

January 13, 2007

Dear Homeowners

We recently spoke with Pat Riley the local representative for Southwest Water Company and he confirmed that their pending purchase of Diamond water is currently being reviewed for regulatory approval by TCEQ. He estimates that barring anything unforeseen this last step should be completed within 30-45 days. He also told us that they had been trying to make this purchase for over two years and that one of their first priorities will be to obtain a supplemental source of water for Kestrel and Windmill ranch subdivisions.

In accordance with your expressed wishes, a few days after our homeowners meeting in October we began to assemble data involving different options for operation of our entry gate including cost estimates for a guard during normal business hours which we felt offered a solution that would be beneficial to both Unit 1 and Unit 2. With this information in hand, a negotiating team that also included a KAPRA member met with representatives from Unit 2 in November in an effort to arrive at a compromise that everyone could endorse. Unfortunately, after only one meeting our team reported that our neighbors in the commercial area, despite assurances to the contrary in our October meeting, are totally unwilling to accept anything other than the status quo.

We wrote the president of Unit 2, Peter Schwartz, in mid December and gave him an additional opportunity to make any suggestions for a compromise but to date we have not received a reply.

At this point it seems that we only have the following three options:

1. Place our gate on 24/7 operation and defend ourselves against the threatened lawsuit from Unit 2.
2. Leave it in its current 6:00 AM to 6:00 PM operation.
3. Relocate it to a position just West of Ram Jet.

This needs to be a decision of the homeowners and, since option three involves several different choices in itself that we won't be ready to fully discuss for at least a few weeks, our intention is to push the decision off until our spring meeting in April and present this to you then for your consideration.

If there is something we have overlooked or you have any questions, please feel free to contact any of your Board members

For the Board