DREYFUS STRATEGIC MUNICIPAL BOND FUND INC
Form PRE 14A
April 01, 2009

SCHEDULE 14A

(RULE 14A-101)

INFORMATION REQUIRED IN PROXY STATEMENT

SCHEDULE 14A INFORMATION

PROXY STATEMENT PURSUANT TO SECTION 14(A) OF THE SECURITIES

EXCHANGE ACT OF 1934 (AMENDMENT NO. ____)

Filed by the Registrant	x
Filed by a Party other than the Registrant	o

Check the appropriate box:

x Preliminary Proxy Statement
o Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
o Definitive Proxy Statement
o Definitive Additional Materials
o Soliciting Material Pursuant to Rule 14a-12

DREYFUS STRATEGIC MUNICIPAL BOND FUND, INC.

____

(Name of Registrant as Specified in Charter)

____

(Name of Person(s) Filing Proxy Statement, if Other Than the Registrant)

Payment of Filing Fee (Check the appropriate box):

x No fee required.
o Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.
(1) Title of each class of securities to which transaction applies: __________
(2) Aggregate number of securities to which transaction applies:__________
(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined): ______________________________________
(4) Proposed maximum aggregate value of transaction:_________________
(5) Total fee paid: ____

o Fee previously paid with preliminary materials.

o Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the form or schedule and the date of its filing.

(1) Amount previously paid:____________________________

(2) Form, schedule or registration statement no.:____________

(3) Filing party:______________________________________

(4) Date filed: _______________________________________

DREYFUS STRATEGIC MUNICIPAL BOND FUND, INC.

Notice of Annual Meeting of Stockholders

To the Stockholders:

The Annual Meeting of Stockholders of Dreyfus Strategic Municipal Bond Fund, Inc. (the "Fund") will be held at the offices of The Dreyfus Corporation, 200 Park Avenue, 8th Floor, New York, New York 10166, on Thursday, June 18, 2009 at 10:00 a.m., for the following purposes:

1. To consider converting the Fund from a closed-end management investment company to an open-end management investment company. This proposal includes:

a. changing the Fund's subclassification from a closed-end management investment company to an open-end management investment company;

b. amending and restating the Fund's Articles of Incorporation; and

c. changing certain fundamental investment policies of the Fund.

2. To elect Directors as follows:

a. If Proposal 1 is not approved, to elect four Class I Directors to serve for a three-year term and until their successors are duly elected and qualified.

b. If Proposal 1 is approved as described in the proxy statement, to elect eleven Directors to hold office until their successors are duly elected and qualified.

3. To transact such other business as may properly come before the meeting, or any adjournment or adjournments thereof.

Stockholders of record at the close of business on April 30, 2009 will be entitled to receive notice of and to vote at the meeting.

By Order of the Board

John Hammalian

Assistant Secretary

New York, New York

May 7, 2009

WE NEED YOUR PROXY VOTE

A STOCKHOLDER MAY THINK HIS OR HER VOTE IS NOT IMPORTANT, BUT IT IS VITAL. BY LAW, THE ANNUAL MEETING OF STOCKHOLDERS OF THE FUND WILL HAVE TO BE ADJOURNED WITHOUT CONDUCTING ANY BUSINESS IF LESS THAN A QUORUM IS REPRESENTED. IN THAT EVENT, THE FUND WOULD CONTINUE TO SOLICIT VOTES IN AN ATTEMPT TO ACHIEVE A QUORUM. CLEARLY, YOUR VOTE COULD BE CRITICAL TO ENABLE THE FUND TO HOLD THE MEETING AS SCHEDULED, SO PLEASE RETURN YOUR PROXY CARD OR OTHERWISE VOTE PROMPTLY. YOU AND ALL OTHER STOCKHOLDERS WILL BENEFIT FROM YOUR COOPERATION.

DREYFUS STRATEGIC MUNICIPAL BOND FUND, INC.

PROXY STATEMENT

Annual Meeting of Stockholders to be held on Thursday, June 18, 2009

This proxy statement is furnished in connection with a solicitation of proxies by the Board of Directors of Dreyfus Strategic Municipal Bond Fund, Inc. (the "Fund") to be used at the Annual Meeting of Stockholders (the "Meeting") of the Fund to be held on Thursday, June 18, 2009 at 10:00 a.m., at the offices of The Dreyfus Corporation ("Dreyfus"), 200 Park Avenue, 8th Floor, New York, New York 10166, for the purposes set forth in the accompanying Notice of Annual Meeting of Stockholders. Stockholders of record at the close of business on April 30, 2009 are entitled to be present and to vote at the Meeting. Stockholders are entitled to one vote for each Fund share held and fractional votes for each fractional Fund share held. It is essential that stockholders complete, date, sign and return the proxy card they receive. Shares represented by executed and unrevoked proxies will be voted in accordance with the specifications made thereon. If any enclosed form of proxy is executed and returned, it nevertheless may be revoked by a proxy given later. To be effective, such revocation must be received prior to the Meeting. In addition, any stockholder who attends the Meeting in person may vote by ballot at the Meeting, thereby cancelling any proxy previously given.

A quorum is constituted by the presence in person or by proxy of the holders of a majority of the outstanding shares of the Fund entitled to vote at the Meeting. If a proposal is to be voted upon by only one class of the Fund's shares, a quorum of that class of shares (i.e., the holders of a majority of the outstanding shares of the class) must be present in person or by proxy at the Meeting in order for the proposal to be considered. The Fund has two classes of capital stock: Common Stock, par value $0.001 per share (the "Common Stock"), and Auction Preferred Stock, par value $0.001 per share, liquidation preference $25,000 per share (the "APS" or the "Preferred Stock"). The APS is further divided into Series A, Series B and Series C. Currently, no proposal is expected to be presented at the meeting that would require separate voting for each Series of APS. As of April 30, 2009, the Fund had outstanding the following number of shares:

Common Stock Outstanding	APS Outstanding
[48,495,729]	7,440

It is estimated that proxy materials will be mailed to stockholders of record on or about May 7, 2009. The principal executive offices of the Fund are located at 200 Park Avenue, New York, New York 10166. **Copies of the Fund's most recent Annual and Semi-Annual Reports are available upon request, without charge, by writing to the Fund at 144 Glenn Curtiss Boulevard, Uniondale, New York 11556-0144, or by calling toll-free 1-800-334-6899.**

Important Notice Regarding Internet Availability of Proxy Materials for the Annual Meeting of Stockholders to Be Held on June 18, 2009: This proxy statement and copies of the Fund's most recent Annual Report to Stockholders are available at www.dreyfus.com.

PROPOSAL 1. TO CONVERT THE FUND FROM A CLOSED-END MANAGEMENT INVESTMENT COMPANY TO AN OPEN-END MANAGEMENT INVESTMENT COMPANY

The Fund's Board of Directors, All of Whom Are "Non-Interested" Directors, Does Not Favor This Proposal Because, as Described Below, Conversion of the Fund to an Open-End Investment Company Would Result in a Substantial and Immediate Reduction in Fund Assets, a Decrease in the Fund's Net Income Available for Dividends and a Likely Increase in the Fund's Expenses as a Percentage of Net Asset Value.

Introduction

The Fund has operated as a non-diversified, closed-end management investment company (commonly referred to as a "closed-end fund") since its inception in 1989. As a closed-end fund, the Fund's shares of Common Stock are bought and sold in the securities markets at prevailing prices, which may be equal to, less than, or greater than the Fund's net asset value. The Fund's Prospectus for its Common Stock (dated November 22, 1989) and Preferred Stock (dated September 22, 1999) each state, in relevant part, that if the Common Stock of the Fund has traded on the New York Stock Exchange (the "NYSE") at an average discount from its net asset value of more than 10%, determined on the basis of the discount as of the end of the last trading day in each week during the 12 calendar weeks preceding the beginning of the Fund's fiscal year, the Fund will submit (the "Required Submission") to its stockholders at the next succeeding annual meeting of stockholders a proposal to convert the Fund from a closed-end management investment company to an open-end management investment company (the "Conversion"). For the 12 calendar week period from September 8, 2008 through November 28, 2008 (the last business day of the Fund's fiscal year), the Fund's Common Stock traded on the NYSE at an average discount from net asset value of 15.78%, determined in accordance with the provisions of the Fund's Prospectus. As a result, the Fund is required to submit Proposal 1 for stockholders' consideration at the Meeting.

Consideration and Recommendation of Board of Directors

At a Board meeting held on March 31, 2009, the Fund's Board of Directors reviewed detailed information concerning the legal and operational differences between closed-end and open-end funds, the Fund's capital structure and performance to date as a closed-end fund, the historical relationship between the market price and net asset value of the Fund's shares of Common Stock, the market events surrounding the discount measurement period and the possible effects of the Conversion on the Fund. **At that meeting, although it recognized that the Required Submission must be made, the Board determined not to support Proposal 1 and recommends stockholders vote against the proposal.**

The Board believes that the Conversion will result in a substantial and immediate reduction in the Fund's asset size and could result in the possible loss of economies of scale and an increase in the Fund's expenses as a percentage of net asset value, thereby decreasing the Fund's net income available for dividends, as described under "Certain Effects of Conversion on the Fund—Decrease in Asset Size and Potential Increase in Expense Ratio" below. The Board also considered the possibility that the Conversion could adversely affect the functioning of the Fund's portfolio management and its investment performance, as described under "Certain Effects of Conversion on the Fund—Portfolio Management" below. **Accordingly, the Board does not believe that the Conversion is in the best interests of the Fund and its stockholders.**

While the Conversion would eliminate the possibility of shares of the Fund's Common Stock ever trading at a discount from net asset value, the Board took note of the fact that, from inception through December 31, 2008, the Fund's shares of Common Stock from time to time have traded at a premium, and that, notwithstanding the more recent discounts during the last 12 calendar weeks of fiscal year 2008, the shares have traded from inception through [March 31], 2009 at an average [discount] of [ ]%. See "Differences Between Open-End and Closed-End Funds—Redeemable Shares; Elimination of Discount and Premium" below. The Board also noted that the relevant measurement period (September 8, 2008-November 28, 2008) occurred primarily during the fourth quarter of 2008, which was a period of extreme market volatility and a deepening of the larger credit and economic crisis. The Board noted that since 1991, the Fund had never traded at such a significant discount over an extended period of time, and since the end of the measurement period, the Fund's discount to net asset value had narrowed substantially.

The Fund's average annual premium/discount by calendar year is as follows:

Calendar Year	Premium/(Discount)	
1991	1.34	%
1992	3.16	%
1993	4.25	%
1994	(0.78	)%
1995	(3.45	)%
1996	(0.41	)%

1997	7.75	%
1998	3.59	%
1999	(5.44	)%
2000	(5.79	)%
2001	0.06	%
2002	(3.68	)%
2003	(2.38	)%
2004	(3.33	)%
2005	(3.86	)%
2006	(1.43	)%
2007	(1.14	)%
2008	(8.70	)%

On [March 31], 2009, the closing price of a share of the Fund's Common Stock on the NYSE was [ ]% [below] its net asset value.

At this time, the Board does not believe that eliminating the possibility of a discount justifies the reduction in the Fund's asset size, the risk of changes to the Fund's portfolio management that might be required and the potential adverse effect on the Fund's investment performance that the Conversion could entail.

If Proposal 1 is not approved by stockholders, the Fund will remain a closed-end fund, and the Board of Directors will consider whether any other actions should be taken with respect to the market discount from net asset value at which the Fund's shares of Common Stock currently trade.

As described below, if stockholders approve the Conversion, the Board will cause the Fund to impose a redemption fee of 1.00% of the amount redeemed for a period of 12 months from the date of the Conversion. Neither the Fund nor its stockholders will realize any gain or loss for tax purposes as a direct result of the Conversion. However, the Fund's common stockholders will recognize a gain or loss if they later redeem their shares to the extent that the redemption proceeds are greater or less than the respective adjusted tax basis of their shares received in the Conversion.

Differences Between Open-End and Closed-End Funds

In evaluating this Proposal, the Fund's stockholders may wish to consider the following differences between open-end and closed-end funds.

Fluctuation of Capital. The Fund currently is registered as a "closed-end" management investment company under the Investment Company Act of 1940, as amended (the "1940 Act"). Closed-end funds generally neither redeem their outstanding stock nor engage in the continuous sale of new securities, and thus operate with a relatively fixed capitalization. The common stock of closed-end funds ordinarily is bought and sold on national securities exchanges; the Fund's shares of Common Stock have traded on the NYSE since their inception in 1989.

In contrast, open-end funds, commonly referred to as "mutual funds," issue redeemable securities. The holders of redeemable securities have the right to surrender such securities to the mutual fund and obtain in return their proportionate share of the value of the mutual fund's net assets at the time of redemption (less any redemption fee charged by the fund or contingent deferred sales charge imposed by the fund's distributor). Most mutual funds (including the Fund, if the Conversion is effected) also continuously issue new shares of stock to investors at a price based on the fund's net asset value at the time of such issuance. Accordingly, an open-end fund will experience continuing inflows and outflows of cash, and may experience net sales or net redemptions of its shares.

Raising Capital. Closed-end funds are not permitted to issue new shares of common stock at a price below net asset value, except in rights offerings to existing stockholders, in payment of distributions and in certain other limited circumstances. Accordingly, the ability of closed-end funds to raise new capital is restricted, particularly at times when their shares of common stock are trading at a discount to net asset value. The shares of open-end funds, on the other hand, generally are offered on a continuous basis at net asset value, or at net asset value plus a sales charge.

Redeemable Shares; Elimination of Discount and Premium. Open-end funds are required to redeem their shares at a price based upon their then-current net asset value (except under certain circumstances, such as when the NYSE is closed or trading thereon is restricted, or when redemptions may otherwise be suspended in an emergency as permitted by the 1940 Act). The open-end fund structure thus precludes the possibility of the mutual fund's shares trading at a discount from, or a premium to, net asset value. Mutual funds generally are required to value their assets on each business day in order to determine the current net asset value on the basis of which their shares may be redeemed by stockholders or purchased by investors. The shares of closed-end funds, on the other hand, are bought and sold in the securities markets at prevailing market prices, which may be equal to, less than, or more than their net asset value.

If approved by stockholders, upon the Conversion, common stockholders of the Fund who wish to realize the value of their shares would be able to do so by redeeming their shares at net asset value (less the redemption fee discussed below). As a result, the discount from net asset value at which the Fund's shares of Common Stock currently trade on the NYSE would be eliminated. The Conversion also would eliminate, however, any possibility that the Fund's shares of Common Stock could trade at a premium over their net asset value and could result in potential adverse effects on the Fund's portfolio management and expense ratio.

Senior Securities and Borrowings. The 1940 Act prohibits open-end funds from issuing "senior securities" representing indebtedness (i.e., bonds, debentures, notes and other securities), other than indebtedness to banks when there is an asset coverage of at least 300% for all borrowings. Closed-end funds, on the other hand, are permitted to issue senior securities representing indebtedness to any lender if the 300% asset coverage is met. Any income attributable to such indebtedness would be Federally taxable income. In addition, closed-end funds may issue preferred stock, subject to asset coverage of at least 200%; whereas, open-end funds generally may not issue preferred stock. The ability to issue senior securities provides a closed-end fund more flexibility than an open-end fund in "leveraging" their stockholders' investments. Distributions with respect to preferred stock are deemed to be dividends, and the dividend income paid to holders of the Fund's Preferred Stock is generally exempt from Federal income tax.

The Fund, which seeks income exempt from Federal income tax, issued $186,000,000 par amount of Preferred Stock in September 1999. Distributions with respect to the Preferred Stock are deemed to be dividends, and the dividend income paid to holders of the Fund's Preferred Stock is generally exempt from Federal income tax. The Fund's Board believes that the limitations imposed on open-end funds with respect to senior securities and borrowings would impair the Fund's operations, because, as an open-end fund, the Fund would have to redeem all of its Preferred Stock and would not be able to replace the leverage currently employed with the Preferred Stock. Moreover, the Fund would have to sell portfolio securities to raise the cash necessary to redeem the Preferred Stock at or prior to the Conversion.

Registration of Securities. The Fund's shares of Common Stock currently are listed and traded on the NYSE (Symbol: DSM). If the Conversion is approved by stockholders, the Fund's shares of Common Stock would immediately be delisted from the NYSE. Delisting would save the Fund annual exchange listing fees of approximately $44,000; but, as noted below, the Fund would have to pay Federal and state registration fees on sales of new shares. Any net savings or increased cost to the Fund because of the different expenses is not expected to materially affect the Fund's expense ratio.

Distribution; Brokerage Commissions or Sales Charges on Purchases and Sales of Securities. Open-end funds typically seek to sell new shares on a continuous basis in order to offset redemptions and avoid reductions in asset size. Shares of "load" open-end funds ordinarily are offered and sold through a principal underwriter or distributor, which deducts a sales charge from the purchase price at the time of purchase or from the redemption proceeds at the time of redemption, or receives a distribution fee from the fund, or both, to compensate it and securities dealers for sales and marketing services (see below). Shares of "no-load" open-end funds are sold at net asset value, without a sales charge, with the fund's investment adviser or distributor ordinarily bearing the cost of sales and marketing from its own resources. Shares of closed-end funds, on the other hand, are bought and sold in secondary market transactions at prevailing market prices subject to the brokerage commissions charged by the broker-dealer firms executing such transactions on behalf of investors.

Stockholder Services. Open-end funds typically provide more services to stockholders and incur correspondingly higher servicing expenses. If the Conversion is approved, to compensate the Fund's distributor for the provision of certain of these services to the Fund's stockholders, the Fund would adopt a shareholder services plan, pursuant to which the Fund would pay its distributor for the provision of certain services a fee at an annual rate of 0.25% of the value of the average daily net assets. These services would include, for example, answering stockholder inquiries regarding the Fund and providing reports and other information, and services related to the maintenance of stockholder accounts.

Other services generally offered by a family of open-end funds include enabling stockholders to exchange their shares of one fund for shares of another fund that is part of the same family of open-end funds. The Dreyfus Family of Funds currently consists of approximately [200] separate portfolios, with different investment objectives and policies. Shares of the various funds in the Dreyfus Family of Funds generally are eligible to be exchanged, in a taxable transaction, for shares of certain other Dreyfus-managed funds. If the Fund converts to an open-end fund, the Fund would offer the exchange service as well as certain other stockholder services and privileges currently offered stockholders of other open-end funds in the Dreyfus Family of Funds.

Annual Stockholder Meetings. As a closed-end fund listed on the NYSE, the Fund is required by the rules of the NYSE to hold annual meetings of its stockholders. If the Fund were converted to an open-end fund, it would no longer be subject to these NYSE rules and annual stockholder meetings would be eliminated, except when required for certain 1940 Act matters. By not having to hold annual stockholder meetings, the Fund would save the costs of preparing proxy materials and soliciting stockholder votes on the usual proposals contained therein. Based on the number of outstanding shares and stockholders as of the Record Date, such costs aggregate approximately $33,000 per year; however, these savings would not be expected to materially affect the Fund's expense ratio, and stockholder meetings may have to be held from time to time to obtain various approvals from stockholders. Under the 1940 Act, the Fund would be required to hold a stockholder meeting if, among other reasons, less than a majority of the total number of Directors were elected by the stockholders or if a change were sought in the fundamental investment policies of the Fund. In addition, holders of at least 10% of the Fund's outstanding shares may require the Fund to hold a stockholder meeting for the purpose of voting on the removal of any Director or for any other purpose.

Reinvestment of Dividends and Distributions. As a closed-end fund, the Fund's current Dividend Reinvestment and Cash Purchase Plan ("DRIP") permits common stockholders to elect to reinvest their dividends and distributions on a different basis than would be the case if the Fund converted to an open-end fund. Currently, if the Fund's shares of Common Stock are trading at a discount, the agent for the DRIP will attempt to buy as many shares as are needed of the Fund's common stock on the NYSE or elsewhere. This permits a reinvesting common stockholder to benefit by purchasing additional shares at a discount and this buying activity may tend to lessen any discount. If, before the agent for the DRIP completes such purchases, the market price exceeds the net asset value, then the average per share purchase price of the reinvested shares may exceed the net asset value per share. If the Fund's shares of common stock are trading at a premium, reinvesting stockholders are issued shares at the higher of net asset value or 95% of the market price. As an open-end fund, any dividend and distribution reinvested would be at the Fund's net asset value.

Market Timing Activities. Unlike closed-end funds, open-end funds may be subject to adverse effects from frequent purchases and redemptions of shares. Frequent purchases and redemptions of mutual fund shares may interfere with the efficient management of a fund's portfolio by its portfolio manager, increase portfolio transaction costs, and have a negative effect on a fund's long-term shareholders. If the Conversion occurs, the Board will need to approve and implement policies and procedures that are intended to discourage and prevent excessive trading of Fund shares and market timing abuses through the use of various surveillance techniques.

Certain Effects of the Conversion on the Fund

In addition to the inherent characteristics of open-end funds described above, the Conversion potentially would have the consequences described below.

Decrease in Asset Size and Potential Increase in Expense Ratio. Conversion to an open-end fund would require the Fund to redeem its Preferred Stock, and thereby decrease the total asset size of the Fund by $186,000,000. In addition, the Conversion would raise the possibility of the Fund suffering substantial redemptions of shares of its Common Stock, particularly in the period immediately following the Conversion, although the redemption fee of 1.00% described below may reduce the number of initial redemptions that would otherwise occur. Unless the Fund's distributor was able to generate sales of new shares sufficient to offset these redemptions and the redemption of the Preferred Stock, the asset size of the Fund would shrink by over one-third. Because certain of the Fund's operating expenses are fixed or substantially fixed, such a decrease in the Fund's asset size would likely increase the ratio of its operating expenses to its income and net assets and thereby decrease the Fund's net income available for dividends. Such a decrease in asset size also would result in a reduction in the amount of fees paid to The Dreyfus Corporation ("Dreyfus"), the Fund's investment adviser.

Portfolio Management. The capitalization of an open-end fund fluctuates depending upon whether it experiences net sales or net redemptions of its shares. Most open-end funds maintain reserves of cash or cash equivalents in order to meet net redemptions as they arise. Because closed-end funds do not have to meet redemptions, their level of cash reserves depends primarily on the investment adviser's perception of market conditions and on decisions to use fund assets to repurchase shares. The larger reserves of cash or cash equivalents required to operate prudently as an open-end fund when net redemptions are anticipated could reduce the Fund's investment flexibility and the scope of its investment opportunities. As an open-end fund, the Fund may have to sell portfolio securities in order to accommodate the need for larger reserves of cash or cash equivalents, and such sales could occur under unfavorable market conditions. While the Fund is a closed-end fund, however, Dreyfus is not required to liquidate portfolio holdings at inopportune times, and can manage the Fund's portfolio with a greater emphasis on long-term considerations.

As part of the Conversion, the Fund would be required to redeem in cash, through the sale of portfolio securities, $186,000,000 aggregate par value of Preferred Stock. Such sale could occur under unfavorable market conditions adversely effecting the net asset value per share of the Fund's Common Stock. Moreover, if the Fund were to experience substantial redemptions of its shares of common stock following the Conversion, it would likely be required to sell portfolio securities and incur increased transaction costs in order to raise cash to meet such redemptions.

Currently, the Fund is not limited as to the amount of its assets which may be invested in illiquid securities. If the Conversion is approve, the Fund would not be permitted to have more than 15% of the value of its net assets invested in illiquid securities. As of [March 31], 2009, [none of the Fund's net assets were invested in illiquid securities.]

Minimum Investment and Involuntary Redemptions. If the Conversion is approved, the Fund will adopt requirements that an initial investment in its shares and any subsequent investment must be in a specified minimum amount, in order to reduce the administrative burdens and costs incurred in monitoring numerous small accounts. The Fund expects that the minimum initial investment requirement will be $[1,000] and the minimum subsequent investment requirement will be $[100]. The Fund also would reserve the right to redeem, upon notice, the shares of any stockholder whose account has a net asset value of less than $[500].

Conversion Costs. Conversion would involve legal and other expenses to the Fund, estimated to be approximately $[______]. Based on the Fund's total assets as of [March 31], 2009 and its expenses for the first [four] months of fiscal year 2009 on an annualized basis, it currently is anticipated that Conversion costs would increase the Fund's expense ratio by approximately [__]% in the year of Conversion.

Measures to be Adopted to Convert the Fund to an Open-End Fund

To effect the Conversion, the Fund's stockholders must approve changing the Fund's subclassification under the 1940 Act from a closed-end management investment company to an open-end management investment company. In connection therewith, the Fund would have to amend and restate its Articles of Incorporation, and the Board believes it would then be appropriate to change certain of the Fund's fundamental investment policies and restrictions.

Amending and Restating the Fund's Articles of Incorporation. To operate as an open-end fund, the Fund will be required to amend its Articles of Incorporation, as amended to date (the "Charter"), to authorize the issuance of redeemable securities at net asset value and to provide that its outstanding common stock will be redeemable at the option of stockholders. Other amendments to the Charter include declassifying the Fund's Board, as described below. The Charter also would be amended to remove other provisions applicable only to closed-end funds and to include provisions commonly found in the charters of other open-end funds in the Dreyfus Family of Funds, as described below. Under Maryland General Corporation Law, charter amendments must be declared "advisable" by the board. Although the Fund's Board of Directors does not favor Proposal 1, if the Conversion is approved by stockholders, the Fund's Board then would deem it advisable to amend the Fund's Charter. A copy of the proposed Amended and Restated Articles of Incorporation, in the form approved by the Fund's Board of Directors, is attached to this proxy statement as Exhibit A.

Declassified Board. The Fund's Charter would be amended to declassify the Fund's Board of Directors. Currently, the Fund's Charter provides that the Board of Directors be divided into three classes of Directors. Each Director serves for three years with one class being elected each year. The classified Board was intended, in part, to reduce the Fund's vulnerability to an unsolicited takeover proposal or similar action that does not contemplate an acquisition of all outstanding voting stock of the Fund by making it more difficult and time-consuming to change majority control of the Board of Directors without its consent. However, unlike the vote required to approve the Conversion, which is a majority of the outstanding voting securities of the Fund, voting together as a single class, and a majority vote of the outstanding shares of the Fund's Preferred Stock voting as a separate class, the affirmative vote of the holders of at least 75% of the outstanding shares of the Fund is required to declassify the Fund's Board. Consequently, if the Conversion is approved by the holders of a majority, but less than 75%, of the outstanding voting securities of the Fund, voting together as a single class, and a majority vote of the outstanding shares of the Fund's Preferred Stock voting as a separate class, the Fund would operate as an open-end fund with a classified Board.

Issuance of Additional Classes of Shares. The Fund's Charter currently provides for the issuance of one class of shares of common stock with each share representing an equal proportionate interest in the Fund. If the Fund's stockholders approve the Conversion, the Fund's Board of Directors recommends that the Fund's Charter be amended to authorize the issuance of additional classes of shares of common stock having such preferences or special or relative rights and privileges as the Directors may determine, to the extent permitted under the 1940 Act.

The purpose of the amendment would be to permit the Fund to take advantage of alternative methods of selling Fund shares. The Board of Directors believes that providing investors with alternative methods of purchasing Fund shares, if it is operated as an open-end fund, would (i) enable investors to choose the purchase method which best suits their individual situation, thereby encouraging current common stockholders to make additional investments in the Fund and attempting to attract new investors and assets to the Fund, thus benefiting stockholders by increasing investment flexibility for the Fund and potentially reducing operating expense ratios as a result of economies of scale; (ii) facilitate distribution of the Fund's shares; and (iii) maintain the competitive position of the Fund in relation to other open-end funds that have implemented or are seeking to implement similar distribution arrangements. As described below, the classes most likely would differ principally in the method of offering shares to investors (e.g., pursuant to a front-end sales load or contingent deferred sales charge and/or Rule 12b-1 distribution plan or non-Rule 12b-1 shareholder services plan).

Changing Certain Fundamental Investment Policies. The Fund's investment objective, which is to maximize current income exempt from Federal income tax to the extent consistent with the preservation of capital, will remain unchanged if the Conversion is approved. The Fund's investment objective, its policy to invest at least 80% of its net assets in municipal obligations and certain of the Fund's investment restrictions have been adopted by the Fund as fundamental policies that cannot be changed without the affirmative vote of the holders of a majority (as defined in the 1940 Act) of the Fund's outstanding voting securities, voting together as a single class, and of the Fund's outstanding shares of Preferred Stock, voting as a separate class. All other investment policies or practices are considered by the Fund not to be fundamental and accordingly may be changed by a vote of the Fund's Board of Directors without stockholder approval.

The 1940 Act requires that a relatively limited number of investment policies and restrictions be designated as fundamental policies that cannot be changed without stockholder approval. Certain of the Fund's fundamental investment policies and restrictions are proposed to be amended, as described below. These amendments are necessitated by certain requirements for open-end funds under the 1940 Act and will standardize certain provisions of the Fund's investment restrictions with those of other similar open-end funds in the Dreyfus Family of Funds. In addition, the Board recommends that certain of these investment restrictions be made non-fundamental investment policies as described below. Dreyfus does not anticipate that these amendments will change materially the current investment practices of the Fund.

As proposed to be amended, the investment restrictions of the Fund as an open-end fund are set forth on Exhibit B hereto. The current investment restrictions of the Fund are set forth on Exhibit C hereto. Stockholders are urged to review the complete text of the current investment restrictions of the Fund and the proposed investment restrictions of the Fund as an open-end fund.

Specific changes include deleting investment restriction number 1 which unduly restricts the Fund's portfolio management policies. The Fund, as a fundamental policy, would continue to invest, under normal market conditions, at least 80% of its net assets in municipal obligations.

Changing investment restriction number 3, which is a fundamental policy and relates to pledging, mortgaging or hypothecating the Fund's assets, to a non-fundamental policy. As an open-end fund, this investment restriction would be a non-fundamental policy of the Fund and may be changed by vote of the Directors without further stockholder approval.

Investment restriction number 4 limits the ability of the Fund to sell securities short or purchase securities on margin, except for such short-term credits as are necessary for the clearance of transactions. The restriction makes clear that margin deposits in connection with transactions in currencies, options, futures and options on futures do not constitute purchasing securities on margin. As an open-end fund, the Fund would be permitted to engage in short sales. Short sales are transactions in which the Fund sells a security it does not own in anticipation of a decline in the market value of that security. The Fund would incur a loss as a result of a short sale if the price of the security increases between the date of the short sale and the date on which the Fund replaces the borrowed security.

Investment restriction number 5, which prohibits the Fund from acting as an underwriter, would be revised to clarify that the Fund may bid separately or as part of a group for the purchase of municipal bonds directly from an issuer for its own portfolio to take advantage of the lower purchase price available.

Investment restriction number 6, which prohibits the Fund from purchasing, holding or dealing in real estate or oil and gas interests, except that the Fund may purchase and sell securities that are secured by real estate, would be revised to permit the Fund to also purchase and sell securities that are issued by companies that invest or deal in real estate or real estate investment trusts and acquire and hold real estate or interests therein through exercising rights or remedies with regard to such securities.

Investment restriction number 7, which prohibits the Fund from investing in commodities, except that the Fund may purchase and sell futures contracts, including those relating to indexes, and options on futures contracts or indexes, would be changed to clarify that the Fund is prohibited from investing in physical commodities, but may enter into swap agreements and other derivative instruments.

Investment restriction number 8 limits the ability of the Fund to lend its portfolio securities in an amount not to exceed 30% of the value of its total assets. Investment restriction number 8, as revised, would permit the Fund to lend its portfolio securities to the extent permitted under the 1940 which currently limits such loans to no more than 33-1/3% of the value of the Fund's total assets.

Investment restriction number 9 limits the ability of the Fund to issue senior securities other than shares of preferred stock and as otherwise permitted in investment restriction numbers 2, 3, 4 and 7. If the Conversion is approved, the Fund would not be permitted to maintain its Preferred Stock or issue new shares of preferred stock. The 1940 Act prohibits an open-end fund from issuing senior securities except that a fund may borrow money in amounts of up to 33-1/3% of the fund's total assets from banks for any purpose. A fund also may borrow up to 5% of the fund's total assets from banks or other lenders for temporary or emergency purposes, and these borrowings are not considered senior securities.

Investment restriction number 12 limits the ability of the Fund to invest in other investment companies. Until recently, the 1940 Act limited these investments to relatively small percentages of fund assets unless a "master-feeder" or "fund-of-funds" structure was utilized. Outside of the "master-feeder" and "fund-of-funds" structures and subject to certain other exceptions, the 1940 Act limited a fund's investments in a single investment company to 3% of the purchased investment company's outstanding voting stock and to 5% of the fund's total assets and caps a fund's investments in all investment companies at 10% of the fund's total assets. Since the Fund was established in 1989, a number of rule changes now permit funds to invest an unlimited portion of their assets in certain affiliated investment companies though investments in unaffiliated investment companies are still subject to certain limitations. If the Conversion is approved, the Fund would be permitted to invest as a non-fundamental policy in other investment companies to the extent permitted by the 1940 Act.

As a closed-end fund, the Fund may invest without limitation in illiquid securities, including repurchase agreements providing for settlement in more than seven days after notice, provided such investments are consistent with the Fund's investment objective. As an open-end fund, the Fund would adopt a non-fundamental policy limiting its ability to purchase illiquid securities, including such repurchase agreements, to 15% of the value of its net assets.

<u>Other Measures Undertaken in Connection with the Conversion</u>. In addition to amending and restating the Fund's Charter and approving changes to certain of the Fund's fundamental investment restrictions, the Fund's Board would undertake, without the approval of the Fund's stockholders, certain other measures in connection with the Conversion.

Redemption of Preferred Stock. Conversion to an open-end fund would require the Fund to redeem its Preferred Stock, as open-end funds are not permitted to issue senior securities under Section 18 of the 1940 Act, except as described above.

Amendment to Investment Advisory Agreement. If Proposal 1 is approved, the Fund's Investment Advisory Agreement with Dreyfus would be amended to delete certain expenses payable by the Fund which are inapplicable to an open-end investment company, such as those relating to listing the Fund's common stock on the NYSE, offering preferred stock and administering the Fund's DRIP.

Multiple Share Classes; Distribution and Underwriting. If Proposal 1 is approved, the Board currently anticipates that the Fund would offer three classes of shares: Class A, Class C and Class I shares. Common stockholders of the Fund would receive, in exchange for their existing Fund shares, a number of Class A shares equal in value to the net asset value of their existing Fund shares held immediately prior to the Conversion. These Class A shares would not be subject to any front-end sales load, contingent deferred sales charge or Rule 12b-1 distribution plan charges, but would be subject to an annual shareholder services fee as described below. It is contemplated that all other Class A shares would be subject to a front-end sales load and the annual shareholder services fee (including future purchases by existing Fund common stockholders). Class C shares would be subject to a contingent deferred sales charge of 1.00% imposed on redemptions within one year of purchase. Class C shares also would be subject to annual distribution and shareholder services fees as described below. Class I shares, which currently are anticipated to be available only to certain investors, would not be subject to any front-end sales load, contingent deferred sales charge or distribution or shareholder services fee.

Each class of Fund shares would represent an identical interest in the Fund's portfolio and would participate on an equal proportionate basis in the investment income and realized and unrealized gains and losses on portfolio investments. All classes of shares would vote together as a single class at meetings of stockholders except that shares of a class which were affected by any matter in a manner materially different from shares of other classes would vote as a separate class and holders of shares of a class not affected by a matter would not vote on that matter.

Because shares of an open-end fund are offered to the public on a continuous basis, the Fund's Board anticipates entering into a distribution agreement (the "Distribution Agreement"), subject to stockholder approval of Proposal 1. The principal underwriter for open-end funds in the Dreyfus Family of Funds currently is MBSC Securities Corporation ("MBSC"), a wholly owned subsidiary of Dreyfus. Pursuant to the Distribution Agreement, Fund shares would be offered and sold directly by MBSC and other broker-dealers which have entered into selling agreements with MBSC. There is no assurance, however, that MBSC or any such broker-dealer would be able to generate sufficient sales of Fund shares to offset redemptions, particularly during the initial months following the Conversion.

If the Conversion is approved, the Fund intends to adopt a distribution plan pursuant to Rule 12b-1 under the 1940 Act (the "Distribution Plan") to finance the distribution of Class C shares. Under the Distribution Plan, the Fund may pay MBSC a fee of up to 0.75% of the value of its average daily net assets attributable to Class C shares for financing the sale and distribution of the Fund's Class C shares. Class A and Class I shares would not be subject to any distribution fees.

In addition, if the Conversion is approved, the Fund will adopt a Shareholder Services Plan with respect to its Class A and Class C shares, pursuant to which the Fund would pay MBSC for the provision of certain services to the holders of its Class A and Class C shares a fee at an annual rate of 0.25% of the value of the average daily net assets of each such Class. The Shareholder Services Plan is not a plan adopted pursuant to Rule 12b-1 under the 1940 Act and, as such, is not subject to stockholder approval. Class I shares would not be subject to any shareholder services fees.

Redemption Fee. In an attempt to reduce the number of redemptions of Fund shares immediately following the Conversion (thereby reducing possible disruption of the Fund's ordinary portfolio management), and to offset transaction and other costs caused by such redemptions, for a period of 12 months following the Conversion, the Fund will impose a fee payable to the Fund of 1.00% of all redemption proceeds.

Timing. If the stockholders approve Proposal 1, a number of steps will be required to implement the conversion of the Fund to an open-end fund, including the preparation, filing and effectiveness of a registration statement under the Securities Act of 1933, as amended (the "1933 Act"), covering the offering of the Fund's shares and the negotiation and execution of a new or amended agreement with its transfer agent. It is anticipated that the Conversion would become effective within approximately [six months] following a vote approving Proposal 1. The amendments to the Fund's Charter and fundamental investment policies would become effective simultaneously with the effectiveness under the 1933 Act of the registration statement referred to above.

Required Vote and Directors' Recommendation

Approval of Proposal 1, which includes changing the Fund's subclassification from a closed-end management investment company to an open-end management investment company, amending and restating the Fund's Charter and changing certain of the Fund's fundamental investment policies and restrictions requires the affirmative vote of the holders of a majority (as defined in the 1940 Act) of the Fund's outstanding voting securities, voting together as a single class, and of the Fund's outstanding shares of Preferred Stock, voting as a separate class. For purposes of the 1940 Act, "majority" means (a) 67% or more of the Fund's outstanding voting securities present at a meeting, if the holders of more than 50% of the Fund's outstanding voting securities are present in person or by proxy, or (b) more than 50% of the Fund's outstanding voting securities, whichever is less. The affirmative vote of the holders of at least 75% of the outstanding shares of the Fund is required to declassify the Fund's Board.

FOR THE REASONS STATED ABOVE, THE BOARD OF DIRECTORS, ALL OF WHOM ARE "NONINTERESTED" DIRECTORS, DOES NOT FAVOR PROPOSAL 1.

PROPOSAL 2: ELECTION OF DIRECTORS

(a) The Fund's Board of Directors is divided into three classes with the term of office of one class expiring each year. If Proposal 1 is not approved by the required stockholder vote, it will be proposed that stockholders of the Fund elect four Class I Directors to serve for three-year terms and until their respective successors are duly elected and qualified. The individual nominees to be proposed for election are listed below as "Class I" Directors. Under the terms of the Fund's Charter, holders of the APS voting as a single class are entitled, to the exclusion of holders of the Common Stock, to elect two directors of the Fund. As such Directors, the APS holders elected Robin A. Melvin in June 2007 as a Class II Director whose term expires in 2010 and John E. Zuccotti in May 2008 as a Class III Director whose term expires in 2011. There are no APS designees proposed for election at this meeting.

Holders of Common Stock and APS will vote together as a single class with respect to the election of Class I Directors of the Fund.

(b) If, however, Proposal 1 is approved by the holders of at least 75% of the outstanding shares of the Fund, the Fund's Board would be declassified and it would be proposed that stockholders of the Fund elect each person who is currently a Board member, regardless of class, to hold office for a term of unlimited duration and until their successors are duly elected and qualified.

If Proposal 1 is not approved by the holders of at least 75% of the outstanding shares of the Fund, only the proposal in paragraph (a) above would be presented at the Meeting. If Proposal 1 is approved by the holders of at least 75% of the outstanding shares of the Fund, only the proposal in paragraph (b) above would be presented at the Meeting.

The individual nominees under paragraph (a) and (b) above (the "Nominees") currently serve as Directors of the Fund. Each Nominee was nominated by the Fund's nominating committee and has consented to being named in this proxy statement and has agreed to continue to serve as a Director of the Fund if elected. Biographical information about each Nominee is set forth below. Information on each Nominee's ownership of Fund shares and other relevant information is set forth on Exhibit D.

The persons named as proxies on the accompanying proxy card(s) intend to vote each such proxy for the election of the Nominees, unless stockholders specifically indicate on their proxies the desire to withhold authority to vote for elections to office. It is not contemplated that any Nominee will be unable to serve as a Director for any reason, but if that should occur prior to the Meeting, the proxyholders reserve the right to substitute another person or persons of their choice as nominee or nominees.

None of the Nominees are "interested persons" of the Fund, as defined in the 1940 Act. As independent directors of investment companies, they play a critical role in overseeing fund operations and policing potential conflicts of interest between the fund and its investment adviser, Dreyfus, and other service providers.

The following table presents information about the Nominees including their principal occupations and other board memberships and affiliations. The address of each Nominee is 200 Park Avenue, New York, New York 10166.

Information Regarding Nominees

Name (Age) of Nominee Position with Fund (Since)	**Principal Occupation During Past 5 Years**	**Other Board Memberships and Affiliations**
Joseph S. DiMartino (65) Chairman of the Board and Class I Director (1995)	Corporate Director and Trustee	The Muscular Dystrophy Association, *Director* CBIZ (formerly, Century Business Services, Inc.), a provider of outsourcing functions for small and medium size companies, *Director* The Newark Group, a provider of a national market of paper recovery facilities, paperboard

		mills and paperboard converting plants, *Director* Sunair Services Corporation, a provider of certain outdoor-related services to homes and businesses, *Director*
William Hodding Carter III (73) Class I Director (1989)	Professor of Leadership & Public Policy, University of North Carolina, Chapel Hill (January 1, 2006 – present) President and Chief Executive Officer of the John S. and James L. Knight Foundation (February 1, 1998 – February 1, 2006)	The Century Foundation, a tax-exempt research foundation, *Emeritus Director* The Enterprise Corporation of the Delta, a non-profit economic development organization, *Director*
Richard C. Leone (68) Class I Director (1989)	President of The Century Foundation (formerly, The Twentieth Century Fund, Inc.), a tax exempt research foundation engaged in the study of economic, foreign policy and domestic issues	The American Prospect, *Director* Center for American Progress, *Director*
Joni Evans (66) Class I Director (2007)	Chief Executive Officer, www.wowOwow.com, an online community dedicated to women's conversations and publications Principal, Joni Evans Ltd. Senior Vice President of the William Morris Agency (2005)	None
Gordon J. Davis (67) Class II Director (2006)		