleged constitutional violations, alleged torts, alleged breaches of contracts and other violations of law and condemnation proceedings and other tax and miscellaneous actions. While

the ultimate outcome and fiscal impact, if any, on the proceedings and claims are not currently predictable, adverse determination in certain of them might have a material adverse effect upon the City's ability to carry out the City Plan. As of June 30, 1992, the City estimated its potential future liability on account of all outstanding claims to be approximately \$2.3 billion.

#### NEW YORK STATE

**RECENT DEVELOPMENTS.** The State has faced serious financial difficulties in recent years. The effect of the national recession has been more severe in the State than in other parts of the nation, and the 1993-94 New York State Financial Plan (the "State Plan") is based on an economic projection that the State will perform more poorly than the nation as a whole. Although real gross domestic product grew modestly during calendar year 1992 and is expected to show increased growth in calendar year 1993, preliminary data indicate that the State's economy, as measured by employment, began to grow during the first part of calendar year 1993. Many uncertainties exist in forecasts of both the national and State economies, including consumer attitudes toward spending, Federal financial and monetary policies, the availability of credit and the condition of the world economy, which could have an adverse effect on the State. There can be no assurance that the State economy will not experience worse-than-predicted results in the 1993-94 fiscal year, with corresponding material and adverse effects on the State's projections of receipts and disbursements.

**1993-94 FISCAL YEAR.** The State completed its 1993 fiscal year with a cash-basis positive balance of \$67.1 million in the State's General Fund (the major operating fund of the State). The State's 1994 fiscal year budget, as enacted, projects a balanced General Fund.

The State Plan projects General Fund receipts and transfers from other funds at \$32.367 billion and disbursements and transfers to other funds at \$32.300 billion. Excess receipts of \$67 million will be used for a required repayment to the State's Tax Stabilization Reserve Fund. In comparison to the recommended 1993-94 Executive Budget, released by the Governor in early 1993, the 1993-94 State budget, as enacted, reflects increases in both receipts and disbursements in the General Fund of \$811 million. The \$811 million increase in projected receipts reflects many factors and assumptions, including (i) improving economic conditions and higher-than-expected tax collections, (ii) improved 1992-93 results, (iii) additional payments from the Federal government to reimburse the State for the cost of providing indigent medical care, (iv) the payment of additional personal income tax refunds in the 1992-93 fiscal year which would otherwise have been paid in fiscal year 1993-94; offset by revenue-raising recommendations in the Executive Budget that were not enacted and thus are not included in the State Plan. The \$811 million increase in projected disbursements reflects (i) an increase in projected school-aid payments, (ii) an increase in projected payments for Medicaid assistance and other social service programs, (iii) additional spending on the judiciary and criminal justice, (iv) a net increase in projected disbursements for all other programs and purposes, and (v) establishment of a new contingency reserve.

There can be no assurance that the State will not face substantial potential budget gaps resulting from a significant disparity between tax revenues projected from a lower recurring receipts base and the spending required to maintain State programs at current levels. To address any potential budgetary imbalance, the State may need to take significant actions to align recurring receipts and disbursements in future fiscal years.

**NEW YORK LOCAL GOVERNMENT ASSISTANCE CORPORATION.** In 1990, as part of a state fiscal reform program, legislation was enacted creating the New York Loan Government Assistance Corporation ("LGAC"), a public benefit corporation empowered to issue long-term obligations to fund certain

payments to local governments traditionally funded through the State's annual seasonal borrowing. The legislation empowered LGAC to issue bonds and notes in an amount not in excess of \$4.7 billion (exclusive of certain refunding bonds) plus certain other amounts. Over a period of years, the issuance of those long-term obligations, which will be amortized over no more than 30 years, is expected to result in eliminating the need for continuing short-term seasonal borrowing for those purposes. The legislation also imposed a cap on the annual seasonal borrowing of the State at \$4.7 billion, less net proceeds of bonds issued by LGAC, except in cases where the Governor and the legislative leaders have certified both the need for additional borrowing and provided a schedule for reducing it to the cap. If borrowing above the cap is thus permitted in any fiscal year, it is required by law to be reduced to the cap by the fourth fiscal year after the limit was first exceeded. As of July 1, 1993, LGAC has issued its bonds to provide net proceeds of approximately \$3.680 billion. LGAC has been authorized to issue its bonds to provide net proceeds of up to an additional \$703 million during the State's 1993-94 fiscal year.

**COMPOSITION OF STATE CASH RECEIPTS AND DISBURSEMENTS.** Substantially all State non-pension financial operations are accounted for in the State's governmental funds group. Governmental funds include the General Fund, which

receives all income not required by law to be deposited in another fund and which for the State's 1993-94 fiscal year comprises approximately 52% of the total projected governmental fund receipts; Special Revenue Funds, which receive the preponderance of moneys received by the State from the Federal government and other income the use of which is legally restricted to certain purposes and which comprised approximately 39% of total projected governmental funds receipts in the 1993-94 fiscal year; Capital Projects Funds, used to finance the acquisition and construction of major capital facilities by the State and to aid in certain of such projects conducted by local governments or public authorities; and Debt Service Funds, which are used for the accumulation of moneys for the payment of principal of and interest on long-term debt and to meet lease-purchase and other contractual-obligation commitments. Receipts in Capital Projects and Debt Service Funds comprise an aggregate of approximately 9% of total projected governmental funds receipts in the 1993-94 fiscal year.

A legislative change implemented in August 1990 affects the way in which a portion of the State's sales and use tax collections are recorded as receipts in the General Fund. Pursuant to the legislation creating LGAC, the Comptroller is required to credit the equivalent of one percentage point of the four percent sales and use tax collections to the Local Government Assistance Tax Fund (the "Tax Fund"), which is a Debt Service Fund, for purposes of making payments to LGAC to provide for the payment of debt service on its bonds and notes. To the extent that these moneys are not necessary for payment to LGAC, they are transferred from the Tax Fund to the General Fund and are reported to the General Fund as a transfer from other funds, rather than as sales and use tax receipts. During the State's 1991-92 and 1992-93 fiscal years \$1.435 billion and \$1.504 billion, respectively, in sales and use tax receipts were credited to the Tax Fund, and \$1.527 billion is estimated to be credited to the Tax Fund during the State's 1993-94 fiscal year. For the 1991-92 fiscal year, the amount transferred to the General Fund from the Tax Fund was \$1.316 billion, after providing for the payment of \$119 million to LGAC for the purpose of meeting debt service on its bonds and its other cash requirements. For the 1992-93 fiscal year, \$1.280 billion was transferred to the General Fund from the Tax Fund after providing for payment of \$224 million to LGAC for debt service and other cash requirements, while \$1.260 billion is estimated to be transferred in 1993-94, after payment of \$267 million to LGAC for debt service and other cash requirements.

The enacted 1993-94 Executive Budget includes several changes in the manner in which General Fund tax receipts are recorded. Receipts from user taxes and fees are reduced by approximately \$377 million to reflect receipts that are dedicated for highway and bridge capital purposes, which are to be deposited in the Capital Projects Funds. Also, business taxes are reduced by approximately \$180 million to reflect tax receipts that are dedicated for transportation purposes and which will be deposited in the Special Revenue and Capital Project Funds.

**AUTHORITIES.** The fiscal stability of the State is related to the fiscal stability of its Authorities, which generally have responsibility for financing, constructing and operating revenue-producing public benefit facilities. Authorities are not subject to the constitutional restrictions on the incurrence of debt which

apply to the State itself, and may issue bonds and notes within the amounts of, and as otherwise restricted by, their legislative authorization. As of September 30, 1992, the latest data available, there were 18 Authorities that had outstanding debt of \$100 million or more. The aggregate outstanding debt, including refunding bonds, of these 18 Authorities was \$62.2 billion as of September 30, 1992, of which approximately \$8.2 billion was moral obligation debt and approximately \$17.1 billion was financed under lease-purchase or contractual-obligation financing arrangements.

Authorities are generally supported by revenues generated by the projects financed or operated, such as fares, user fees on bridges, highway tolls and rentals for dormitory rooms and housing. In recent years, however, the State has provided financial assistance through appropriations, in some cases of a recurring nature, to certain of the 18 Authorities for operating and other expenses and, in fulfillment of its commitments on moral obligation indebtedness or otherwise, for debt service. This operating assistance is expected to continue to be required in future years.

The State's experience has been that if an Authority suffers serious financial difficulties, both the ability of the State and the Authorities to obtain financing in the public credit markets and the market price of the State's outstanding bonds and notes may be adversely affected. The New York State Housing Finance Agency ("HFA") and the New York State Urban Development Corporation ("UDC") have in the past required substantial amounts of assistance from the State to meet debt service costs or to pay operating expenses. Further assistance, possibly in increasing amounts, may be required for these, or other, Authorities in the future. In addition, certain statutory arrangements provide for State local assistance payments otherwise payable to localities to be made under certain circumstances to certain Authorities. The State has no obligation to provide additional assistance to localities whose local assistance payments

have been paid to Authorities under these arrangements. However, in the event that such local assistance payments are so diverted, the affected localities could seek additional State funds.

**RATINGS.** On June 6, 1990, Moody's changed its ratings on all the State's outstanding general obligation bonds from A1 to A. On March 26, 1990, Standard & Poor's changed its ratings of all of the State's outstanding general obligation bonds from AA- to A. On January 13, 1992, Standard & Poor's changed its ratings of all of the State's outstanding general obligation bonds from A to A-. Ratings reflect only the respective views of such organizations, and an explanation of the significance of such ratings must be obtained from the rating agency furnishing the same. There is no assurance that a particular rating will continue for any given period of time or that any such rating will not be revised downward or withdrawn entirely if, in the judgment of the agency originally establishing the rating, circumstances so warrant. A downward revision or withdrawal of such ratings, or either of them, may have an effect on the market price of the State Municipal Securities in which the New York Fund invests.

**GENERAL OBLIGATION DEBT.** As of March 31, 1993, the State had approximately \$5.132 billion in general obligation bonds, excluding refunding bonds, and \$294 million in bond anticipation notes outstanding. On May 4, 1993, the State issued \$850 million in tax and revenue anticipation notes which will mature on December 31, 1993. Principal and interest due on general obligation bonds and interest due on bond anticipation notes and on tax and revenue anticipation notes were \$890.0 million and \$818.8 million for the 1991-92 and 1992-93 fiscal years, respectively, and are estimated to be \$789.1 million for the State's 1993-94 fiscal year, not including interest on refunding bonds, issued in July 1992, to the extent that such interest is to be paid from escrowed funds.

**LITIGATION.** The State is a defendant in numerous legal proceedings pertaining to matters incidental to the performance of routine governmental operations. Such litigation includes, but is not limited to, claims asserted against the State arising from alleged torts, alleged breaches of contracts, condemnation proceedings and other alleged violations of State and Federal laws.

Included in the State's outstanding litigation are a number of cases challenging the constitutionality or the adequacy and effectiveness of a variety of significant social welfare programs primarily involving the State's mental hygiene programs. Adverse judgments in these matters generally could result in injunctive relief coupled with prospective changes in patient care which could require substantial

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increased financing of the litigated programs in the future. Because of the prospective nature of these matters, no provision for this potential exposure has been made in the State's audited financial statements for the 1991-92 fiscal year.

As a result of the United States Supreme Court decision in the case of STATE OF DELAWARE v. STATE OF NEW YORK, the State may be required to make certain significant payments during the 1993-94 fiscal year or thereafter.

Adverse developments in any of these proceedings or the initiation of new proceedings could affect the ability of the State to maintain a balanced State Plan. In its audited financial statements for the 1991-92 fiscal year, the State reported its estimated liability for awarded and anticipated unfavorable judgments as \$489 million.

**OTHER LOCALITIES.** Certain localities in addition to the City could have financial problems leading to requests for additional State assistance during the State's 1993-94 fiscal year and thereafter. The potential impact on the State of such actions by localities is not included in the projections of the State receipts and disbursements in the State's 1993-94 fiscal year.

Fiscal difficulties experienced by the City of Yonkers ("Yonkers") resulted in the creation of the Financial Control Board for the City of Yonkers (the "Yonkers Board") by the State of 1984. The Yonkers Board is charged with oversight of the fiscal affairs of Yonkers. Future actions taken by the Governor or the State Legislature to assist Yonkers could result in allocation of State resources in amounts that cannot yet be determined.

#### THE DISTRIBUTOR

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As discussed in the Prospectus, shares of the Fund are distributed by Dean Witter Distributors Inc. (the "Distributor"), on a continuous basis. The Distributor has entered into a selected dealer agreement with DWR, which through its own sales organization sells shares of the Fund and may enter into selected dealer agreements with other selected dealers ("Selected Broker-Dealers"). The Distributor, a Delaware corporation, is a wholly-owned subsidiary of DWDC. The Trustees who are not, and were not at the time they voted, interested persons of the Fund, as defined in the Act (the "Independent Trustees"), at a meeting held on October 30, 1992 approved the current Distribution Agreement appointing the

Distributor as exclusive distributor of the Fund's shares and providing for the Distributor to bear distribution expenses not borne by the Fund. The Distribution Agreement took effect on June 30, 1993 upon the spin-off by Sears, Roebuck and Co. of its remaining shares of DWDC. By its terms, the Distribution Agreement has an initial term ending April 30, 1994, and provides that it will remain in effect from year to year thereafter if approved by the Board.

The Distributor bears all expenses incurred in providing services under the Distribution Agreement. Such expenses include the payment of commissions for sales of the Fund's shares and incentive compensation to account executives. The Distributor also pays certain expenses in connection with the distribution of the Fund's shares, including the costs of preparing, printing and distributing advertising or promotional materials, and the costs of printing and distributing prospectuses and supplements thereto used in connection with the offering and sale of the Fund's shares to other than current shareholders. The Fund bears the costs of initial typesetting, printing and distribution of prospectuses and supplements thereto to shareholders. The Fund also bears the costs of registering the Fund and its shares under federal and state securities laws. The Fund and the Distributor have agreed to indemnify each other against certain liabilities, including liabilities under the Securities Act of 1933, as amended. Under the Distribution Agreement, the Distributor uses its best efforts in rendering services to the Fund, but in the absence of willful misfeasance, bad faith, gross negligence or reckless disregard of its obligations, the Distributor is not liable to the Fund or any of its shareholders for any error of judgment or mistake of law or for any act or omission or for any losses sustained by the Fund or its shareholders.

PLAN OF DISTRIBUTION. To compensate the Distributor for the services provided and for the expenses borne by the Distributor or any selected dealer under the Distribution Agreement, the Fund has adopted

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a Plan of Distribution pursuant to Rule 12b-1 under the Act (the "Plan") pursuant to which the Fund pays the Distributor compensation accrued daily and payable monthly at the annual rate of 0.75% of the lesser of: (a) the average daily aggregate gross sales of the Fund's shares since the inception of the Fund (not including reinvestments of dividends or capital gains distributions), less the average daily aggregate net asset value of the Fund's shares redeemed since the Fund's inception upon which a contingent deferred sales charge has been imposed or upon which such charge has been waived, or (b) the average daily net assets of the Fund. An amount equal to 0.20% of the Fund's average annual net assets of the fees payable by the Fund each year pursuant to the Plan of Distribution is characterized as a "service fee" under the Rules of Fair Practice of the National Association of Securities Dealers, Inc. (of which the Distributor is a member). Such fee is a payment made for personal service and/or the maintenance of shareholder accounts. The remaining portion of the Plan of Distribution fee payments made by the Fund is characterized as an "asset-based sales charge" as such is defined by the aforementioned Rules of Fair Practice. The Distributor also receives the proceeds of contingent deferred sales charges imposed on certain redemptions of shares, which are separate and apart from payments made pursuant to the Plan (see "Redemptions and Repurchases -- Contingent Deferred Sales Charge" in the Prospectus). The Distributor has informed the Fund that it and/or DWR received contingent deferred sales charges on redemptions of the Fund's shares in the approximate amounts of \$248,000, \$214,000 and \$244,000, for the fiscal years ended December 31, 1991, 1992 and 1993, respectively. (see "Redemptions and Repurchases -- Contingent Deferred Sales Charge" in the Prospectus).

The Plan was adopted by a majority vote of the Board of Trustees, including all of the Trustees of the Fund who are not "interested persons" of the Fund (as defined in the Act) and who have no direct or indirect financial interest in the operation of the Plan (the "Independent 12b-1 Trustees"), cast in person at a meeting called for the purpose of voting on the Plan, on February 13, 1985, by the then sole shareholder of the Fund on March 20, 1985, and by the shareholders holding a majority, as defined in the Act, of the outstanding voting securities of the Fund at a Meeting of Shareholders of the Fund held on April 29, 1986. Under its terms, the Plan had an initial term ending December 31, 1985, and provides that it will remain in effect from year to year thereafter, provided such continuance is approved annually by a vote of the Trustees in the manner described above.

Continuation of the Plan for one year, until April 30, 1993, was approved by the Board of Trustees of the Fund, including a majority of the Independent 12b-1 Trustees, at a Board meeting held on April 29, 1992. Prior to approving the continuation of the Plan, the Board requested and received from DWR and reviewed all the information which it deemed necessary to arrive at an informed determination. In making their determination to continue the Plan, the Trustees considered: (1) the Fund's experience under the Plan and whether such experience indicates that the Plan is operating as anticipated; (2) the benefits the Fund had obtained, was obtaining and would be likely to obtain under the Plan; and (3) what services had been provided and were continuing to be provided under the Plan by the Distributor to the Fund and its shareholders. Based upon their review, the Trustees of the Fund, including each of the Independent 12b-1 Trustees, determined that continuation of the Plan would be in the best interest

of the Fund and would have a reasonable likelihood of continuing to benefit the Fund and its shareholders. This determination was based upon the conclusion of the Trustees that the Plan provides an effective means of stimulating sales of shares of the Fund and of reducing or avoiding net redemptions and the potentially adverse effects that may occur therefrom. In the Trustees' quarterly review of the Plan, they will consider its continued appropriateness and the level of compensation provided therein.

At their meeting held on October 30, 1992, the Trustees of the Fund, including all of the Independent 12b-1 Trustees, approved certain amendments to the Plan which took effect in January, 1993 and were designed to reflect the fact that upon the reorganization described above the share distribution activities theretofore performed for the Fund by DWR were assumed by the Distributor and DWR's sales activities are now being performed pursuant to the terms of a selected dealer agreement between the Distributor and DWR. The amendments provide that payments under the Plan will be made to the Distributor rather than to DWR as before the amendment, and that the Distributor in turn is authorized to

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make payments to DWR, its affiliates or other selected broker-dealers (or direct that the Fund pay such entities directly). The Distributor is also authorized to retain part of such fee as compensation for its own distribution-related expenses.

Under the Plan and as required by Rule 12b-1, the Trustees receive and review promptly after the end of each calendar quarter a written report provided by the Distributor of the amounts expended under the Plan and the purpose for which such expenditures were made. The Fund accrued amounts payable to DWR under the Plan, during the fiscal year ended December 31, 1993, of \$1,425,215. This amount is equal to payments required to be paid monthly by the Fund which were computed at the annual rate of 0.62% of the average daily net assets of the Fund's shares. This amount is treated by the Fund as an expense in the year it is accrued.

The Plan was adopted in order to permit the implementation of the Fund's method of distribution. Under this distribution method shares of the Fund are sold without a sales load being deducted at the time of purchase, so that the full amount of an investor's purchase payment will be invested in shares without any deduction for sales charges. Shares of the Fund may be subject to a contingent deferred sales charge, payable to the Distributor, if redeemed during the six years after their purchase. DWR compensates its account executives by paying them, from its own funds, commissions for the sale of the Fund's shares, currently a gross sales credit of up to 4% of the amount sold and an annual gross residual of up to .20 of 1% of the current value of the respective accounts for which they are the account executives of record and for which they provide personal service and/or the maintenance of such accounts. The gross sales credit is a charge which reflects commissions paid to account executives and Fund associated distribution-related expenses, including sales compensation, and overhead and other branch office distribution-related expenses including (a) the expenses of operating DWR's branch offices in connection with the sale of Fund shares, including lease costs, the salaries and employee benefits of operations and sales support personnel, utility costs, communications costs and the costs of stationery and supplies, (b) the costs of client sales seminars, (c) travel expenses of mutual fund sales coordinators to promote the sale of Fund shares and (d) other expenses relating to branch promotion of Fund sales. The distribution fee that the Distributor receives from the Fund under the Plan, in effect, offsets distribution expenses incurred on behalf of the Fund and its opportunity costs, such as the gross sales credit and an assumed interest charge thereon ("carrying charge"). In the Distributor's reporting of its distribution expenses to the Fund, such assumed interest (computed at the "broker's call rate") has been calculated on the gross sales credit as it is reduced by amounts received by the Distributor under the Plan and any contingent deferred sales charges received by the Distributor upon redemption of shares of the Fund. No other interest charge is included as a distribution expense in the Distributor's calculation of its distribution costs for this purpose. The broker's call rate is the interest rate charged to securities brokers on loans secured by exchange-listed securities.

The Fund paid 100% of the \$1,425,215 accrued under the Plan for the fiscal year ended December 31, 1993 to the Distributor of the Fund's shares. The Distributor and DWR estimate that they have spent \$15,981,227, pursuant to the Plan, on behalf of the Fund since the inception of the Fund. It is estimated that this amount was spent in approximately the following ways: (i) 10.33% (\$1,650,339) -- advertising and promotional expenses; (ii) 1.23% (\$196,559) -- printing of prospectuses for distribution to other than current shareholders; and (iii) 88.44% (\$14,134,329) -- other expenses, including the gross sales credit and the carrying charge, of which 10.76% (\$1,520,275) represents carrying charges, 36.33% (\$5,135,181) represents commission credits to DWR branch offices for payments of commissions to account executives and 52.91% (\$7,478,873) represents overhead and other branch office distribution-related expenses.

At any given time, expenses may be incurred in distributing shares of the Fund which may be more or less than the total of (i) the payments made by the

Fund pursuant to the Plan and (ii) the proceeds of contingent deferred sales charges paid by investors upon redemption of shares. The Distributor has advised the Fund that such excess amount, including the carrying charge designed to approximate the opportunity costs incurred which arise from it having advanced monies without having received the amount of any sales charges imposed at the time of sale of the Fund's shares, totalled \$4,739,785 as of

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December 31, 1993. Because there is no requirement under the Plan that the Distributor be reimbursed for all its expenses or any requirement that the Plan be continued from year to year, this excess amount does not constitute a liability of the Fund. Although there is no legal obligation for the Fund to pay expenses incurred by the Distributor in excess of payments made to it under the Plan and the proceeds of contingent deferred sales charges paid by investors upon redemption of shares, if for any reason the Plan is terminated, the Trustees will consider at that time the manner in which to treat such expenses. Any cumulative expenses incurred by the Distributor, but not yet recovered through distribution fees or contingent deferred sales charges, may or may not be recovered through future distribution fees or contingent deferred sales charges.

No interested person of the Fund nor any Trustee of the Fund who is not an interested person of the Fund, as defined in the Act, has any direct financial interest in the operation of the Plan except to the extent that the Distributor or certain of its employees may be deemed to have such an interest as a result of benefits derived from the successful operation of the Plan or as a result of receiving a portion of the amounts expended thereunder by the Fund.

The Plan may not be amended to increase materially the amount to be spent for the services described therein without approval by the shareholders of the Fund, and all material amendments to the Plan must also be approved by the Trustees in the manner described above. The Plan may be terminated at any time, without payment of any penalty, by vote of a majority of the Independent 12b-1 Trustees or by a vote of a majority of the outstanding voting securities of the Fund (as defined in the Act) on not more than thirty days' written notice to any other party to the Plan. So long as the Plan is in effect, the election and nomination of Independent 12b-1 Trustees shall be committed to the discretion of the Independent 12b-1 Trustees.

#### DETERMINATION OF NET ASSET VALUE

As discussed in the Prospectus, portfolio securities (other than short-term debt securities and futures and options) are valued for the Fund by an outside independent pricing service approved by the Board of Trustees. The pricing service has informed the Fund that in valuing the Fund's portfolio securities it uses both a computerized grid matrix of tax-exempt securities and evaluations by its staff, in each case based on information concerning market transactions and quotations from dealers which reflect the bid side of the market each day. The Fund's portfolio securities are thus valued by reference to a combination of transactions and quotations for the same or other securities believed to be comparable in quality, coupon, maturity, type of issue, call provisions, trading characteristics and other features deemed to be relevant. The Board of Trustees believes that timely and reliable market quotations are generally not readily available to the Fund for purposes of valuing tax-exempt securities and that the valuations supplied by the pricing service, using the procedures outlined above and subject to periodic review, are more likely to approximate the fair value of such securities. The net asset value of shares of the Fund is not calculated on such federal and non-federal holidays as are observed by the New York Stock Exchange. The New York Stock Exchange currently observes the following holidays: New Year's Day; Presidents' Day; Good Friday; Memorial Day; Independence Day; Labor Day; Thanksgiving Day; and Christmas Day.

The Investment Manager will periodically review and evaluate the procedures, methods and quality of services provided by the pricing service then being used by the Fund and may, from time to time, recommend to the Board of Trustees the use of other pricing services or discontinuance of the use of any pricing service in whole or part. The Board may determine to approve such recommendation or to make other provisions for pricing of the Fund's portfolio securities. Short-term taxable debt securities with 60 days or less remaining to maturity at time of purchase are valued at amortized cost, unless the Board determines such does not reflect the securities' fair value, in which case these securities will be valued at their fair value as determined by the Board of Trustees. Other short-term taxable debt securities will be valued on a mark to market basis until such time as they have a remaining maturity of 60 days, whereupon they will be valued at amortized cost using their value on the 61st day unless the Trustees determine such value does not reflect the securities' fair value, in which case these securities will be

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valued at their fair market value as determined by the Trustees. Listed options on debt securities are valued at the latest sale price on the exchange on which they are listed unless no sales of such options have taken place that day, in which case, they will be valued at the mean between their closing bid and asked



prices. Unlisted options on debt securities are valued at the mean between the latest bid and asked price. Futures contracts and options thereon which are traded on commodities exchanges are valued at their latest sale price on such commodities exchanges unless the Trustees determine that such price does not reflect their market value, in which case they will be valued at their fair value as determined by the Trustees. All other securities, including illiquid securities, and other assets are valued at their fair value as determined in good faith under procedures established by and under the supervision of the Board of Trustees.

#### SHAREHOLDER SERVICES

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Upon the purchase of shares of the Fund, a Shareholder Investment Account is opened for the investor on the books of the Fund and maintained by the Fund's Transfer Agent, Dean Witter Trust Company (the "Transfer Agent"). This is an open account in which shares owned by the investor are credited by the Transfer Agent in lieu of issuance of a share certificate. If a share certificate is desired, it must be requested in writing for each transaction. Certificates are issued only for full shares and may be redeposited in the account at any time. There is no charge to the investor for issuance of a certificate. Whenever a shareholder instituted transaction takes place in the Shareholder Investment Account, the shareholder will be mailed a statement reflecting the status of such Account.

**AUTOMATIC INVESTMENT OF DIVIDENDS AND DISTRIBUTIONS.** As stated in the Prospectus, all income dividends and capital gains distributions are automatically paid in full and fractional shares of the Fund, unless the shareholder requests that they be paid in cash. Each purchase of shares of the Fund is made upon the condition that the Transfer Agent is thereby automatically appointed as agent of the investor to receive all dividends and capital gains distributions on shares owned by the investor. Such dividends and distributions will be paid, at the net asset value per share, in shares of the Fund (or in cash if the shareholder so requests) as of the close of business on the monthly payment date, as stated in the Prospectus. At any time an investor may request the Transfer Agent, in writing, to have subsequent dividends and/or capital gains distributions paid to him or her in cash rather than shares. To assure sufficient time to process the change, such request should be received by the Transfer Agent at least five business days prior to the payment date of the dividend or the record date of the distribution. In the case of recently purchased shares for which registration instructions have not been received on the payment or record date, cash payments will be made to DWR or other selected broker-dealer, and will be forwarded to the shareholder, upon the receipt of proper instructions.

**TARGETED DIVIDENDS.-SM-** In states where it is legally permissible, shareholders may also have all income dividends and capital gains distributions automatically invested in shares of an open-end Dean Witter Fund other than Dean Witter Tax-Exempt Securities Trust. Such investment will be made as described above for automatic investment in shares of the Fund, at the net asset value per share (without sales charge) of the selected Dean Witter Fund as of the close of business on the monthly payment date and will begin to earn dividends, if any, in the selected Dean Witter Fund the next business day. To participate in the Targeted Dividends program, shareholders should contact their DWR or other selected broker-dealer account executive or the Transfer Agent. Shareholders of the Fund must be shareholders of the Dean Witter Fund targeted to receive investments from dividends at the time they enter the Targeted Dividends program. Investors should review the prospectus of the targeted Dean Witter Fund before entering the program.

**EASYINVEST.-SM-** Shareholders may subscribe to EasyInvest, an automatic purchase plan which provides for any amount from \$100 to \$5,000 to be transferred automatically from a checking or savings account, on a semi-monthly, monthly or quarterly basis, to the Transfer Agent for investment in shares of the Fund. Shares purchased through EasyInvest will be added to the shareholder's existing account at

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the net asset value calculated the same business day the transfer of funds is effected. For further information or to subscribe to EasyInvest, shareholders should contact their DWR or other selected broker-dealer account executive or the Transfer Agent.

**INVESTMENT OF DIVIDENDS OR DISTRIBUTIONS RECEIVED IN CASH.** Any shareholder who receives a cash payment representing a dividend or capital gains distribution may invest such dividend or distribution at net asset value, without the imposition of a contingent deferred sales charge upon redemption, by returning the check or the proceeds to the Transfer Agent within 30 days after the payment date. If the shareholder returns the proceeds of a dividend or distribution, such funds must be accompanied by a signed statement indicating that the proceeds constitute a dividend or distribution to be invested. Such investment will be made at the net asset value per share next determined after receipt of the check or proceeds by the Transfer Agent.

**DIRECT INVESTMENTS THROUGH TRANSFER AGENT.** As discussed in the Prospectus, a shareholder may make additional investments in Fund shares at any time through the Shareholder Investment Account by sending a check in any amount, not less than \$100, payable to Dean Witter New York Tax-Free Income Fund, directly to the Fund's Transfer Agent. Such amounts will be applied to the purchase of Fund shares at the net asset value per share next computed after receipt of the check or purchase payment by the Transfer Agent. The shares so purchased will be credited to the investor's account.

**SYSTEMATIC WITHDRAWAL PLAN.** As discussed in the Prospectus, a systematic withdrawal plan (the "Withdrawal Plan") is available for shareholders who own or purchase shares of the Fund having a minimum value of \$10,000 based upon the then current net asset value. The Withdrawal Plan provides for monthly or quarterly (March, June, September and December) checks in any dollar amount, not less than \$25 or in any whole percentage of the account balance, on an annualized basis. Any applicable contingent deferred sales charge will be imposed on shares redeemed under the Withdrawal Plan (see "Redemptions and Repurchases -- Contingent Deferred Sales Charge" in the Prospectus). Therefore, any shareholder participating in the Withdrawal Plan will have sufficient shares redeemed from his or her account so that the proceeds (net of any applicable contingent deferred sales charge) to the shareholder will be the designated monthly or quarterly dollar amount.

The Transfer Agent acts as agent for the shareholder in tendering to the Fund for redemption sufficient full and fractional shares to provide the amount of the periodic withdrawal payment designated in the application. The shares will be redeemed at their net asset value determined, at the shareholder's option, on the tenth or twenty-fifth day (or next following business day) of the relevant month or quarter and normally a check for the proceeds will be mailed by the Transfer Agent, or amounts credited to a shareholder's DWR or other selected broker-dealer account, within five business days after the date of redemption. The Withdrawal Plan may be terminated at any time by the Fund.

Withdrawal Plan payments should not be considered as dividends, yields or income. If periodic withdrawal plan payments continuously exceed net investment income and net capital gains, the shareholder's original investment will be correspondingly reduced and ultimately exhausted.

Each withdrawal constitutes a redemption of shares and any gain or loss realized must be recognized for federal income tax purposes. Although the shareholder may make additional investments of \$2,500 or more under the Withdrawal Plan, withdrawals made concurrently with purchases of additional shares may be inadvisable because of the contingent deferred sales charge applicable to the redemption of shares purchased during the preceding six years (see "Redemption and Repurchases -- Contingent Deferred Sales Charge").

Any shareholder who wishes to have payments under the Withdrawal Plan made to a third party or sent to an address other than the one listed on the account must send complete written instructions to the Transfer Agent to enroll in the Withdrawal Plan. The shareholder's signature on such instructions must be guaranteed by an eligible guarantor acceptable to the Transfer Agent (shareholders should contact the Transfer Agent for a determination as to whether a particular institution is such an eligible guarantor). A shareholder may, at any time, change the amount and interval of withdrawal payments

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through his or her DWR or other Selected Dealer Account Executive or by written notification to the Transfer Agent. In addition, the party and/or the address to which checks are mailed may be changed by written notification to the Transfer Agent, with signature guarantees required in the manner described above. The shareholder may also terminate the Withdrawal Plan at any time by written notice to the Transfer Agent. In the event of such termination, the account will be continued as a regular shareholder investment account. The shareholder may also redeem all or part of the shares held in the Withdrawal Plan account (see "Redemptions and Repurchases" in the Prospectus) at any time.

**EXCHANGE PRIVILEGE.** As discussed in the Prospectus, the Fund makes available to its shareholders an Exchange Privilege whereby shareholders of the Fund may exchange their shares for shares of other Dean Witter Funds sold with a contingent deferred sales charge ("CDSC funds"), and for shares of Dean Witter Short-Term U.S. Treasury Trust, Dean Witter Limited Term Municipal Trust and Dean Witter Short-Term Bond Fund and for shares of any Dean Witter money market funds (the foregoing eight non-FESC or CDSC funds are hereinafter referred to for purposes of this section as the "Exchange Funds"). Exchanges may be made after the shares of the Fund acquired by purchase (not by exchange or dividend reinvestment) have been held for 30 days. There is no waiting period for exchanges of shares acquired by exchange or dividend reinvestment. An exchange will be treated for federal income tax purposes the same as a repurchase or redemption of shares, on which the shareholder may realize a capital gain or loss.

Any new account established through the Exchange Privilege will have the same registration and cash dividend or dividend reinvestment plan as the present account, unless the Transfer Agent receives written notification to the

contrary. For telephone exchanges, the exact registration of the existing account and the account number must be provided.

Any shares held in certificate form cannot be exchanged but must be forwarded to the Transfer Agent and deposited into the shareholder's account before being eligible for exchange. (Certificates mailed in for deposit should not be endorsed.)

As described below, and in the Prospectus under the captions "Exchange Privilege" and "Contingent Deferred Sales Charge", a contingent deferred sales charge ("CDSC") may be imposed upon a redemption, depending on a number of factors, including the number of years from the time of purchase until the time of redemption or exchange ("holding period"). When shares of the Fund or any other CDSC fund are exchanged for shares of the Exchange Funds, the exchange is executed at no charge to the shareholder, without the imposition of the CDSC at the time of the exchange. During the period of time the shareholder remains in the Exchange Funds (calculated from the last day of the month in which the fund shares were acquired), the holding period or "year since purchase payment made" is frozen. When shares are redeemed out of the Exchange Funds, they will be subject to a CDSC which would be based upon the period of time the shareholder held shares in a CDSC fund. However, in the case of shares exchanged into the Exchange Funds on or after April 23, 1990, upon a redemption of shares which results in a CDSC being imposed, a credit (not to exceed the amount of the CDSC) will be given in an amount equal to the the Exchange Funds 12b-1 distribution fees incurred on or after that date which are attributable to those shares. Shareholders acquiring shares of the Exchange Funds pursuant to this exchange privilege may exchange those shares back into a CDSC fund from the Exchange Funds with no CDSC being imposed on such exchange. The holding period previously frozen when shares were first exchanged for shares of the Exchange Funds resumes on the last day of the month in which shares of a CDSC fund are reacquired. A CDSC is imposed only upon an ultimate redemption, based upon the time (calculated as described above) the shareholder was invested in a CDSC fund.

In addition, shares of the Fund may be acquired in exchange for shares of Dean Witter Funds sold with a front-end sales charge ("front-end sales charge funds"), but shares of the Fund, however acquired, may not be exchanged for shares of front-end sales charge funds. Shares of a CDSC fund acquired in exchange for shares of a front-end sales charge fund (or in exchange for shares of other Dean Witter Funds for which shares of a front-end sales charge fund have been exchanged) are not subject to any CDSC upon their redemption.

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When shares initially purchased in a CDSC fund are exchanged for shares of another CDSC fund, or for shares of the Exchange Funds, the date of purchase of the shares of the fund exchanged into, for purposes of the CDSC upon redemption, will be the last day of the month in which the shares being exchanged were originally purchased. In allocating the purchase payments between funds for purposes of the CDSC the amount which represents the current net asset value of shares at the time of the exchange which were (i) purchased more than three or six years prior to the exchange, (ii) originally acquired through reinvestment of dividends or distributions and (iii) acquired in exchange for shares of front-end sales charge funds, or for shares of other Dean Witter Funds for which shares of front-end sales charge funds have been exchanged (all such shares called "Free Shares"), will be exchanged first. Shares of Dean Witter American Value Fund (formerly Dean Witter Industry-Valued Securities Inc.) acquired prior to April 30, 1984, shares of Dean Witter Dividend Growth Securities Inc. and Dean Witter Natural Resource Development Securities Inc. acquired prior to July 2, 1984, and shares of Dean Witter Strategist Fund acquired prior to November 8, 1989, are also considered Free Shares and will be the first Free Shares to be exchanged. After an exchange, all dividends earned on shares in the Exchange Funds will be considered Free Shares. If the exchanged amount exceeds the value of such Free Shares, an exchange is made, on a block-by-block basis, of non-Free Shares held for the longest period of time (except that if shares held for identical periods of time but subject to different CDSC schedules are held in the same Exchange Privilege account, the shares of that block that are subject to a lower CDSC rate will be exchanged prior to the shares of that block that are subject to a higher CDSC rate). Shares equal to any appreciation in the value of non-Free Shares exchanged will be treated as Free Shares, and the amount of the purchase payments for the non-Free Shares of the fund exchanged into will be equal to the lesser of (a) the purchase payments for, or (b) the current net asset value of, the exchanged non-Free Shares. If an exchange between funds would result in exchange of only part of a particular block of non-Free Shares, then shares equal to any appreciation in the value of the block (up to the amount of the exchange) will be treated as Free Shares and exchanged first, and the purchase payment for that block will be allocated on a pro rata basis between the non-Free Shares of that block to be retained and the non-Free Shares to be exchanged. The prorated amount of such purchase payment attributable to the retained non-Free Shares will remain as the purchase payment for such shares, and the amount of purchase payment for the exchanged non-Free Shares will be equal to the lesser of (a) the prorated amount of the purchase payment for, or (b) the current net asset value of, those exchanged non-Free Shares. Based upon the procedures described in the Prospectus under the caption "Contingent Deferred Sales Charge", any applicable CDSC will be imposed upon the ultimate redemption of shares of any fund, regardless of the number of exchanges

since those shares were originally purchased.

The Transfer Agent acts as agent for shareholders of the Fund in effecting redemptions of Fund shares and in applying the proceeds to the purchase of other fund shares. In the absence of negligence on its part, neither the Transfer Agent nor the Fund shall be liable for any redemption of Fund shares caused by unauthorized telephone instructions. Accordingly, in such event the investor shall bear the risk of loss. The Staff of the Securities and Exchange Commission is currently considering the propriety of such policies.

With respect to the redemption or repurchase of shares of the Fund, the application of proceeds to the purchase of new shares in the Fund or any other of the funds and the general administration of the Exchange Privilege, the Transfer Agent acts as agent for the Distributor and for the shareholder's Selected Broker-Dealer, if any, in the performance of such functions. With respect to exchanges, redemptions or repurchases, the Transfer Agent shall be liable for its own negligence and not for the default or negligence of its correspondents or for losses in transit. The Fund shall not be liable for any default or negligence of the Transfer Agent, the Distributor or any Selected Broker-Dealer. The Distributor and any Selected Broker-Dealer have authorized and appointed the Transfer Agent to act as their agent in connection with the application of proceeds of any redemption of Fund shares to the purchase of shares of any other fund and the general administration of the Exchange Privilege. No commission or discounts will be paid to the Distributor or any Selected Broker-Dealer for any transactions pursuant to this Exchange Privilege.

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Exchanges are subject to the minimum investment requirement and any other conditions imposed by each fund. (The minimum initial investment is \$5,000 for Dean Witter/Sears Liquid Asset Fund Inc., Dean Witter Tax-Free Daily Income Trust, Dean Witter New York Municipal Money Market Fund and Dean Witter California Tax-Free Daily Income Trust although those funds may, at their discretion, accept initial investments of as low as \$1,000. The minimum initial investment is \$10,000 for Dean Witter Short-Term U.S. Treasury Trust. The minimum initial investment for all other Dean Witter Funds for which the Exchange Privilege is available is \$1,000.) Upon exchange into a money market fund, the shares of that fund will be held in a special Exchange Privilege Account separately from accounts of those shareholders who have acquired their shares directly from that fund. As a result, certain services normally available to shareholders of money market funds, including the check writing feature, will not be available for funds held in that account.

The Fund and each of the other Dean Witter Funds may limit the number of times this Exchange Privilege may be exercised by any investor within a specified period of time. Also, the Exchange Privilege may be terminated or revised at any time by the Fund and/or any of the Dean Witter Funds for which shares of the Fund have been exchanged, upon such notice as may be required by applicable regulatory agencies (presently sixty days prior written notice for termination or material revision), provided that six months prior written notice of termination will be given to the shareholders who hold shares of the Exchange Funds pursuant to this Exchange Privilege and provided further that the Exchange Privilege may be terminated or materially revised without notice at times (a) when the New York Stock Exchange is closed for other than customary weekends and holidays, (b) when trading on that Exchange is restricted, (c) when an emergency exists as a result of which disposal by the Fund of securities owned by it is not reasonably practicable or it is not reasonably practicable for the Fund fairly to determine the value of its net assets, (d) during any other period when the Securities and Exchange Commission by order so permits (provided that applicable rules and regulations of the Securities and Exchange Commission shall govern as to whether the conditions prescribed in (b) or (c) exist) or (e) if the Fund would be unable to invest amounts effectively in accordance with its investment objective, policies and restrictions.

The current prospectus for each fund describes its investment objective(s) and policies, and shareholders should obtain a copy and examine it carefully before investing. An exchange will be treated for federal income tax purposes the same as a repurchase or redemption of shares, on which the shareholder may realize a capital gain or loss. However, the ability to deduct capital losses on an exchange may be limited in situations where there is an exchange of shares within ninety days after the shares are purchased. The Exchange Privilege is only available in states where an exchange may legally be made.

For further information regarding the Exchange Privilege, shareholders should contact their DWR or other Selected Broker-Dealer account executive or the Transfer Agent.

#### REDEMPTIONS AND REPURCHASES

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REDEMPTION. As stated in the Prospectus, shares of the Fund can be redeemed for cash at any time at the net asset value per share next determined; however, such redemption proceeds may be reduced by the amount of any applicable contingent deferred sales charge (see below). If shares are held in a shareholder's account without a share certificate, a written request for

redemption to the Fund's Transfer Agent at P.O. Box 983, Jersey City, NJ 07303 is required. If certificates are held by the shareholder, the shares may be redeemed by surrendering the certificates with a written request for redemption. The share certificate, or an accompanying stock power, and the request for redemption, must be signed by the shareholder or shareholders exactly as the shares are registered. Each request for redemption, whether or not accompanied by a share certificate, must be sent to the Fund's Transfer Agent, which will redeem the shares at their net asset value next computed (see "Purchase of Fund Shares" in the Prospectus) after it receives the request, and certificate, if any, in good order. Any redemption request received after such computation will be redeemed at the next determined net asset

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value. The term "good order" means that the share certificate, if any, and request for redemption are properly signed, accompanied by any documentation required by the Transfer Agent, and bear signature guarantees when required by the Fund or the Transfer Agent. If redemption is requested by a corporation, partnership, trust or fiduciary, the Transfer Agent may require that written evidence of authority acceptable to the Transfer Agent be submitted before such request is accepted.

Whether certificates are held by the shareholder or shares are held in a shareholder's account, if the proceeds are to be paid to any person other than the record owner, or if the proceeds are to be paid to a corporation (other than the Distributor or a selected broker-dealer for the account of the shareholder), partnership, trust or fiduciary, or sent to the shareholder at an address other than the registered address, signatures must be guaranteed by an eligible guarantor acceptable to the Transfer Agent (shareholders should contact the Transfer Agent for a determination as to whether a particular institution is such an eligible guarantor). A stock power may be obtained from any dealer or commercial bank. The Fund may change the signature guarantee requirements from time to time upon notice to shareholders, which may be by means of a revised prospectus.

CONTINGENT DEFERRED SALES CHARGE. As stated in the Prospectus, a contingent deferred sales charge ("CDSC") will be imposed on any redemption by an investor if after such redemption the current value of the investor's shares of the Fund is less than the dollar amount of all payments by the shareholder for the purchase of Fund shares during the preceding six years. However, no CDSC will be imposed to the extent that the net asset value of the shares redeemed does not exceed: (a) the current net asset value of shares purchased more than six years prior to the redemption, plus (b) the current net asset value of shares purchased through reinvestment of dividends or distributions of the Fund or another Dean Witter Fund (see "Shareholder Services -- Targeted Dividends"), plus (c) the current net asset value of shares acquired in exchange for (i) shares of Dean Witter front-end sales charge funds, or (ii) shares of other Dean Witter Funds for which shares of front-end sales charge funds have been exchanged (see "Shareholder Services -- Exchange Privilege"), plus (d) increases in the net asset value of the investor's shares above the total amount of payments for the purchase of Fund shares made during the preceding six years. The CDSC will be paid to the Distributor.

In determining the applicability of the CDSC to each redemption, the amount which represents an increase in the net asset value of the investor's shares above the amount of the total payments for the purchase of shares within the past six years will be redeemed first. In the event the redemption amount exceeds such increase in value, the next portion of the amount redeemed will be the amount which represents the net asset value of the investor's shares purchased more than six years prior to the redemption and/or shares purchased through reinvestment of dividends or distributions and/or shares acquired in exchange for shares of Dean Witter front-end sales charge funds or for shares of other Dean Witter funds for which shares of front-end sales charge funds have been exchanged. A portion of the amount redeemed which exceeds an amount which represents both such increase in value and the value of shares purchased more than six years prior to the redemption and/or shares purchased through reinvestment of dividends or distributions and/or shares acquired in the above-described exchanges will be subject to a CDSC.

The amount of the CDSC, if any, will vary depending on the number of years from the time of payment for the purchase of Fund shares until the time of redemption of such shares. For purposes of

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determining the number of years from the time of any payment for the purchase of shares, all payments made during a month will be aggregated and deemed to have been made on the last day of the month. The following table sets forth the rates of the CDSC:

<TABLE>  
<CAPTION>

YEAR SINCE  
PURCHASE

CONTINGENT DEFERRED  
SALES CHARGE AS A  
PERCENTAGE OF

PAYMENT MADE	AMOUNT REDEEMED
<S>	<C>
First.....	5.0%
Second.....	4.0%
Third.....	3.0%
Fourth.....	2.0%
Fifth.....	2.0%
Sixth.....	1.0%
Seventh and thereafter.....	None

In determining the rate of the CDSC, it will be assumed that a redemption is made of shares held by the investor for the longest period of time within the applicable six-year period. This will result in any such CDSC being imposed at the lowest possible rate. Accordingly, shareholders may redeem, without incurring any CDSC, amounts equal to any net increase in the value of their shares above the amount of their purchase payments made within the past six years and amounts equal to the current value of shares purchased more than six years prior to the redemption and shares purchased through reinvestment of dividends or distributions or acquired in exchange for shares of Dean Witter front-end sales charge funds, or for shares of other Dean Witter Funds for which shares of front-end sales charge funds have been exchanged. The CDSC will be imposed, in accordance with the table shown above, on any redemptions within six years of purchase which are in excess of these amounts and which redemptions are not (a) requested within one year of death or initial determination of disability of a shareholder, or (b) made pursuant to certain taxable distributions from retirement plans or retirement accounts, as described in the Prospectus.

PAYMENT FOR SHARES REDEEMED OR REPURCHASED. As discussed in the Prospectus, payment for shares presented for repurchase or redemption will be made by check within seven days after receipt by the Transfer Agent of the certificate and/or written request in good order. The term "good order" means that the share certificate, if any, and request for redemption, are properly signed, accompanied by any documentation required by the Transfer Agent, and bear signature guarantees when required by the Fund or the Transfer Agent. Such payment may be postponed or the right of redemption suspended at times (a) when the New York Stock Exchange is closed for other than customary weekends and holidays, (b) when trading on that Exchange is restricted, (c) when an emergency exists as a result of which disposal by the Fund of securities owned by it is not reasonably practicable or it is not reasonably practicable for the Fund fairly to determine the value of its net assets, or (d) during any other period when the Securities and Exchange Commission by order so permits; provided that applicable rules and regulations of the Securities and Exchange Commission shall govern as to whether the conditions prescribed in (b) or (c) exist. If the shares to be redeemed have recently been purchased by check (including a certified or bank cashier's check), payment of redemption proceeds may be delayed for the minimum time needed to verify that the check used for investment has been honored (not more than fifteen days from the time of investment of the proceeds of the check by the Transfer Agent).

TRANSFERS OF SHARES. In the event a shareholder requests a transfer of any shares to a new registration, such shares will be transferred without sales charge at the time of transfer. With regard to the status of shares which are either subject to the contingent deferred sales charge or free of such charge (and with regard to the length of time shares subject to the charge have been held), any transfer involving less than all of the shares in an account will be made on a pro-rata basis (that is, by transferring shares in the same proportion that the transferred shares bear to the total shares in the account immediately prior to the transfer). The transferred shares will continue to be subject to any applicable contingent deferred sales charge as if they had not been so transferred.

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REINSTATEMENT PRIVILEGE. As discussed in the Prospectus, a shareholder who has had his or her shares redeemed or repurchased and has not previously exercised this reinstatement privilege may, within 30 days after the redemption or repurchase, reinstate any portion or all of the proceeds of such redemption or repurchase in shares of the Fund at the net asset value next determined after a reinstatement request, together with the proceeds, is received by the Transfer Agent.

Exercise of the reinstatement privilege will not affect the federal income tax treatment of any gain or loss realized upon the redemption or repurchase, except that if the redemption or repurchase resulted in a loss and reinstatement is made in shares of the Fund, some or all of the loss, depending on the amount reinstated, will not be allowed as a deduction for federal income tax purposes but will be applied to adjust the cost basis of the shares acquired upon reinstatement.

DIVIDENDS, DISTRIBUTIONS AND TAXES

As stated in the Prospectus, the Fund intends to distribute all of its net investment income and all of its net short-term capital gains, if any, and will determine whether to retain all or part of any net long-term capital gains.

As discussed in the Prospectus, the Fund may invest a portion of its assets in certain "private activity bonds" issued after August 7, 1986. As a result, a portion of the exempt-interest dividends paid by the Fund may be an item of tax preference to shareholders subject to the federal alternative minimum tax. Certain corporations which are subject to the alternative minimum tax may also have to include a portion of exempt-interest dividends in calculating their alternative minimum taxable income in situations where the "adjusted current earnings" of the corporation exceeds its alternative minimum taxable income.

Each shareholder will be sent at least a quarterly summary of his or her account, including information as to reinvested dividends and capital gains distributions. Share certificates for dividends or distributions will not be issued unless a shareholder requests in writing that a certificate be issued for a specific number of shares.

In computing interest income, the Fund will amortize any premiums and original issue discounts on securities owned. Capital gains or losses realized upon sale or maturity of such securities will be based on their amortized cost.

Gains or losses on the sales of securities by the Fund will be long-term capital gains or losses if the securities have been held by the Fund for more than twelve months. Gains or losses on the sale of securities held for twelve months or less will be short-term capital gains or losses. Gains and losses on the sale, expiration or other termination of options on securities will generally be treated as gains and losses from the sale of securities. Pursuant to present federal income tax laws, futures contracts held by the Fund at the end of each fiscal year will be required to be "marked to market", that is, treated as having been sold at their fair market value at such date. Sixty percent of any gain or loss recognized on these deemed sales will be treated as long-term capital gain or loss, and the remainder will be treated as short-term capital gain or loss. Gains or losses from options on futures and listed options on debt instruments will similarly be treated as part short-term and part long-term capital gains or losses, unless such gains or losses were incurred as part of a securities "straddle," in which case the appropriate straddle rules of the Internal Revenue Code (the "Code") would apply.

Because the Fund intends to distribute all of its net investment income and capital gains to shareholders and otherwise continue to qualify as a regulated investment company under Subchapter M of the Internal Revenue Code, it is not expected that the Fund will be required to pay any federal income tax. Shareholders will normally have to pay federal income taxes, and any applicable state and/or local income taxes, on the dividends and distributions they receive from the Fund. Such dividends and distributions, to the extent that they are derived from net investment income or short-term capital gains,

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are taxable to the shareholder as ordinary income regardless of whether the shareholder receives such payments in additional shares or in cash. Any dividends declared in the last quarter of any year which are paid in the following year prior to February 1 will be deemed received by the shareholder in the prior year.

With respect to the Fund's investments in zero coupon bonds, the Fund accrues income prior to any actual cash payments by their issuers. In order to continue to comply with Subchapter M of the Code and remain able to forego payment of Federal income tax on its income and capital gains, the Fund must distribute all of its net investment income, including income accrued from zero coupon bonds. As such, the Fund may be required to dispose of some of its portfolio securities under disadvantageous circumstances to generate the cash required for distribution.

One of the requirements for regulated investment company status is that at least 90% of a Fund's gross income be derived from dividends, interest and gains from the sale or other disposition of securities. Another requirement for regulated investment company status is that less than 30% of the Fund's gross income can be derived from, among other sources, gains from the sale or other disposition of securities held less than three months. Accordingly, the Fund may be restricted in the writing of options on securities held for less than three months, in the writing of options which expire in less than three months, and in effecting closing transactions with respect to call or put options which have been written or purchased less than three months prior to such transactions. The Fund may also be restricted in its ability to engage in transactions involving futures contracts.

Under the Revenue Reconciliation Act of 1993, all or a portion of the Fund's gain from the sale or redemption of tax-exempt obligations purchased at a market discount after April 30, 1993 will be treated as ordinary income rather than capital gain. This rule may increase the amount of ordinary income dividends received by shareholders.

As discussed in the Prospectus, the Fund intends to continue to qualify to pay "exempt-interest dividends" to its shareholders by maintaining, as of the close of each quarter of its taxable year, at least 50% of the value of its total assets in tax-exempt securities. An exempt-interest dividend is that part of dividend distributions made by the Fund which consists of interest received by the Fund on tax-exempt securities upon which the shareholder incurs no federal income taxes.

Within 60 days after the end of its fiscal year, the Fund will mail to shareholders a statement indicating the percentage of the dividend distributions for such fiscal year which constitutes exempt-interest dividends and the percentage, if any, that is taxable, and the percentage, if any, of the exempt-interest dividends which constitutes an item of tax preference, and to what extent the taxable portion is long-term capital gain, short-term capital gain or ordinary income. These percentages should be applied uniformly to all monthly distributions made during the fiscal year to determine the proportion of dividends that is tax-exempt. The percentages may differ from the percentage of tax-exempt dividend distributions for any particular month.

Shareholders will be subject to federal income tax on dividends paid from interest income derived from taxable securities and on distributions of net short-term capital gains. Such dividends and distributions are taxable to the shareholder as ordinary dividend income regardless of whether the shareholder receives such distributions in additional shares or in cash. Distributions of long-term capital gains, if any, are taxable as long-term gains, regardless of how long the shareholder has held Fund shares and whether the distribution is received in additional shares or in cash. Since the Fund's income is expected to be derived entirely from interest rather than dividends, none of such dividend distributions will be eligible for the 70% dividends received deduction generally available to corporations. Net long-term capital gains distributions are not eligible for the dividends received deduction.

Any loss on the sale or exchange of shares of the Fund which are held for six months or less is disallowed to the extent of the amount of any exempt-interest dividends paid with respect to such shares. Treasury Regulations may provide for a reduction in such required holding period. If a shareholder

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receives a distribution that is taxed as long-term capital gain on shares held for six months or less and sells those shares at a loss, the loss will be treated as a long-term capital loss to the extent of the capital gains distribution.

Interest on indebtedness incurred or continued by a shareholder to purchase or carry shares of the Fund is not deductible to the extent allocable to exempt-interest dividends of the Fund (which allocation does not take into account capital gain dividends of the Fund). Furthermore, entities or persons who are "substantial users" (or related persons) of facilities financed by industrial development bonds should consult their tax advisers before purchasing shares of the Fund. "Substantial user" is defined generally by Income Tax Regulation 1.103-11 (b) as including a "non-exempt person" who regularly uses in a trade or business a part of a facility financed from the proceeds of industrial development bonds.

From time to time, proposals have been introduced before Congress for the purpose of restricting or eliminating the federal income tax exemption for interest on municipal securities. It can be expected that similar proposals may be introduced in the future. If such a proposal were enacted, the availability of municipal securities for investment by the Fund could be affected. In such event, the Fund would re-evaluate its investment objective and policies.

To the extent that dividends are derived from interest on New York tax-exempt securities, such dividends will also be exempt from New York State and City personal income taxes. Interest on indebtedness incurred or continued to purchase or carry shares of an investment company paying exempt-interest dividends, such as the Fund, may not be deductible by the investor for State or City personal income tax purposes.

The foregoing relates to federal income taxation and to New York State and City personal income taxation as in effect as of the date of the Prospectus. Distributions from investment income and capital gains, including exempt-interest dividends, may be subject to New York franchise taxes if received by a corporation doing business in New York, to state taxes in states other than New York and to local taxes.

The Fund is organized as a Massachusetts business trust. Under current law, so long as it qualifies as a "regulated investment company" under the Internal Revenue Code, the Fund itself is not liable for any income or franchise tax in The Commonwealth of Massachusetts.

Any dividend or capital gains distribution received by a shareholder from any investment company will have the effect of reducing the net asset value of the shareholder's stock in that fund by the exact amount of the dividend or capital gains distribution. Furthermore, capital gains distributions are, and



some portion of the dividends may be, subject to income tax. If the net asset value of the shares should be reduced below a shareholder's cost as a result of the payment of taxable dividends or the distribution of realized long-term capital gains, such payment or distribution would be a return of capital but taxable at ordinary rates. Therefore, an investor should consider the tax implications of purchasing Fund shares immediately prior to a distribution record date.

#### PERFORMANCE INFORMATION

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As discussed in the Prospectus, from time to time the Fund may quote its "yield" and/or its "total return" in advertisements and sales literature. Yield is calculated for any 30-day period as follows: the amount of interest income for each security in the Fund's portfolio is determined in accordance with regulatory requirements; the total for the entire portfolio constitutes the Fund's gross income for the period. Expenses accrued during the period are subtracted to arrive at "net investment income". The resulting amount is divided by the product of the net asset value per share on the last day of the period multiplied by the average number of Fund shares outstanding during the period that were entitled to dividends. This amount is added to 1 and raised to the sixth power. 1 is then subtracted from the result and the difference is multiplied by 2 to arrive at the annualized yield. For the 30-day period ended December 31, 1993, the Fund's yield, calculated pursuant to the formula described above was 3.90%.

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The Fund may also quote a "tax-equivalent yield" determined by dividing the tax-exempt portion of the quoted yield by 1 minus the stated income tax rate and adding the result to the portion of the yield that is not tax-exempt. The Fund's tax-equivalent yield, based upon a combined Federal and New York personal income tax bracket of 41.04% for the 30-day period ending December 31, 1993, was 6.61% based upon the yield quoted above.

The Fund's "average annual total return" represents an annualization of the Fund's total return over a particular period and is computed by finding the annual percentage rate which will result in the ending redeemable value of a hypothetical \$1,000 investment made at the beginning of a one, five or ten year period, or for the period from the date of commencement of the Fund's operations, if shorter than any of the foregoing. The ending redeemable value is reduced by any contingent deferred sales charge at the end of the one, five or ten year or other period. For the purpose of this calculation, it is assumed that all dividends and distributions are reinvested. The formula for computing the average annual total return involves a percentage obtained by dividing the ending redeemable value by the amount of the initial investment, taking a root of the quotient (where the root is equivalent to the number of years in the period), and subtracting 1 from the result.

The average annual total returns of the Fund for the year ended December 31, 1993, the five years ended December 31, 1993 and for the period from April 25, 1985 (commencement of operations) through December 31, 1993, were 6.72%, 9.02% and 9.60%, respectively.

In addition to the foregoing, the Fund may advertise its total return over different periods of time by means of aggregate, average, year-by-year or other types of total return figures. Such calculations may or may not reflect the deduction of the contingent deferred sales charge which, if reflected, would reduce the performance quoted. For example, the average annual total return of the Fund may be calculated in the manner described above, but without deduction for any applicable contingent deferred sales charge. Based on this calculation, the average annual total returns of the Fund for the year ended December 31, 1993, the five years ended December 31, 1993 and for the period from April 25, 1985 through December 31, 1993, were 11.72%, 9.30% and 9.60%, respectively.

In addition, the Fund may compute its aggregate total return for specified periods by determining the aggregate percentage rate which will result in the ending value of a hypothetical \$1,000 investment made at the beginning of the period. For the purpose of this calculation, it is assumed that all dividends and distributions are reinvested. The formula for computing aggregate total return involves a percentage obtained by dividing the ending value (without the reduction for any contingent deferred sales charge) by the initial \$1,000 investment and subtracting 1 from the result. Based on the foregoing calculation, the Fund's total return for the year ended December 31, 1993, the five years ended December 31, 1993 and the period from April 25, 1985 through December 31, 1993 were 11.72%, 55.98% and 121.68%, respectively.

The Fund may also advertise the growth of hypothetical investments of \$10,000, \$50,000 and \$100,000 in shares of the Fund by adding 1 to the Fund's aggregate total return (expressed as a decimal and without reflecting the deduction of the contingent deferred sales charge) and multiplying by \$10,000, \$50,000 and \$100,000. Investments of \$10,000, \$50,000 and \$100,000 in the Fund since inception (April 25, 1985) would have grown to \$22,168, \$110,840 and \$221,680, respectively at December 31, 1993.

The Fund from time to time may also advertise its performance relative to certain performance rankings and indexes compiled by independent organizations.

#### SHARES OF THE FUND

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As discussed in the Prospectus, the shareholders of the Fund are entitled to a full vote for each full share held. The Trustees have been elected by the shareholders of the Fund. The Trustees themselves have the power to alter the number and the terms of office of the Trustees, and they may at any time lengthen their own terms or make their terms of unlimited duration and appoint their own successors,

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provided that always at least a majority of the Trustees has been elected by the shareholders of the Fund. Under certain circumstances the Trustees may be removed by action of the Trustees. The shareholders also have the right under certain circumstances to remove the Trustees. The voting rights of shareholders are not cumulative, so that holders of more than 50 percent of the shares voting can, if they choose, elect all Trustees being selected, while the holders of the remaining shares would be unable to elect any Trustees.

The Declaration of Trust permits the Trustees to authorize the creation of additional series of shares (the proceeds of which would be invested in separate, independently managed portfolios) and additional classes of shares within any series (which would be used to distinguish among the rights of different categories of shareholders, as might be required by future regulations or other unforeseen circumstances). However, the Trustees have not authorized any such additional series or classes of shares.

The Declaration of Trust further provides that no Trustee, officer, employee or agent of the Fund is liable to the Fund or to a shareholder, nor is any Trustee, officer, employee or agent liable to any third persons in connection with the affairs of the Fund, except as such liability may arise from his/her or its own bad faith, willful misfeasance, gross negligence, or reckless disregard of his/her or its duties. It also provides that all third persons shall look solely to the Fund's property for satisfaction of claims arising in connection with the affairs of the Fund. With the exceptions stated, the Declaration of Trust provides that a Trustee, officer, employee or agent is entitled to be indemnified against all liability in connection with the affairs of the Fund.

The Fund is authorized to issue an unlimited number of shares of beneficial interest. The Fund shall be of unlimited duration subject to the provisions in the Declaration of Trust concerning termination by action of the shareholders.

#### CUSTODIAN AND TRANSFER AGENT

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The Bank of New York, 110 Washington Street, New York, New York 10286 is the Custodian of the Fund's assets.

Dean Witter Trust Company, Harborside Financial Center, Plaza Two, Jersey City, New Jersey 07311 is the Transfer Agent of the Fund's shares and Dividend Disbursing Agent for payment of dividends and distributions of Fund shares and Agent for shareholders under various investment plans described herein. Dean Witter Trust Company is an affiliate of Dean Witter Distributors Inc., the Fund's Distributor and Dean Witter InterCapital Inc., the Fund's Investment Manager. As Transfer Agent and Dividend Disbursing Agent, Dean Witter Trust Company's responsibilities include maintaining shareholder accounts; disbursing cash dividends and reinvesting dividends; processing account registration changes; handling purchase and redemption transactions; mailing prospectuses and reports; mailing and tabulating proxies; processing share certificate transactions; and maintaining shareholder records and lists. For these services, Dean Witter Trust Company receives a per shareholder account fee from the Fund.

#### INDEPENDENT ACCOUNTANTS

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Price Waterhouse serves as the independent accountants of the Fund. The independent accountants are responsible for auditing the annual financial statements of the Fund.

#### REPORTS TO SHAREHOLDERS

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The Fund will send to shareholders, at least semi-annually, reports showing the Fund's portfolio and other information. An annual report, containing financial statements audited by independent accountants, together with their report thereon, will be sent to shareholders each year.

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The Fund's fiscal year ends on December 31. The financial statements of the Fund must be audited at least once a year by independent accountants whose

selection is made annually by the Fund's Trustees.

LEGAL COUNSEL

Sheldon Curtis, Esq., who is an officer and General Counsel of the Investment Manager is an officer and General Counsel of the Fund.

EXPERTS

The annual financial statements of the Fund for the year ended December 31, 1993 which are included herein and incorporated by reference in the Prospectus have been so included and incorporated in reliance on the report of Price Waterhouse, independent accountants, given on the authority of said firm as experts in auditing and accounting.

REGISTRATION STATEMENT

This Statement of Additional Information and the Prospectus do not contain all of the information set forth in the Registration Statement the Fund has filed with the Securities and Exchange Commission. The complete Registration Statement may be obtained from the Securities and Exchange Commission upon payment of the fee prescribed by the rules and regulations of the Commission.

DEAN WITTER NEW YORK TAX-FREE INCOME FUND  
REPORT OF INDEPENDENT ACCOUNTANTS

To the Shareholders and Trustees of Dean Witter New York Tax-Free Income Fund

In our opinion, the accompanying statement of assets and liabilities, including the portfolio of investments, and the related statements of operations and of changes in net assets and the financial highlights present fairly, in all material respects, the financial position of Dean Witter New York Tax-Free Income Fund (the "Fund") at December 31, 1993, the results of its operations for the year then ended, the changes in its net assets for each of the two years in the period then ended and the financial highlights for each of the eight years in the period then ended and for the period April 25, 1985 (commencement of operations) through December 31, 1985, in conformity with generally accepted accounting principles. These financial statements and financial highlights (hereafter referred to as "financial statements") are the responsibility of the Fund's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these financial statements in accordance with generally accepted auditing standards which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits, which included confirmation of securities owned at December 31, 1993 by correspondence with the custodian and brokers, provide a reasonable basis for the opinion expressed above.

PRICE WATERHOUSE  
New York, New York  
February 14, 1994

DEAN WITTER NEW YORK TAX-FREE INCOME FUND  
PORTFOLIO OF INVESTMENTS DECEMBER 31, 1993

<TABLE>  
<CAPTION>  
PRINCIPAL AMOUNT (IN THOUSANDS)

	NEW YORK EXEMPT MUNICIPAL BONDS (98.4%)	COUPON RATE	MATURITY DATE	VALUE
<C>	<S>	<C>	<C>	<C>
	GENERAL OBLIGATION (9.0%) New York City,			
\$ 3,500	Various Purpose 1973.....	3.50 %	5/ 1/01	\$ 3,180,205
2,500	Various Purpose 1973.....	3.50	5/ 1/03	2,167,125
4,000	1990 Ser D.....	6.00	8/ 1/06	4,052,880
5,000	1993 Ser C CARS (AMBAC Insured).....	9.22 +	9/ 1/11	5,693,750
8,800	Puerto Rico, Public Impr Refg Ser 1987 A.....	3.00	7/ 1/06	7,085,936
23,800				22,179,896
	EDUCATIONAL FACILITIES REVENUE (13.6%)			

New York State Dormitory Authority,				
2,150	City University Ser U.....	6.375	7/ 1/08	2,316,324
3,000	City University Ser 1993 A.....	5.75	7/ 1/09	3,093,360
5,000	City University Ser 1993 F.....	5.50	7/ 1/12	4,925,850
5,000	Columbia University Ser 1988 A (Prerefunded).....	7.60	7/ 1/15	5,592,700
3,000	State University Ser 1989 B.....	0.00	5/15/05	1,590,210
10,000	State University Ser 1993 C.....	5.375	5/15/13	9,689,300
2,000	State University Ser 1993 A.....	5.25	5/15/15	1,927,720
4,000	University of Rochester Ser 1987.....	6.50	7/ 1/09	4,341,160
-----				33,476,624
34,150				
-----				
ELECTRIC REVENUE (7.1%)				
10,000	New York State Power Authority, Ser CC.....	5.00	1/ 1/14	9,765,100
8,000	Puerto Rico Electric Power Authority, Power Ser O....	5.00	7/ 1/12	7,737,440
-----				17,502,540
18,000				
-----				
HOSPITAL REVENUE (7.1%)				
New York State Medical Care Facilities Finance Agency,				
10,000	Insured Hospital & Nursing Home-FHA Insured Mtge 1993 Ser B (a).....	5.50	2/15/22	10,016,700
2,490	Insured Hospital & Nursing Home-FHA Insured Mtge 1985 Ser B.....	9.125	2/15/25	2,673,488
4,000	St Luke's-Roosevelt Hospital Center--FHA Insured Mtge 1989 Ser B (Prerefunded).....	7.40	2/15/09	4,751,240
-----				17,441,428
16,490				
-----				
INDUSTRIAL DEVELOPMENT/POLLUTION CONTROL REVENUE (14.5%)				
4,500	New York City Industrial Development Agency, 1990 American Airlines Inc (AMT).....	8.00	7/ 1/20	5,002,380
New York State Energy Research & Development Authority,				
3,500	Brooklyn Union Gas Co 1993 Ser B RIBS.....	9.562+	4/ 1/20	4,186,875
7,500	Brooklyn Union Gas Co 1991 Ser B RIBS (AMT).....	10.958+	7/15/26	9,506,250
5,000	Consolidated Edison Co of New York Inc Refg Ser 1993 B.....	5.25	8/15/20	4,901,300
4,000	Consolidated Edison Co of New York Inc Ser 1986 A (AMT).....	7.50	11/15/21	4,468,280
2,500	Long Island Lighting Co 1990 Ser A (AMT).....	7.15	6/ 1/20	2,716,975
4,000	Niagara Mohawk Power Corp 1985 Ser I.....	8.875	11/ 1/25	4,434,320
</TABLE>				

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DEAN WITTER NEW YORK TAX-FREE INCOME FUND  
PORTFOLIO OF INVESTMENTS DECEMBER 31, 1993 (CONTINUED)

<TABLE>				
<CAPTION>				
PRINCIPAL AMOUNT (IN THOUSANDS)				
NEW YORK EXEMPT MUNICIPAL BONDS (98.4%)				
		COUPON RATE	MATURITY DATE	VALUE
<C>	<S>	<C>	<C>	<C>
\$ 400	Puerto Rico Industrial, Medical & Environmental Pollution Control Facilities Financing Authority, Baxter Travenol Labs Inc 1983 Ser A.....	8.00 %	9/ 1/12	\$ 468,788
-----				35,685,168
31,400				
-----				
MORTGAGE REVENUE--MULTI-FAMILY (2.6%)				
New York City Housing Development Corporation,				
2,466	East Midtown Proj-FHA Insured Sec 223.....	6.50	11/15/18	2,647,666
1,000	Gen Hsg Ser A (AMBAC Insured).....	6.50	5/ 1/06	1,034,770
2,462	Ruppert Proj-FHA Insured Sec 223.....	6.50	11/15/18	2,646,003
-----				6,328,439
5,928				
-----				
MORTGAGE REVENUE--SINGLE FAMILY (4.6%)				
New York State Mortgage Agency,				
125	Fifth Ser.....	9.75	10/ 1/10	129,766
4,500	Homeowner Ser 27.....	6.90	4/ 1/15	4,788,360
5,000	Homeowner Ser 29A.....	5.25	4/ 1/15	4,850,050
1,400	Ser MM-1 (AMT).....	7.95	10/ 1/21	1,515,724
-----				11,283,900
11,025				
-----				
NURSING & HEALTH RELATED FACILITIES REVENUE (1.6%)				
New York State Medical Care Facilities Finance Authority,				

2,500	Long Term Health Care 1992 Ser D (Capital Guaranty Insured).....	6.50	11/ 1/15	2,791,400
1,000	Mental Health 1991 Ser A.....	7.50	2/15/21	1,197,610
-----				-----
3,500				3,989,010
-----				-----
	PUBLIC FACILITIES, REVENUE (4.7%)			
3,000	New York State Dormitory Authority, Suffolk County Judicial Ser 1986 (ETM).....	7.375	7/ 1/16	3,812,910
3,000	New York State Urban Development Corporation, Correctional 1986 Refg Ser (Prerefunded).....	7.00	1/ 1/16	3,264,420
3,750	Correctional Ser 3 (Prerefunded).....	7.375	1/ 1/18	4,550,062
-----				-----
9,750				11,627,392
-----				-----
	RESOURCE RECOVERY REVENUE (6.9%)			
3,000	Hempstead Industrial Development Agency, 1985 American REF-FUEL Co of Hempstead.....	7.40	12/ 1/10	3,270,600
5,695	New York State Environmental Facilities Corporation, Huntington 1989 Ser A (AMT).....	7.50	10/ 1/12	6,267,348
2,000	Oneida-Herkimer Solid Waste Management Authority, Ser 1992.....	6.75	4/ 1/14	2,151,700
5,000	Onondaga County Resource Recovery Agency, 1992 Ser (AMT).....	7.00	5/ 1/15	5,450,150
-----				-----
15,695				17,139,798
-----				-----

</TABLE>

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DEAN WITTER NEW YORK TAX-FREE INCOME FUND  
 PORTFOLIO OF INVESTMENTS DECEMBER 31, 1993 (CONTINUED)

<TABLE>				
<CAPTION>				
PRINCIPAL				
AMOUNT (IN THOUSANDS)				
NEW YORK EXEMPT MUNICIPAL BONDS (98.4%)				
		COUPON RATE	MATURITY DATE	VALUE
<C>	<S>	<C>	<C>	<C>
	TRANSPORTATION REVENUE (6.0%)			
\$ 3,400	Port Authority of New York & New Jersey, Cons 53rd Ser.....	8.70 %	7/15/20	\$ 3,732,078
3,000	Triborough Bridge & Tunnel Authority, Gen Pur Ser 1993 B.....	5.00	1/ 1/20	2,919,120
1,700	Puerto Rico Highway Authority, Ser Q (Prerefunded)...	7.75	7/ 1/10	2,070,855
6,000	Puerto Rico Highway & Transportation Authority, Refg Ser X.....	5.50	7/ 1/15	6,094,920
-----				-----
14,100				14,816,973
-----				-----
	WATER & SEWER REVENUE (8.0%)			
4,000	New York City Municipal Water Finance Authority, 1994 Ser B.....	5.375	6/15/07	4,045,960
3,000	1991 Ser C (Prerefunded).....	7.375	6/15/14	3,617,280
4,000	1990 Ser A.....	6.00	6/15/19	4,077,920
7,000	Puerto Rico Aqueduct & Sewer Authority, Ser 1988 A...	7.90	7/ 1/07	8,071,280
-----				-----
18,000				19,812,440
-----				-----
	OTHER REVENUE (12.7%)			
4,000	Municipal Assistance Corporation for the City of New York, Ser 57.....	7.25	7/ 1/08	4,378,800
5,000	New York Local Government Assistance Corporation, Ser 1993 C (Prerefunded).....	7.625	4/ 1/17	5,065,300
5,000	Ser 1991 B (Prerefunded).....	7.50	4/ 1/20	6,063,050
5,000	New York State Dormitory Authority, The Metropolitan Museum of Art Ser 1987 (Prefunded).....	7.625	7/ 1/15	5,299,700
10,000	United Nations Development Corporation, 1992 Refg Ser A Sr Lien.....	6.00	7/ 1/26	10,396,000
-----				-----
29,000				31,202,850
-----				-----
TOTAL NEW YORK EXEMPT MUNICIPAL BONDS				
\$ 230,838				
-----				-----
	(IDENTIFIED COST \$217,327,520) (B).....	98.4%		242,486,458
	CASH AND OTHER ASSETS IN EXCESS OF LIABILITIES.....	1.6		3,974,133
-----				-----
	NET ASSETS.....	100.0%		\$ 246,460,591
-----				-----

<FN>

+ CURRENT COUPON RATE FOR RESIDUAL INTEREST BONDS. THIS RATE RESETS PERIODICALLY AS THE AUCTION RATE ON THE RELATED SHORT-TERM SECURITIES FLUCTUATES.

(A) SECURITY PURCHASED ON A WHEN ISSUED BASIS.

(B) THE AGGREGATE COST FOR FEDERAL INCOME TAX PURPOSES IS \$217,327,520; THE AGGREGATE GROSS UNREALIZED APPRECIATION IS \$25,455,563 AND THE AGGREGATE GROSS UNREALIZED DEPRECIATION IS \$296,625, RESULTING IN NET UNREALIZED APPRECIATION OF \$25,158,938.

</TABLE>

SEE NOTES TO FINANCIAL STATEMENTS

DEAN WITTER NEW YORK TAX-FREE INCOME FUND  
FINANCIAL STATEMENTS

STATEMENT OF ASSETS AND LIABILITIES  
DECEMBER 31, 1993

<TABLE>

<S>	<C>
<b>ASSETS:</b>	
Investments in securities, at value (identified cost \$217,327,520) (Note 1).....	\$ 242,486,458
Cash.....	4,657,118
Receivables for:	
Investments sold.....	10,301,828
Interest.....	4,488,394
Shares of beneficial interest sold.....	1,149,698
Prepaid expenses.....	14,459
	-----
<b>TOTAL ASSETS.....</b>	<b>263,097,955</b>
	-----
<b>LIABILITIES:</b>	
Payables for:	
Investments purchased.....	14,938,561
Shares of beneficial interest repurchased.....	8,472
Plan of distribution fee payable (Note 3).....	138,995
Investment management fee payable (Note 2).....	114,292
Dividends and distributions to shareholders.....	1,330,436
Accrued expenses (Note 4).....	106,608
	-----
<b>TOTAL LIABILITIES.....</b>	<b>16,637,364</b>
	-----
<b>NET ASSETS:</b>	
Paid in capital.....	218,102,851
Accumulated undistributed realized gain on investments - net.....	3,193,039
Unrealized appreciation on investments - net.....	25,158,938
Accumulated undistributed investment income - net.....	5,763
	-----
<b>NET ASSETS.....</b>	<b>\$ 246,460,591</b>
	-----
NET ASSET VALUE PER SHARE, 19,712,307	
shares outstanding (unlimited authorized shares of \$.01 par value).....	\$12.50
	-----

</TABLE>

STATEMENT OF OPERATIONS  
FOR THE YEAR ENDED DECEMBER 31, 1993

<TABLE>

<S>	<C>
<b>INVESTMENT INCOME:</b>	
INTEREST INCOME.....	\$ 14,930,931
	-----
<b>EXPENSES</b>	
Plan of distribution fee (Note 3).....	1,425,215
Investment management fee (Note 2).....	1,268,826
Transfer agent fees and expenses (Note	

4).....	83,054
Professional fees.....	49,105
Shareholder reports and notices (Note 4).....	39,558
Trustees' fees and expenses (Note 4)...	36,064
Registration fees.....	14,445
Other.....	17,916
	-----
TOTAL EXPENSES.....	2,934,183
	-----
INVESTMENT INCOME - NET.....	11,996,748
	-----
REALIZED AND UNREALIZED GAIN ON INVESTMENTS - NET (Note 1):	
Realized gain on investments - net....	6,322,958
Change in unrealized appreciation on investments - net.....	6,844,389
	-----
NET GAIN ON INVESTMENTS.....	13,167,347
	-----
NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS.....	\$ 25,164,095
	-----

</TABLE>

STATEMENT OF CHANGES IN NET ASSETS

<TABLE>  
<CAPTION>

	FOR THE YEAR ENDED DECEMBER 31, 1993	FOR THE YEAR ENDED DECEMBER 31, 1992
	-----	-----
<S>	<C>	<C>
INCREASE (DECREASE) IN NET ASSETS:		
Operations:		
Investment income -- net.....	\$ 11,996,748	\$ 10,673,000
Realized gain on investments -- net.....	6,322,958	1,472,865
Change in unrealized appreciation on investments -- net.....	6,844,389	4,144,670
	-----	-----
Net increase in net assets resulting from operations.....	25,164,095	16,290,535
	-----	-----
Dividends and distributions to shareholders from:		
Investment income -- net.....	(11,996,748 )	(10,673,000 )
Realized gain on investments -- net.....	(3,940,210 )	(657,540 )
	-----	-----
Total dividends and distributions.....	(15,936,958 )	(11,330,540 )
	-----	-----
Transactions in shares of beneficial interest -- net increase (Note 5).....	28,717,907	21,841,786
	-----	-----
Total increase.....	37,945,044	26,801,781
	-----	-----
NET ASSETS:		
Beginning of period.....	208,515,547	181,713,766
	-----	-----
END OF PERIOD (including undistributed net investment income of \$5,763 and \$5,763, respectively).....	\$ 246,460,591	\$ 208,515,547
	-----	-----

</TABLE>

SEE NOTES TO FINANCIAL STATEMENTS

DEAN WITTER NEW YORK TAX-FREE INCOME FUND  
NOTES TO FINANCIAL STATEMENTS

1. ORGANIZATION AND ACCOUNTING POLICIES -- Dean Witter New York Tax-Free Income Fund (the "Fund") is registered under the Investment Company Act of 1940, as amended (the "Act"), as a diversified, open-end management investment company and was organized on January 17, 1985, as a Massachusetts business trust. The Fund commenced operations on April 25, 1985.

The following is a summary of significant accounting policies:

A. VALUATION OF INVESTMENTS -- Portfolio securities are valued for the Fund by an outside independent pricing service approved by the Fund's Trustees. The pricing service has informed the Fund that in valuing the Fund's portfolio securities, it uses both a computerized grid matrix of tax-exempt securities and evaluations by its staff, in each case based on information concerning market transactions and quotations from dealers which reflect the

bid side of the market each day. The Fund's portfolio securities are thus valued by reference to a combination of transactions and quotations for the same or other securities believed to be comparable in quality, coupon, maturity, state of issuance, type of issue, call provisions, trading characteristics and other features deemed to be relevant.

B. ACCOUNTING FOR INVESTMENTS -- Security transactions are accounted for on the trade date (date the order to buy or sell is executed). Realized gains and losses on security transactions are determined on the identified cost method. Net investment income includes amortization of premiums and original issue discounts. Additionally, with respect to market discount on bonds purchased after April 30, 1993, a portion of any capital gain realized upon disposition is recharacterized as taxable investment income. Interest income is accrued daily.

C. FEDERAL INCOME TAX STATUS -- It is the Fund's policy to comply with the requirements of the Internal Revenue Code applicable to regulated investment companies and to distribute all of its taxable and nontaxable income to its shareholders. Accordingly, no federal income tax provision is required.

D. DIVIDENDS AND DISTRIBUTIONS TO SHAREHOLDERS -- The Fund records dividends and distributions to its shareholders on the record date. The amount of dividends and distributions from net investment income and net realized capital gains are determined in accordance with federal income tax regulations, which may differ from generally accepted accounting principles. These "book/tax" differences are either considered temporary or permanent in nature. To the extent these differences are permanent in nature, such amounts are reclassified within the capital accounts based on their federal tax-basis treatment; temporary differences do not require reclassifications. Dividends and distributions which exceed net investment income and net realized capital gains for financial reporting purposes but not for tax purposes are reported as dividends in excess of net investment income or distributions in excess of net realized capital gains. To the extent they exceed net investment income and net realized capital gains for tax purposes, they are reported as distributions of paid-in-capital.

2. INVESTMENT MANAGEMENT AGREEMENT -- Pursuant to an Investment Management Agreement (the "Agreement") with Dean Witter InterCapital Inc. (the "Investment Manager"), the Fund pays its Investment Manager a management fee, accrued daily and payable monthly, by applying the following annual rates to the daily net assets of the Fund determined as of the close of each business day: 0.55% of the portion of the daily net assets not exceeding \$500 million and 0.525% of the portion of the daily net assets exceeding \$500 million.

Under the terms of the Agreement, in addition to managing the Fund's investments, the Investment Manager maintains certain of the Fund's books and records and furnishes office space and facilities,

DEAN WITTER NEW YORK TAX-FREE INCOME FUND  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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equipment, clerical, bookkeeping and certain legal services, and pays the salaries of all personnel, including officers of the Fund who are employees of the Investment Manager. The Investment Manager also bears the cost of telephone services, heat, light, power and other utilities provided to the Fund.

3. PLAN OF DISTRIBUTION -- Shares of the Fund are distributed by Dean Witter Distributors Inc. (the "Distributor"), an affiliate of the Investment Manager, through its own sales organization. To compensate the Distributor, the Fund has adopted a Plan of Distribution (the "Plan") pursuant to Rule 12b-1 under the Act pursuant to which the Fund pays the Distributor compensation accrued daily and payable monthly at the annual rate of .75 of 1% of the lesser of: (a) the average daily aggregate gross sales of the Fund's shares since the inception of the Fund (not including reinvestments of dividends or capital gains distributions), less the average daily aggregate net asset value of the Fund's shares redeemed since the Fund's inception upon which a contingent deferred sales charge has been imposed or upon which such charge has been waived, or (b) the Fund's average daily net assets. Amounts paid under the Plan are paid to the Distributor to compensate it for the services provided and the expenses borne by it and others in the distribution of the Fund's shares, including the payment of commissions for sales of the Fund's shares and incentive compensation to and expenses of the account executives of Dean Witter Reynolds Inc., an affiliate of the Investment Manager, and other employees or selected dealers who engage in or support distribution of the Fund's shares or who service shareholder accounts, including overhead and telephone expenses; printing and distribution of prospectuses and reports used in connection with the offering of the Fund's shares; and preparation, printing and distribution of sales literature and advertising materials. In addition, the Distributor may be compensated under the Plan for its opportunity costs in advancing such amounts, which compensation would be in the form of a carrying charge on any unrecovered expenses incurred by the Distributor.

Provided that the Plan continues in effect, any cumulative expenses incurred



by the Distributor, but not yet recovered, may be recovered through future distribution fees from the Fund and contingent deferred sales charges from the Fund's shareholders.

The Distributor has informed the Fund that it received approximately \$244,000 in deferred sales charges from certain redemptions of the Fund's shares of beneficial interest during the year ended December 31, 1993. The Fund's shareholders pay such charges which are not expenses of the Fund.

4. SECURITY TRANSACTIONS AND TRANSACTIONS WITH AFFILIATES -- The cost of purchases and the proceeds from sales of portfolio securities for the year ended December 31, 1993, excluding short-term investments, aggregated \$75,654,955 and \$56,757,285, respectively.

On April 1, 1991, the Fund established an unfunded noncontributory defined benefit pension plan covering all independent Trustees of the Fund who will have served as independent Trustees for at least five years at the time of retirement. Benefits under this plan are based on years of service and compensation during the last five years of service. Aggregate pension costs for the year ended December 31, 1993, included in Trustees' fees and expenses in the Statement of Operations, amounted to \$12,232. At December 31, 1993, the Fund had an accrued pension liability of \$39,649 which is included in accrued expenses in the Statement of Assets and Liabilities.

Dean Witter Trust Company, an affiliate of the Investment Manager and the Distributor, is the Fund's transfer agent. During the year ended December 31, 1993, the Fund incurred transfer agent fees and expenses of \$83,054, of which \$7,728 was payable at December 31, 1993.

Bowne & Co., Inc. is an affiliate of the Fund by virtue of a common Fund Trustee and Director of Bowne & Co., Inc. During the year ended December 31, 1993, the Fund paid Bowne & Co., Inc. \$4,250 for printing of shareholder reports.

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DEAN WITTER NEW YORK TAX-FREE INCOME FUND  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

5. SHARES OF BENEFICIAL INTEREST -- Transactions in shares of beneficial interest were as follows:

<TABLE>  
<CAPTION>

	FOR THE YEAR ENDED DECEMBER 31, 1993		FOR THE YEAR ENDED DECEMBER 31, 1992	
	SHARES	AMOUNT	SHARES	AMOUNT
Sold.....	3,452,052	\$ 43,018,205	3,098,789	\$ 36,563,558
Reinvestment of dividends and distributions.....	802,145	10,012,352	577,032	6,816,205
Repurchased.....	4,254,197 (1,950,896)	53,030,557 (24,312,650)	3,675,821 (1,823,628)	43,379,763 (21,537,977)
Net increase.....	2,303,301	\$ 28,717,907	1,852,193	\$ 21,841,786

</TABLE>

1993 FEDERAL TAX NOTICE (UNAUDITED)

During the year ended December 31, 1993, the Fund paid to shareholders \$0.651 per share from net investment income. All of the Fund's dividends from net investment income were exempt interest dividends, excludable from gross income for Federal income tax purposes. For the same period, the Fund paid to shareholders \$0.185 per share from long-term capital gains.

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DEAN WITTER NEW YORK TAX-FREE INCOME FUND  
FINANCIAL HIGHLIGHTS

Selected data and ratios for a share of beneficial interest outstanding throughout each period:

<TABLE>  
<CAPTION>

FOR THE YEAR ENDED DECEMBER 31,							FOR THE PERIOD
1993	1992	1991	1990	1989	1988	1987	APRIL 25, 1985*
							THROUGH
							DECEMBER 31, 1985

<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
PER SHARE OPERATING PERFORMANCE:									
Net asset value, beginning of period.....	\$ 11.98	\$ 11.68	\$ 11.00	\$ 11.25	\$ 10.94	\$ 10.50	\$ 11.57	\$ 10.57	\$ 10.00
Investment income-net.....	0.65	0.65	0.68	0.68	0.68	0.68	0.70	0.72	0.51
Realized and unrealized gain (loss) on investments-net...	0.72	0.34	0.70	(0.25)	0.31	0.44	(0.93)	1.09	0.57
Total from investment operations.....	1.37	0.99	1.38	0.43	0.99	1.12	(0.23)	1.81	1.08
Less dividends and distributions:									
Dividends from net investment income.....	(0.65)	(0.65)	(0.68)	(0.68)	(0.68)	(0.67)	(0.70)	(0.72)	(0.51)
Distributions from realized gain on investments.....	(0.20)	(0.04)	(0.02)	-0-	-0-	(0.01)	(0.14)	(0.09)	-0-
Total dividends and distributions.....	(0.85)	(0.69)	(0.70)	(0.68)	(0.68)	(0.68)	(0.84)	(0.81)	(0.51)
Net asset value, end of period.....	\$ 12.50	\$ 11.98	\$ 11.68	\$ 11.00	\$ 11.25	\$ 10.94	\$ 10.50	\$ 11.57	\$ 10.57
TOTAL INVESTMENT RETURN+.....	11.72%	8.70%	12.94%	4.01%	9.34%	10.91%	(1.89%)	17.62%	11.04% (1)
RATIOS/SUPPLEMENTAL DATA:									
Net assets, end of period (in thousands).....	\$246,461	\$208,516	\$181,714	\$158,075	\$147,363	\$128,600	\$112,795	\$113,321	\$ 73,408
Ratio of expenses to average net assets.....	1.27%	1.40%	1.32%	1.37%	1.37%	1.41%	1.40%	1.41%	1.16% (2) (3)
Ratio of net investment income to average net assets.....	5.20%	5.48%	6.00%	6.13%	6.09%	6.28%	6.44%	6.36%	7.02% (2) (3)
Portfolio turnover rate.....	25%	16%	17%	23%	4%	18%	40%	23%	24%

</TABLE>

<TABLE>

- <S> <C>
- \* COMMENCEMENT OF OPERATIONS.
  - + DOES NOT REFLECT THE DEDUCTION OF SALES LOAD.
  - (1) NOT ANNUALIZED.
  - (2) ANNUALIZED.
  - (3) IF THE FUND HAD BORNE ALL ITS EXPENSES THAT WERE ASSUMED OR WAIVED BY THE INVESTMENT MANAGER AND THE DISTRIBUTOR, THE EXPENSE RATIO WOULD HAVE BEEN 1.58% AND THE NET INVESTMENT INCOME RATIO WOULD HAVE BEEN 6.60%.

</TABLE>

SEE NOTES TO FINANCIAL STATEMENTS

APPENDIX

RATINGS OF INVESTMENTS

MOODY'S INVESTORS SERVICE INC. ("MOODY'S")

MUNICIPAL BOND RATINGS

Aaa Bonds which are rated Aaa are judged to be of the best quality. They carry the smallest degree of investment risk and are generally referred to as "gilt edge." Interest payments are protected by a large or by an exceptionally stable margin and principal is secure. While the various protective elements are likely to change, such changes as can be visualized are most unlikely to impair the fundamentally strong position of such issues.

- Aa Bonds which are Aa are judged to be of high quality by all standards. Together with the Aaa group they comprise what are generally known as high grade bonds. They are rated lower than the best bonds because margins of protection may not be as large as in Aaa securities or fluctuation of protective elements may be of greater amplitude or there may be other elements present which make the long-term risks appear somewhat larger than in Aaa securities.
- A Bonds which are rated A possess many favorable investment attributes and are to be considered as upper medium grade obligations. Factors giving security to principal and interest are considered adequate, but elements may be present which suggest a susceptibility to impairment sometime in the future.
- Baa Bonds which are rated Baa are considered as medium grade obligations; i.e., they are neither highly protected nor poorly secured. Interest payments and principal security appear adequate for the present but certain protective elements may be lacking or may be characteristically unreliable over any great length of time. Such bonds lack outstanding investment characteristics and in fact have speculative characteristics as well.
- Bonds rated Aaa, Aa, A and Baa are considered investment grade bonds.
- Ba Bonds which are rated Ba are judged to have speculative elements; their future cannot be considered as well assured. Often the protection of interest and principal payments may be very moderate, and therefore not well safeguarded during both good and bad times in the future. Uncertainty of position characterizes bonds in this class.
- B Bonds which are rated B generally lack characteristics of the desirable investment. Assurance of interest and principal payments or of maintenance of other terms of the contract over any long period of time may be small.
- Caa Bonds which are rated Caa are of poor standing. Such issues may be in default or there may be present elements of danger with respect to principal or interest.
- Ca Bonds which are rated Ca present obligations which are speculative in a high degree. Such issues are often in default or have other marked shortcomings.
- C Bonds which are rated C are the lowest rated class of bonds, and issues so rated can be regarded as having extremely poor prospects of ever attaining any real investment standing.

CONDITIONAL RATING: Bonds for which the security depends upon the completion of some act or the fulfillment of some condition are rated conditionally. These bonds secured by (a) earnings of projects under construction, (b) earnings of projects unseasoned in operation experience, (c) rentals which begin when facilities are completed or (d) payments to which some other limiting condition attaches. Parenthetical rating denotes probable credit stature upon completion of construction or elimination of basis of condition.

RATING REFINEMENTS: Moody's may apply numerical modifiers, 1, 2, and 3 in each generic rating classification from Aa through B in its municipal bond rating system. The modifier 1 indicates that the security ranks in the higher end of its generic rating category; the modifier 2 indicates a mid-range ranking; and a modifier 3 indicates that the issue ranks in the lower end of its generic rating category.

#### MUNICIPAL NOTE RATINGS

Moody's ratings for state and municipal note and other short-term loans are designated Moody's Investment Grade (MIG). MIG 1 denotes best quality and means there is present strong protection from established cash flows, superior liquidity support or demonstrated broad-based access to the market for refinancing. MIG 2 denotes high quality and means that margins of protection are ample although not as large as in MIG 1. MIG 3 denotes favorable quality and means that all security elements are accounted for but that the undeniable strength of the previous grades, MIG 1 and MIG 2, is lacking. MIG 4 denotes adequate quality and means that the protection commonly regarded as required of an investment security is present and that while the notes are not distinctly or predominantly speculative, there is specific risk.

#### VARIABLE RATE DEMAND OBLIGATIONS

A short-term rating, in addition to the Bond or MIG ratings, designated VMIG may also be assigned to an issue having a demand feature. The assignment of the VMIG symbol reflects such characteristics as payment upon periodic demand rather than fixed maturity dates and payment relying on external liquidity. The VMIG rating criteria are identical to the MIG criteria discussed above.

## COMMERCIAL PAPER RATINGS

Moody's Commercial Paper ratings are opinions of the ability to repay punctually promissory obligations not having an original maturity in excess of nine months. These ratings apply to Municipal Commercial Paper as well as taxable Commercial Paper. Moody's employs the following three designations, all judged to be investment grade, to indicate the relative repayment capacity of rated issuers: Prime-1, Prime-2, Prime-3.

Issuers rated Prime-1 have a superior capacity for repayment of short-term promissory obligations. Issuers rated Prime-2 have a strong capacity for repayment of short-term promissory obligations; and Issuers rated Prime-3 have an acceptable capacity for repayment of short-term promissory obligations. Issuers rated Not Prime do not fall within any of the Prime rating categories.

STANDARD & POOR'S CORPORATION ("STANDARD & POOR'S")

## MUNICIPAL BOND RATINGS

A Standard & Poor's municipal bond rating is a current assessment of the creditworthiness of an obligor with respect to a specific obligation. This assessment may take into consideration obligors such as guarantors, insurers or lessees.

The ratings are based on current information furnished by the issuer or obtained by Standard & Poor's from other sources it considers reliable. The ratings are based, in varying degrees, on the following considerations: (1) likelihood of default-capacity and willingness of the obligor as to the timely payment of interest and repayment of principal in accordance with the terms of the obligation; (2) nature of and provisions of the obligation; and (3) protection afforded by, and relative position of the obligation in the event of bankruptcy, reorganization or other arrangement under the laws of bankruptcy and other laws affecting creditors' rights.

Standard & Poor's does not perform an audit in connection with any rating and may, on occasion, rely on unaudited financial information. The ratings may be changed, suspended or withdrawn as a result of changes in, or unavailability of, such information, or for other reasons.

AAA Debt rated "AAA" has the highest rating assigned by Standard & Poor's. Capacity to pay interest and repay principal is extremely strong.

AA Debt rated "AA" has a very strong capacity to pay interest and repay principal and differs from the highest-rated issues only in small degree.

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A Debt rated "A" has a strong capacity to pay interest and repay principal although they are somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than debt in higher-rated categories.

BBB Debt rated "BBB" is regarded as having an adequate capacity to pay interest and repay principal. Whereas it normally exhibits adequate protection parameters, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity to pay interest and repay principal for debt in this category than for debt in higher-rated categories.

Bonds rated AAA, AA, A and BBB are considered investment grade bonds.

BB Debt rated "BB" has less near-term vulnerability to default than other speculative grade debt. However, it faces major ongoing uncertainties or exposure to adverse business, financial or economic conditions which would lead to inadequate capacity or willingness to pay interest and repay principal.

B Debt rated "B" has a greater vulnerability to default but presently has the capacity to meet interest payments and principal repayments. Adverse business, financial or economic conditions would likely impair capacity or willingness to pay interest and repay principal.

CCC Debt rated "CCC" has a current identifiable vulnerability to default, and is dependent upon favorable business, financial and economic conditions to meet timely payments of interest and repayments of principal. In the event of adverse business, financial or economic conditions, it is not likely to have the capacity to pay interest and repay principal.

CC The rating "CC" is typically applied to debt subordinated to senior debt which is assigned an actual or implied "CCC" rating.

C The rating "C" is typically applied to debt subordinated to senior debt which is assigned an actual or implied "CCC-" debt rating.

CI The rating "CI" is reserved for income bonds on which no interest is being paid.

D Debt rated "D" is in payment default. The 'D' rating category is used when interest payments or principal payments are not made on the date due even if the applicable grace period has not expired, unless S&P believes that such payments will be made during such grace period. The 'D' rating also will be used upon the filing of a bankruptcy petition if debt service payments are jeopardized.

NR Indicates that no rating has been requested, that there is insufficient information on which to base a rating or that Standard & Poor's does not rate a particular type of obligation as a matter of policy.

Bonds rated "BB", "B", "CCC", "CC" and "C" are regarded as having predominantly speculative characteristics with respect to capacity to pay interest and repay principal. "BB" indicates the least degree of speculation and "C" the highest degree of speculation. While such debt will likely have some quality and protective characteristics, these are outweighed by large uncertainties or major risk exposures to adverse conditions.

PLUS (+) OR MINUS (-): The ratings from "AA" to "CCC" may be modified by the addition of a plus or minus sign to show relative standing with the major ratings categories.

The foregoing ratings are sometimes followed by a "p" which indicates that the rating is provisional. A provisional rating assumes the successful completion of the project being financed by the bonds being rated and indicates that payment of debt service requirements is largely or entirely dependent upon the successful and timely completion of the project. This rating, however, while addressing credit quality subsequent to completion of the project, makes no comment on the likelihood or risk of default upon failure of such completion.

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#### MUNICIPAL NOTE RATINGS

Commencing on July 27, 1984, Standard & Poor's instituted a new rating category with respect to certain municipal note issues with a maturity of less than three years. The new note ratings denote the following:

SP-1 denotes a very strong or strong capacity to pay principal and interest. Issues determined to possess overwhelming safety characteristics are given a plus (+) designation (SP-1+).

SP-2 denotes a satisfactory capacity to pay principal and interest.

SP-3 denotes a speculative capacity to pay principal and interest.

#### COMMERCIAL PAPER RATINGS

Standard and Poor's commercial paper rating is a current assessment of the likelihood of timely payment of debt having an original maturity of no more than 365 days. The commercial paper rating is not a recommendation to purchase or sell a security. The ratings are based upon current information furnished by the issuer or obtained by S&P from other sources it considers reliable. The ratings may be changed, suspended or withdrawn as a result of changes in or unavailability of such information. Ratings are graded into group categories, ranging from "A" for the highest quality obligations to "D" for the lowest. Ratings are applicable to both taxable and tax-exempt commercial paper. The categories are as follows:

Issuers assigned A ratings are regarded as having the greatest capacity for timely payment. Issues in this category are further refined with the designation 1, 2 and 3 to indicate the relative degree of safety.

<TABLE>

<S>	<C>
A-1	indicates that the degree of safety regarding timely payment is very strong.
A-2	indicates capacity for timely payment on issues with this designation is strong. However, the relative degree of safety is not as overwhelming as for issues designated "A-1".
A-3	indicates a satisfactory capacity for timely payment. Obligations carrying this designation are, however, somewhat more vulnerable to the adverse effects of changes in circumstances than obligations carrying the higher designations.

</TABLE>

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